

Audit Report

**University System of Maryland
University of Maryland Eastern Shore**

January 2019



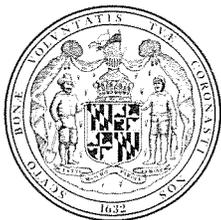
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

January 4, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland Eastern Shore (UMES) for the period beginning December 2, 2013 and ending July 16, 2017. UMES is a comprehensive public institution offering an array of baccalaureate programs in both traditional arts and sciences, and in applied professional fields, as well as select professionally oriented master's and doctoral programs.

Our audit disclosed that UMES needs better oversight of its contract monitoring and procurement practices. UMES improperly deposited \$1.3 million in income received from its food service vendor with the USM Foundation rather than with the State Treasurer as required by USM policies. UMES management advised us that most of these funds had been spent by the Foundation and were not subject to various USM procurement policies and procedures. We also noted that UMES did not comply with USM policies for procurement transactions totaling \$1.5 million. For example, architectural and engineering services were procured directly and were not managed by USM's applicable service center, as required. In addition, UMES did not adequately monitor its food service vendor to ensure required operational investments were made and proper commissions were received.

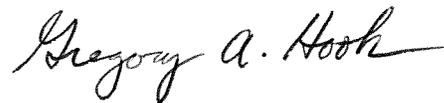
Our audit also disclosed several internal control deficiencies relating to student accounts receivable, cash receipts, and employee access to UMES' financial systems. For example, UMES lacked proper controls over student residency determinations and changes, certain non-cash credits, and financial aid awards recorded in student accounts. We found that several of these conditions resulted from UMES failing to reassign duties performed by employees who left UMES employment. In addition, UMES needs to take additional steps to secure its

network, student administration system, and financial management system, such as logging and generating reports of security-related events for later review, establishing systems to review certain network traffic for malicious data, and restricting user access capabilities.

Finally, our audit included a review to determine the status of the 13 findings contained in our preceding audit report. We determined that UMES satisfactorily addressed 11 of these findings, with the remaining 2 findings repeated in this report.

The USM Office's response to this audit, on behalf of UMES, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by UMES.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a long, sweeping underline.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The University of Maryland Eastern Shore (UMES) is a comprehensive public institution of the University System of Maryland (USM) and operates under the jurisdiction of USM's Board of Regents. UMES offers an array of baccalaureate programs in both traditional arts and sciences, and in applied professional fields, as well as select professionally oriented master's and doctoral programs. Student enrollment for the Spring 2017 semester totaled 3,425, including 2,829 undergraduate students and 596 graduate students.

The UMES budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, and restricted revenues, such as federal grants and contracts. According to the State's accounting records, UMES' revenues for fiscal year 2017 totaled approximately \$132 million, including a State general fund appropriation of approximately \$40 million.

Affiliated Foundation

In September 2003, the USM Board of Regents approved the creation of the Maryland Hawk Corporation as an Affiliated Foundation and Business Entity under the Board of Regents' *Policy on Affiliated Foundations* and its *Policy on Business Entities*. The purpose of the Foundation included furthering and promoting charitable, educational, and scientific purposes that foster and promote the general welfare of UMES through receipt and management of gifts and other activity in the furtherance of the mission of UMES.

Our preceding audit report, dated November 7, 2014, included several findings relating to the Foundation, including questionable use of grant funds, possible violations of the Public Ethics Law by a UMES management employee, inappropriate use of federal funds disbursed by UMES to the Foundation, and inadequate record keeping. In October 2014, the USM Board of Regents instructed the UMES President to deactivate the Foundation from operations other than for activity relating to Hawk Plaza, a student-housing complex. In this regard, we noted that, during our current audit period, the Foundation's only activity related to the construction and management of Hawk Plaza. We have addressed the status of Hawk Plaza and any relevant prior audit findings in the following two comments.

Hawk Plaza Student Housing Complex

In 2013, the UMES Affiliated Foundation obtained financing to build Hawk Plaza, a three-building complex consisting of 90 two-bedroom units to be used for UMES graduate student housing, situated on 27 acres owned by the Foundation. The project required \$12.7 million in financing, obtained through a local bank (\$5.1 million) and the United States Department of Agriculture (\$7.6 million).

The project was completed and opened in the fall of 2015. However, occupancy was limited during the Fall 2015 and Spring 2016 semesters (2016 academic year), and no units were leased in Hawk Plaza during the Fall 2016 and Spring 2017 semesters (academic year 2017). A decline in enrollment and a corresponding decline in demand for housing created a serious financial shortfall for the Foundation. Specifically, Hawk Plaza was the Foundation's main revenue source to meet the related debt service payments and related operating expenses, and the Plaza needed to be fully leased for the Foundation to meet these financial obligations.

In October 2016, the USM Board of Regents Finance Committee recommended to the USM Chancellor that UMES assume both the ownership and the related debt obligations of Hawk Plaza from the Foundation. The Board of Regents subsequently approved the transfer. However, efforts to transfer ownership of Hawk Plaza have stalled due to ongoing litigation between the Foundation and a third party regarding claims that the Foundation was to provide for certain upgrades to roadway and wastewater treatment infrastructure associated with the location of Hawk Plaza.

The Hawk Plaza was commented on by the independent accounting firm hired by the Foundation to audit its financial statements for fiscal year 2017. In the Foundation's annual financial report, the independent accounting firm stated that the Foundation has had operating losses resulting in a negative net position and that, if the Foundation is unable to rent or sell the Hawk Plaza, the Foundation may be unable to continue as a going concern.

As a stop-gap measure to help the Foundation meet the debt service and operating expenses relating to Hawk Plaza, UMES entered into a six-month lease for the Fall 2017 semester, whereby UMES was responsible for all of Hawk Plaza's operating expenses, as well as leasing all 180 beds. During the Fall 2017 semester, Hawk Plaza provided housing to 173 students. As of the time of our audit, this leasing arrangement with the Foundation had been renewed through the Spring 2018 semester and the transfer had not occurred.

Grant Funds Disbursed to Foundation

In our preceding audit report, we recommended that UMES seek reimbursement from the Foundation for federal grant funds totaling \$385,000 that it had disbursed to the Foundation for purposes inconsistent with applicable federal regulations. According to the Foundation's fiscal year 2017 annual financial report, the Foundation and UMES entered into a verbal agreement whereby the Foundation would remit to UMES three annual payments of \$128,333 beginning in June 2016. As of May 2018, no payments had been made.

Furthermore, based on this audit recommendation, the University System of Maryland's Office of Internal Audits performed an expanded review of grant funds advanced to the Foundation and identified an additional \$479,000 disbursed in a manner inconsistent with the purpose of the grant funding. As of June 2018, the Foundation had not agreed to the amount determined by the Office.

As previously indicated, except for the operation of Hawk Plaza, the Foundation has been deactivated, and the Foundation's independent accounting firm has expressed uncertainty as to whether the Foundation can continue as a going concern without the rental or sale of Hawk Plaza. Consequently, there is uncertainty as to the Foundation's ability to repay the aforementioned grant funds to UMES.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 13 findings contained in our preceding audit report dated November 7, 2014. We determined that UMES satisfactorily addressed 11 of these findings. The remaining 2 findings are repeated in this report.

Findings and Recommendations

Food Service Vendor Revenue

Finding 1

The University of Maryland Eastern Shore (UMES) improperly deposited revenue from its food service vendor, totaling \$1.3 million, with the University System of Maryland (USM) Foundation.

Analysis

UMES income totaling \$1.3 million received from its food service vendor was improperly deposited with the USM Foundation, in violation of State law and USM policy. The USM Foundation advocates and supports the advancement of public higher education through all System institutions, and is a separate entity from the UMES Affiliated Foundation (Maryland Hawk Corporation). By depositing these receipts with the USM Foundation, the funds could be spent for UMES purposes without adherence to USM's fiscal and business policies and procedures, such as those established for the procurement of goods and services by System institutions.

In May 2014, UMES entered into a five-year contract, with five one-year renewal options, with a vendor to manage the campus' food service operations. In addition to monthly commission payments to UMES based on vendor sales and certain other capital and operational investments, the contract required the vendor to provide UMES with an initial one-time payment of \$1 million and, thereafter, to make annual payments of \$100,000 to UMES throughout the term of the contract.

In July 2014, the vendor made the initial \$1 million payment. However, UMES management instructed the vendor to make the payment directly to the USM Foundation. Furthermore, UMES transferred the three subsequent annual payments received, totaling \$300,000, to the USM Foundation. State law specifies that all income of the University shall be deposited into the State Treasury. In addition, USM's *Policy on Affiliated Foundations* states that funds or gifts payable to the Regents, USM, or one of its constituent institutions shall not be deposited with a foundation.

UMES management informed us that, as of May 2018, the USM Foundation had spent \$1.03 million of these funds in various ways to enhance UMES' ability to meet its mission and to support UMES faculty, students, and staff. Because these funds were spent by the Foundation, the use of these funds was not subject to USM's fiscal and business policies and procedures, such as those established for

the procurement of goods and services by System institutions. Although USM's *Policy on Affiliated Foundations* requires that USM related foundations exercise prudent business practices, those practices may not be as comprehensive or effective, or provide for the same level of control as those established by USM for its institutions.

Recommendation 1

We recommend that UMES

- a. ensure that all income received is properly deposited with the State Treasurer;**
- b. perform a documented review of the use of the aforementioned funds by the USM Foundation to ensure that expended funds were appropriately used to support UMES; and**
- c. recover any funds relating to expenditures not made in support of UMES, as well as any of the funds that have not yet been expended by the Foundation.**

Contract Procurements and Monitoring

Finding 2

UMES did not comply with USM policies, or circumvented these policies, for procurement transactions totaling approximately \$1.5 million.

Analysis

UMES did not comply with USM policies, or circumvented these policies, for procurement transactions totaling approximately \$1.5 million. Required approvals were not obtained or procurements were not managed by USM's applicable service center.

- UMES entered into seven contracts with five vendors for architectural and engineering services, totaling \$377,000, without using the services of the applicable USM service center or obtaining required authorized delegation from the service center, as required. The architectural and engineering firms were hired, for example, to create bid specifications for certain building improvement projects. According to USM policy, the service center is responsible for procuring and monitoring all architectural and engineering services for specified University of Maryland institutions, including UMES, unless the institution obtains prior delegated authority approval from the service center. Because UMES did not use the service center or request and obtain the required delegated authority from the service center, there was a lack of assurance that the State received the best value for the funds expended.

- A \$1.1 million procurement for roof replacement services appeared to have been artificially split to circumvent USM *Procurement Policy* requiring capital improvement procurements over \$1 million to be handled by the service center and to be approved by the Board of Public Works. UMES had also not obtained delegated authority for this procurement. In August 2014, UMES hired a consultant to perform a roof inspection of its gymnasium, which concluded there was a need to replace the entire roof at an estimated cost exceeding \$1 million. In February 2015, UMES entered into a contract with a vendor, totaling approximately \$627,000, to replace a portion of the gymnasium roof. In the following month, March 2015, while work was being performed under the first contract, UMES entered into a second contract with the same vendor, totaling \$513,000, to replace the rest of the roof.

USM's *Procurement Policy* states that architectural and engineering services shall be procured by the applicable service center unless procurement authority has been delegated to the institution. The *Procurement Policy* also requires that capital improvement projects exceeding \$1 million be procured and managed by the applicable service center unless delegated authority has been obtained, and approval be obtained from the Board of Public Works.

Recommendation 2

We recommend that UMES

- a. comply with USM's *Procurement Policy* by ensuring that all architectural and engineering services and capital improvement projects exceeding \$1 million are procured by the applicable USM service center unless the required authorized delegation has been obtained, and**
- b. ensure that procurements are not artificially split to circumvent USM policy regarding capital improvements.**

Finding 3

UMES did not adequately monitor its food service vendor to ensure required operational investments were made and proper commissions were received. UMES also did not verify vendor prices for certain purchases under other contracts.

Analysis

UMES did not adequately monitor its food service vendor to ensure that \$3.2 million in facility upgrades and other operational investments required by the contract had been made, and that the proper sales commissions were remitted. In addition, UMES did not verify that prices it paid for certain other purchases totaling \$684,000 agreed with the related contracts' terms.

- UMES did not verify that its food service vendor had provided the capital and operational investments required by the related contract. As previously mentioned, in May 2014, UMES entered into a contract with a vendor to provide food service operations to the campus for a five-year base term with five one-year renewal options. The contract required the vendor to invest approximately \$4.1 million in UMES facility upgrades and \$913,000 in operational investments, such as wellness education and marketing, over the contract term. For example, for fiscal years 2015 to 2017, the vendor was required to provide \$3.2 million in investments; however, UMES had not obtained and reviewed vendor paid contractor invoices or taken any other steps to verify that the required upgrades and operational investments had been provided. We independently obtained these invoices directly from the vendor and we were able to substantiate that UMES received the required investments for these years.
- UMES did not verify sales reports provided and used by the food services vendor to compute the monthly sales commissions to be remitted to UMES under the contract. The vendor paid a monthly sales commission to UMES, as a percentage of food sales, which ranged between 6 and 20 percent depending on the type of sale. However, UMES did not verify the reported sales. For example, UMES had not obtained cash register reports to ensure that the vendor had remitted the appropriate amount of sales commissions. During fiscal year 2017, the vendor reported food sales of \$1.2 million with related commissions totaling \$128,000. UMES was unable to independently produce these sales reports during our audit and, therefore, we were not able to independently substantiate the commissions remitted.
- UMES made computer equipment purchases totaling \$578,000 under a Maryland Educational Enterprise Consortium (MEEC) contract without verifying that the prices paid agreed with the terms of the contract. The MEEC contract allows universities to purchase computer equipment and associated peripherals from selected vendors for prices that reflect an agreed-upon percentage discount from the manufacturers' suggested retail prices. Because the purchases had been made more than two years ago, we were not able to substantiate the prices UMES paid for these purchases.

Similarly, UMES purchased a digital library database, at a cost of \$106,000, through a Statewide library consortium contract, but did not verify that it was charged the appropriate subscription rates under the contract. We independently obtained the subscription prices and confirmed that UMES was properly charged. Finally, we noted that this contract was not approved by

appropriate management personnel, including the UMES President, as required by UMES procurement policy.

Although, in certain instances, we were able to subsequently verify the receipt of certain deliverables and that the propriety of prices paid, it does not mitigate the need for UMES to monitor vendor compliance with all contractual terms, including invoice pricing.

Recommendation 3

We recommend that UMES

- a. verify that its food service vendor provides the capital and operational investments required by the contract terms,**
- b. verify reported food service sales and ensure that the proper commissions are remitted,**
- c. verify that prices invoiced for goods and services are in accordance with the approved contract pricing, and**
- d. ensure that all contracts are properly approved in accordance with its procurement policy.**

Student Accounts Receivable

Finding 4

UMES had not established sufficient controls over student residency determinations and changes, certain non-cash credits, and financial aid awards recorded in student accounts.

Analysis

Sufficient controls had not been established over certain critical transactions processed in UMES' automated student accounts receivable records. Adequate reviews were not performed to ensure the propriety of student residency status, certain non-cash credits, and financial aid awards. According to UMES' records, as of June 30, 2017, student accounts receivable totaled approximately \$3.2 million. Financial aid awarded to students during fiscal year 2017 totaled approximately \$54.8 million.

- UMES did not use available output reports to perform an independent supervisory review of initial residency status determinations made and recorded by individuals in the admissions department, graduate studies department, or the pharmacy school based on each student's application. In addition, UMES discontinued performing independent supervisory reviews of changes to a student's residency status in April 2016 when the employee who

performed these reviews retired from State service. Our test of 9 initial residency determinations and 11 residency changes disclosed that 4 students (3 initial determinations and 1 change) were improperly charged in-state tuition rather than out-of-state tuition for multiple semesters, resulting in lost tuition revenue of approximately \$78,000.

Accurate student residency determinations are critical because of the significant differences between in-state and out-of-state student tuition rates. For example, the undergraduate tuition for Maryland residents was \$2,553 for the Spring 2017 semester, whereas the undergraduate tuition rate for out-of-state students was \$7,245.

- Certain non-cash credit adjustments posted to student accounts, such as a credit processed due to the student's withdrawal from school, had not been reviewed since August 2015 when the employee who performed these reviews resigned. As a result, unauthorized or inaccurate non-cash credit adjustments could be made without detection. According to UMES' records, non-cash credit adjustments totaling approximately \$2.7 million were recorded through the end of the audit period that were not subject to independent review.
- Financial aid awards and related adjustments posted to student accounts were not adequately verified for propriety. Specifically, reviews were performed by Student Financial Aid personnel who were not independent of the process or by Bursar's Office personnel who did not review documentation showing the calculated award amounts, nor were the reviews documented. Award amounts are based on various eligibility criteria and student financial data and, unless adjusted by UMES employees, these recommended amounts are finalized and offered to the students.

Recommendation 4

We recommend that UMES

- a. ensure that initial student residency status determinations and status changes, as reflected on output reports, are reviewed and agreed to supporting documentation, at least on a test basis, by independent supervisory personnel, and that such reviews are documented;**
- b. correct the student account records of the aforementioned four students to reflect the proper residency status and to ensure that future billings reflect the appropriate tuition charges;**
- c. ensure that an independent verification of non-cash credit adjustments to source documents is performed, at least on a test basis; and**

- d. ensure that the financial aid awards and related adjustments posted to student accounts are independently verified to appropriate supporting documentation and that the verifications are adequately documented.

Finding 5

UMES' procedure for identifying and transferring delinquent student accounts to the State's Central Collection Unit (CCU) did not include an independent supervisory review to ensure adequate and timely follow-up on all such accounts.

Analysis

UMES had not established an independent supervisory review process to ensure adequate and timely follow-up on all delinquent student accounts. Specifically, one employee was responsible for identifying delinquent accounts in the student accounts receivable system and submitting those accounts electronically to CCU without an independent supervisory review to ensure that all eligible accounts were identified and submitted timely. We noted that in certain instances this condition permitted delinquent students to register for classes in subsequent semesters.

Our test of 15 delinquent student accounts, which totaled approximately \$374,000, disclosed that UMES did not always take appropriate collection action relating to outstanding student account balances. In particular, 3 students with delinquent balances totaling \$33,000 were allowed to register for classes in subsequent semesters, contrary to USM Board of Regents policy. UMES could not provide us with documentation that the outstanding balances were covered by a USM policy exemption (such as pending financial aid). As of the time of our review, the 3 accounts had not been submitted to CCU. UMES records indicate that 101 students with prior semester balances totaling approximately \$696,000 were allowed to register for the Fall 2017 semester even though they had no policy exemption.

USM Board of Regents' *Policy on Payment of Tuition and Fees* states that tuition and fees are due and payable in full by the stipulated due date unless the student is covered by a specific exemption (such as pending financial aid). The *Policy* further requires that appropriate administrative action (such as barring class attendance) be initiated if timely payment is not received.

During fiscal year 2017, delinquent accounts totaling \$2.7 million were referred to CCU. Included in the June 30, 2017 student accounts receivable balance of \$3.2 million were accounts totaling approximately \$612,000 which had been

outstanding for at least 120 days. Similar conditions were commented upon in our preceding audit report.

Recommendation 5

We recommend that UMES

- a. establish procedures requiring independent supervisory reviews to ensure that all required student accounts are referred to CCU in a timely manner (repeat), and**
- b. not permit students with outstanding account balances to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board of Regents' *Policy* (repeat).**

Cash Receipts

Finding 6

UMES had not reconciled its credit card and electronic collections records with the State's bank account to ensure their deposit since December 2016.

Analysis

UMES had not established sufficient accountability over its credit card and electronic collections to ensure their deposits in the State's bank account maintained by the State Treasurer's Office (STO). Specifically, as of October 2017, UMES had not reconciled its record of credit card payments accepted at the Bursar's office and other electronic payments processed by a third party vendor, such as room deposits and ticket sales, with receipt of the funds in the State's bank account, since December 2016. The employee who performed these reconciliations resigned shortly thereafter. Consequently, UMES lacked assurance that all credit card receipts and electronic payments recorded in its automated system were received by the STO.

USM's *Accounting Practices* states that, for cash held at the State Treasurer's Office, reconciliations must be completed at least quarterly. According to UMES' records, from January 2017 to June 2017, credit card and electronic payments totaled approximately \$4.4 million.

Recommendation 6

We recommend that UMES reconcile its record of credit card and electronic collections with the receipt of the funds by the STO, at least quarterly, as required.

Information Systems Security and Control

Background

UMES' Administrative Computing and Information Technology units manage the development, maintenance, and support of UMES' information technology infrastructure including the student information system, the financial management systems, and an important document management system. These units operate and maintain an integrated administrative and academic UMES computer network and telecommunications system. The UMES network connects to multiple servers used for email and file services and other administrative and academic purposes, and includes firewalls for security protection. In addition, the UMES network connects to the Maryland Research and Educational Network which enables UMES to connect with the Internet and other USM institutions.

Finding 7

The monitoring of the student administration system's security was not adequate because database security-related events were not logged, and certain key application security reports were either not generated or reviewed.

Analysis

The monitoring of the student administration system's security was not adequate because database security-related events were not logged, and certain key application security reports were either not generated or reviewed.

- The student administration system's database was not configured to log any security activities, except for failed logins. In addition, direct changes to the system's critical database tables, which contain student records data and financial aid information, were not logged for subsequent reporting.
- Reports identifying changes to system user account profiles and application security options were not generated. Additionally, we noted that UMES did not perform reviews of the student administration system's reports of changes to user accounts permissions, roles, and profiles for a tested five month period.

Accordingly, there was no effective monitoring of security activities related to this application system and its related database, which supports significant UMES functions, including student admissions, enrollment, financial aid, and student accounts receivable. The USM IT Security Council *Guide for Security Event Logging* requires each institution to maintain appropriate audit trails of events and actions performed related to controlling critical applications and data.

Recommendation 7

We recommend that, for its student administration system, UMES

- a. log all significant database security events, including direct changes to critical database tables, and generate reports of this related database activity;**
- b. generate reports of changes to user account profiles and application security options; and**
- c. ensure that individuals independent of the related support functions perform regular documented reviews of aforementioned reports, including reports of user account profile changes.**

Finding 8

UMES lacked IDPS coverage for encrypted traffic entering the UMES network.

Analysis

UMES lacked intrusion detection prevention system (IDPS) coverage for encrypted traffic entering the UMES network. Specifically, we determined that the UMES network's devices capable of decrypting and inspecting traffic for IDPS purposes were not configured to perform such activity. Additionally, host-based intrusion protection system (HIPS) software was not enabled on any of the servers which received encrypted traffic. In this regard, we identified 37 destination servers that received such encrypted traffic. The absence of IDPS coverage for such encrypted traffic creates network security risk as such traffic could contain malicious data which are not detected or dropped. The *USM IT Security Standards* require that institutions establish automated and manual processes for intrusion detection and/or prevention systems and state that host-based, network-based, or a combination of both systems may be utilized.

Recommendation 8

We recommend that UMES perform a documented review and assessment of its network security risks, and identify how IDPS and/or HIPS coverage should be best applied to its network, and, based on this assessment, implement such coverage as necessary.

Finding 9**UMES did not ensure that user access capabilities assigned to employees on its financial management systems were adequately restricted.****Analysis**

UMES did not ensure that user access capabilities assigned to employees to record critical cash receipt, student account, financial aid, and procurement transactions on its financial management systems were adequately restricted. We noted numerous instances in which employees had access capabilities that were unnecessary for their job duties or were incompatible since they resulted in inadequate segregation of critical duties. Under these circumstances, errors or other discrepancies could occur without timely detection.

- Our review of 13 critical functions related to cash receipts found that 2 system users had access to the majority of these functions, such as the capability to open and close a register and void receipts, even though their job duties included no cash receipt functions.
- Our review of 17 critical functions related to student accounts disclosed that 12 system users were assigned access to one or more of these functions, such as processing non-cash credits, even though they did not need the access to perform their assigned duties.
- Our review of 3 critical functions related to student financial aid determined that 4 system users were assigned unnecessary or inappropriate access to one or more of these functions. For example, one user could add financial aid awards to the system and disburse the awards to the applicable students without independent approval.
- Our review of certain critical functions related to procurement processing disclosed that 2 users had the ability to initiate, modify, and approve vendor updates as well to initiate, modify, and approve vendor payments and disbursement vouchers.

We also noted that UMES department supervisors periodically generated and reviewed security reports of assigned user access capabilities that enabled employees to perform critical functions. However, these reports only displayed the access capabilities assigned to the employees working in each respective department. Therefore, the supervisors reviewing these reports could not identify and pursue improper access capabilities related to their department that had been assigned to employees of other departments. Although this is a deficiency in the

security report review process, it did not appear to contribute to the aforementioned unnecessary or incompatible accesses we noted during the audit.

USM's *Information Technology Security Standards* specify that institutions are responsible for ensuring that access rights reflect employee status, including changes in employee status. In addition, institutions must segregate critical functions to ensure the appropriate separation of duties for system users. Similar conditions were commented upon in our preceding audit report.

Recommendation 9

We recommend that UMES

- a. restrict user access capabilities for critical functions to those employees who require such capabilities to perform their assigned job duties and in a manner that ensures a proper segregation of duties (repeat); and**
- b. periodically generate for review by department supervisors computer system security reports that include all users who are assigned access capabilities to perform critical functions in their respective departments, regardless of where the user is located, and pursue instances of improper access (repeat).**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – University of Maryland Eastern Shore (UMES) for the period beginning December 2, 2013 and ending July 16, 2017. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine UMES' financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included purchases and disbursements, student accounts receivable, cash receipts, information systems security and control, payroll, student financial aid, and corporate purchasing cards. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to UMES by the USM Office, such as bond financing and endowment accounting, and by the University of Maryland, College Park (UMCP), such as processing vendor payment transmittals and payroll, and capital project management. These support services are included within the scope of our audits of the USM Office and UMCP, respectively. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of UMES' compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including the components of the USM.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of UMES' operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the

tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from UMES' financial systems for the purpose of testing certain areas, such as financial aid and student accounts receivable. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

UMES' management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect UMES' ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant

findings were communicated to UMES that did not warrant inclusion in this report.

The response from the USM Office, on behalf of UMES, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise the USM Office regarding the results of our review of its response.

APPENDIX



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OFFICE OF THE CHANCELLOR

December 6, 2018

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

Re: University System of Maryland – University of Maryland Eastern Shore
Period of Audit: December 2, 2013 through July 16, 2017

Dear Mr. Hook:

I have enclosed the University System of Maryland's responses to your draft report covering the examination of the accounts and records of the University System of Maryland – University of Maryland Eastern Shore. Our comments refer to the individual items in the report.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Robert L. Caret', written over a horizontal line.

Robert L. Caret
Chancellor

Enclosures

cc: Dr. Heidi M. Anderson, President, UMES
Ms. Michelle D. Martin, Vice President, Administrative Affairs, UMES
Ms. Linda R. Gooden, Chair, University System of Maryland Board of Regents
Mr. Robert L. Page, Associate Vice Chancellor for Financial Affairs, USM Office
Mr. David Mosca, Director of Internal Audit, USM Office

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Food Service Vendor Revenue

Finding 1

The University of Maryland Eastern Shore (UMES) improperly deposited revenue from its food service vendor, totaling \$1.3 million, with the University System of Maryland (USM) Foundation.

Recommendation 1

We recommend that UMES

- a. ensure that all income received is properly deposited with the State Treasurer;**
- b. perform a documented review of the use of the aforementioned funds by the USM Foundation to ensure that expended funds were appropriately used to support UMES; and**
- c. recover any funds relating to expenditures not made in support of UMES, as well as any of the funds that have not yet been expended by the Foundation.**

University response

The University of Maryland Eastern Shore concurs with this recommendation.

- a. UMES will ensure that all income of the University will be properly deposited in the State Treasury.
- b. The University will perform a documented review of the use of the aforementioned funds by the USM Foundation to ensure the expended funds were appropriately used to support UMES.
- c. As a result of the review of expended funds by the USM Foundation, the University will seek to recover any funds found to not have been expended in support of UMES. The Foundation has transferred the unspent \$346,962.08 back to UMES.

Contract Procurements and Monitoring

Finding 2

UMES did not comply with USM policies, or circumvented these policies, for procurement transactions totaling approximately \$1.5 million.

Recommendation 2

We recommend that UMES

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- a. **comply with USM's *Procurement Policy* by ensuring that all architectural and engineering services and capital improvement projects exceeding \$1 million are procured by the applicable USM service center unless the required authorized delegation has been obtained, and**
- b. **ensure that procurements are not artificially split to circumvent USM policy regarding capital improvements.**

University response

The University of Maryland Eastern Shore concurs with both recommendations.

- a. UMES's procurement department will comply with this recommendation by forwarding all architectural and engineering requests to the USM service center for review and processing per the policies and procedures. This procedure has been added to the department's standard operating procedures.
- b. UMES's procurement department will comply with this recommendation and re-educate the campus on policies and procedures regarding split purchases.

Finding 3

UMES did not adequately monitor its food service vendor to ensure required operational investments were made and proper commissions were received. UMES also did not verify vendor prices for certain purchases under other contracts.

Recommendation 3

We recommend that UMES

- a. **verify that its food service vendor provides the capital and operational investments required by the contract terms,**
- b. **verify reported food service sales and ensure that the proper commissions are remitted,**
- c. **verify that prices invoiced for goods and services are in accordance with the approved contract pricing, and**
- d. **ensure that all contracts are properly approved in accordance with its procurement policy.**

University response

The University of Maryland Eastern Shore concurs with all recommendations.

- a. The Vice President will perform an annual review of the food service vendor's capital and operational investments required by the contract terms.

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- b. UMES has taken immediate steps to implement a review process to verify sales to ensure commissions are properly remitted to the University. This monthly review will be performed by the Assistant Director of Auxiliary Services.
- c. The Office of Procurement will comply with the recommendation by requesting contract vendors to provide a quote indicating the retail and discounted price for all items/services procured when using an approved contract. This process has already been incorporated in procurement's standard operating procedures.
- d. The Office of Procurement will implement standard operating procedures to ensure compliance with this recommendation.

Student Accounts Receivable

Finding 4

UMES had not established sufficient controls over student residency determinations and changes, certain non-cash credits, and financial aid awards recorded in student accounts.

Recommendation 4

We recommend that UMES

- a. **ensure that initial student residency status determinations and status changes, as reflected on output reports, are reviewed and agreed to supporting documentation, at least on a test basis, by independent supervisory personnel, and that such reviews are documented;**
- b. **correct the student account records of the aforementioned four students to reflect the proper residency status and to ensure that future billings reflect the appropriate tuition charges;**
- c. **ensure that an independent verification of non-cash credit adjustments to source documents is performed, at least on a test basis; and**
- d. **ensure that the financial aid awards and related adjustments posted to student accounts are independently verified to appropriate supporting documentation and that the verifications are adequately documented.**

University response

The University of Maryland Eastern Shore concurs with all recommendations.

- a. Output reports have been developed and are currently in use in the Admissions, Graduate Studies, and Pharmacy. The reports are being reviewed and agreed to documentation on a test basis by an independent person in the department. In addition, standard operating procedures are being established for each department responsible for determining residency status. Finally, the campus-

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- wide residency committee will be re-established by the Vice President for Enrollment and Student Experience to review petitions for residency changes.
- b. The residency status for three of the students noted in audit has been corrected to reflect out of state of billing. One account could not be adjusted since the student left UMES after Spring 2016 and before the conclusion of the audit.
 - c. Since the conclusion of the audit, independent verification of non-cash credit adjustments to source documents (on a test basis) have been assigned to an independent employee in the auxiliary area. Monthly reviews from September 2015 through the November 2018 have been performed and the reviews are considered current at this point.
 - d. UMES will establish a monthly independent review process by someone independent of the financial aid award process.

Finding 5

UMES' procedure for identifying and transferring delinquent student accounts to the State's Central Collection Unit (CCU) did not include an independent supervisory review to ensure adequate and timely follow-up on all such accounts.

Recommendation 5

We recommend that UMES

- a. establish procedures requiring independent supervisory reviews to ensure that all required student accounts are referred to CCU in a timely manner (repeat);**
- b. not permit students with outstanding account balances to register for subsequent semesters unless the student qualifies for an exemption as specified in the Board of Regents' *Policy* (repeat).**

University response

- a. The University concurs with this recommendation. UMES will take immediate steps to ensure independent review procedures are performed by the Comptroller who is not primarily responsible for referring accounts to CCU.
- b. The University concurs with this recommendation and will block students from registering for subsequent semesters unless they qualify for an exemption as specified in the Board of Regents policy.

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Cash Receipts

Finding 6

UMES had not reconciled its credit card and electronic collections records with the State's bank account to ensure their deposit since December 2016.

Recommendation 6

We recommend that UMES reconcile its record of credit card and electronic collections with the receipt of the funds by the STO, at least quarterly, as required.

University response

The University of Maryland Eastern Shore concurs with this recommendation. UMES has taken immediate steps to resolve this issue and is in the process of training a new employee to reconcile its records with credit card and electronic collections received by the State Treasury.

Information Systems Security and Control

Finding 7

The monitoring of the student administration system's security was not adequate because database security-related events were not logged, and certain key application security reports were either not generated or reviewed.

Recommendation 7

We recommend that, for its student administration system, UMES

- a. log all significant database security events, including direct changes to critical database tables, and generate reports of this related database activity;**
- b. generate reports of changes to user account profiles and application security options; and**
- c. ensure that individuals independent of the related support functions perform regular documented reviews of aforementioned reports, including reports of user account profile changes.**

University response

The University of Maryland Eastern Shore concurs with all recommendations.

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- a. UMES agrees with this finding. We have shared these specifics with the OLA. With guidance from the OLA, UMES will develop a procedure to monitor critical security/audit events for its student information system (SIS) database. The independently reviewed report will be stored in the imaging system for future reference.
- b. UMES will re-instate the procedure to regularly generate and review security reports. As before, the weekly reports will be stored in the imaging system along with the reviewer signoff. In addition, any follow up document will also be stored in imaging system.
 1. Additions/changes of SIS profiles,
 2. Changes to the SIS Security Options panel,
 3. Additions, changes and deletions related to permission lists, the assignment of permission lists to roles and the assignment of roles to profiles.
- c. Same as b.

Finding 8

UMES lacked IDPS coverage for encrypted traffic entering the UMES network.

Recommendation 8

We recommend that UMES perform a documented review and assessment of its network security risks, and identify how IDPS and/or HIPS coverage should be best applied to its network, and, based on this assessment, implement such coverage as necessary.

University response

The University concurs with this recommendation and has corrected the oversight in the HIPS configuration. HIPS is now properly enabled on all servers and configured to scan traffic.

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Finding 9

UMES did not ensure that user access capabilities assigned to employees on its financial management systems were adequately restricted.

Recommendation 9

We recommend that UMES

- a. restrict user access capabilities for critical functions to those employees who require such capabilities to perform their assigned job duties and in a manner that ensures a proper segregation of duties (repeat); and**
- b. periodically generate for review by department supervisors computer system security reports that include all users who are assigned access capabilities to perform critical functions in their respective departments, regardless of where the user is located, and pursue instances of improper access (repeat).**

University response

The University of Maryland Eastern Shore concurs with both recommendations.

- a. UMES is in the process of reviewing system users for the critical functions identified in the audit report for student information system and housing management system. Inappropriate users have already been identified and restricted in the Financial System. A standard operating procedure will be developed to ensure on a regular basis for appropriate access to ensure proper segregation of duties.
- b. UMES is in the process of developing a standard operating procedure, which includes review and certification by department supervisors, to minimize improper access and ensure employees have the appropriate access to perform critical functions in their respective departments.

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