

Audit Report

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

December 2022

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**Public Notice**

**In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.**



**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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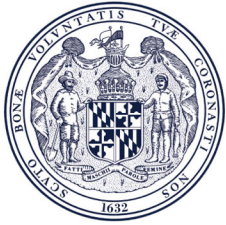
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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber  
Executive Director

Gregory A. Hook, CPA  
Legislative Auditor

December 15, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee  
Delegate Mark S. Chang, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation 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 July 17, 2017 and ending September 15, 2021. 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 did not adequately monitor its food service vendor to ensure required facility upgrades and operational investments were made and proper sales commissions were received. The vendor's contract required that it invest approximately \$4.1 million in UMES facility upgrades and \$913,000 in operational investments, such as wellness education, over the ten-year contract term. Additionally, we noted several internal control deficiencies relating to student accounts receivable and cash receipts. For example, UMES had not established sufficient controls over initial student residency determinations and subsequent changes, and did not ensure that all electronic collections, which totaled \$6.5 million in fiscal year 2021, were deposited in the State's bank account.

Our audit also disclosed certain risks in UMES' information systems. However in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted these findings from this audit

report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term “cybersecurity” is defined in the State Finance and Procurement Article, Section 3A-301(b), and using our professional judgment we have determined that the redacted findings falls under the referenced definition. The specifics of the cybersecurity findings were previously communicated to UMES as well as those parties responsible for acting on our recommendations.

Finally, our audit included a review to determine the status of the nine findings contained in our preceding report. For the non-cybersecurity-related findings we determined that UMES satisfactorily addressed three of those six findings. The remaining three findings are repeated in this report.

The USM Office’s response to this audit, on behalf of UMES, is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while UMES agrees with the recommendations in this report, we identified an instance in which statements in the response indicate one of our report findings is not factually accurate. In this instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding, including its factual accuracy. In accordance with generally accepted government auditing standards, we have included an “auditor’s comment” within USM’s response to explain our position. Finally, we will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with UMES. Consistent with the requirements of State law, we have redacted the elements of UMES’ response related to cybersecurity audit findings.

We wish to acknowledge the cooperation extended to us during the audit by UMES. We also wish to acknowledge USM’s and UMES’ willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,



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 fall 2021 semester totaled 2,384, including 1,811 undergraduate students and 573 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 2021 totaled approximately \$122 million, including a State general fund appropriation of approximately \$45 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.

In a past audit report dated November 7, 2014, we disclosed several findings relating to the Foundation including, for example, questionable use of grant funds and possible violations of the Public Ethics Law. Our preceding audit report dated January 4, 2019 noted that the Regents instructed the UMES President in October 2014 to deactivate the Foundation from operations other than for activity relating to Hawk Plaza; a student housing complex (addressed below). During our current audit, we noted that in May 2021, UMES completed its deactivation from the Foundation, and in February 2022, the Foundation's legal counsel notified UMES that the Foundation intended to self-liquidate by April 30, 2022, a date since extended to June 30, 2023.

## **Hawk Plaza Student Housing Complex**

As stated in our preceding audit report in 2013 the Foundation obtained financing to build Hawk Plaza, a three-building student housing complex, which opened in 2015. A subsequent decline in enrollment and a corresponding decline in demand for housing created a serious financial shortfall for the Foundation, as Hawk Plaza was to be the Foundation's revenue source for meeting debt service obligations and operating expenses. In October 2016, the USM Board of Regents' Finance Committee recommended to the USM Chancellor that UMES assume both the ownership and the related obligations of Hawk Plaza from the Foundation. Although this action was approved, ongoing litigation with a third party continued to delay the transfer and in December 2020 UMES legal counsel advised the Foundation that UMES would no longer pursue the transfer due to numerous ongoing title issues.

However, because of the Foundation's financial condition with regard to Hawk Plaza, UMES entered into a series of lease agreements with the Foundation whereby UMES was responsible for all operating expenses, as well as leasing a specified number of the facility's 180 beds (88 beds were leased for the Spring 2022 semester). According to UMES records, the value of those agreements, which covered the period between August 2017 and May 2022, totaled approximately \$4.5 million. During the Spring 2022 semester, Hawk Plaza provided housing to 68 students. According to the Foundation's legal counsel, the Foundation is attempting to sell Hawk Plaza by June 30, 2023, otherwise it will be placed for auction.

## **Grant Funds Disbursed to Foundation**

In our preceding audit report, we noted that UMES had not complied with an OLA recommendation to 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. Our preceding report also noted that the USM'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 purposes of the grant funding.

As of March 9, 2022, the Foundation had not reimbursed the \$385,000 identified by OLA and UMES management advised that the Foundation continues to disagree with the additional \$479,000 identified by the USM auditors and accordingly, has not reimbursed those funds. As noted above, the Foundation has been deactivated and the most recent audit report provided to UMES for the period ending June 30, 2019 expressed uncertainty as to whether the Foundation

can continue as a going concern without the rental or sale of Hawk Plaza. Consequently, we determined that there is uncertainty as to the Foundation's ability to repay some or all of the aforementioned grant funds to UMES.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated January 4, 2019. As noted in Figure 1 below, for the non-cybersecurity-related findings, we determined that UMES satisfactorily addressed three of those six findings. The remaining three findings are repeated in this report.



**Figure 1**  
**Status of Preceding Findings**

| Preceding Finding | Finding Description   | Implementation Status                  |
|-------------------|---|--|
| Finding 1         | The University of Maryland Eastern Shore (UMES) improperly deposited income from its food services vendor, totaling \$1.3 million, with the University System of Maryland (USM) Foundation.   | Not repeated                           |
| Finding 2         | UMES did not comply with USM policies, or circumvented these policies, for procurement transactions totaling \$1.5 million.   | Not repeated                           |
| 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 certain vendor prices under other contracts.            | <b>Repeated</b><br>(Current Finding 1) |
| 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.  | <b>Repeated</b><br>(Current Finding 2) |
| Finding 5         | UMES' procedure for identifying and transferring delinquent student accounts to the State's Central Collection Unit did not include an independent supervisory review to ensure adequate and timely follow-up on all such accounts. | Not repeated                           |
| 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.   | <b>Repeated</b><br>(Current Finding 3) |
| Finding 7         | Monitoring of student administration system security was not adequate as database security-related events were not logged, and certain key application security reports were either not generated or reviewed.                      | Status Redacted <sup>1</sup>           |
| Finding 8         | UMES lacked intrusion detection prevention system coverage for encrypted traffic entering the UMES network.   | Status Redacted <sup>1</sup>           |
| Finding 9         | UMES did not ensure that user access capabilities assigned to employees on its financial management systems were adequately restricted.   | Status Redacted <sup>1</sup>           |

<sup>1</sup> Specific information on the current status of cybersecurity-related findings 7 through 9 has been redacted from this publicly available audit report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

## Findings and Recommendations

### Food Service Vendor

#### **Finding 1**

**The University of Maryland Eastern Shore (UMES) did not adequately monitor its food service vendor to ensure required facility upgrades, investments, and commissions were received.**

#### **Analysis**

UMES did not adequately monitor its food service vendor to ensure required facility upgrades, investments, and commissions were received. The food service contract provided that the vendor was to invest approximately \$4.1 million in UMES facility upgrades and \$913,000 in operational investments (such as wellness education and marketing) over the ten-year contract term, beginning July 2014 and ending June 2023. The contract also provided for a monthly sales commission to be remitted by the vendor to UMES ranging from 6 to 20 percent of food sales depending on the type of sale.

Our review disclosed that UMES did not obtain or review vendor contractor invoices or take any steps to verify that the vendor made all required upgrades and operational investments. In our preceding audit report we noted that we were able to obtain invoices directly from the vendor to support certain investments made. However, our current audit disclosed that neither UMES nor the vendor could provide us with support for the total amounts invested. UMES management advised that a portion of the required investment had been deferred due to the COVID-19 pandemic, but could not provide a contract modification or other documentation to support this assertion or the actual amount deferred.

Furthermore, UMES did not verify the reported sales (such as by reviewing cash register reports) to ensure the vendor submitted the required commissions. During fiscal year 2019 through 2021, the vendor reported food sales of approximately \$1,653,000 with related commissions totaling \$184,000. UMES was unable to produce sales reports to support the commission payments reported during our audit.

Due to the aforementioned conditions, there was a lack of assurance that UMES received all the facility upgrades, investments, and commissions required by the contract. Similar conditions were commented upon in our preceding audit report. In its response to that report, UMES stated that it would conduct annual reviews of the vendor's capital and operational investments required by the contract terms,

and that steps had been taken to verify sales on a monthly basis to ensure that commissions are properly remitted.

### **Recommendation 1**

**We recommend that UMES**

- a. verify that its food service vendor provides the capital and operational investments required by the contract terms (repeat), and**
- b. verify reported food service sales and ensure that the proper commissions are remitted (repeat).**

## **Student Accounts Receivable**

### **Finding 2**

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

### **Analysis**

UMES had not established sufficient controls over initial student residency determinations and subsequent changes, and certain non-cash credits recorded in student accounts. 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 \$2,763 for the spring 2022 semester, whereas the undergraduate tuition rate for out-of-state students was \$8,073. According to UMES' records, as of June 30, 2021, student accounts receivable totaled approximately \$2.2 million.

- Our review disclosed that independent reviews of residency determinations to ensure their propriety were either not adequately documented or were not conducted at all. Our review of three units that made almost all of the initial residency determinations and subsequent changes disclosed that one unit could not document that it had conducted reviews of the initial determinations, another unit's review documentation did not include the date and person conducting the reviews, and the third unit did not conduct any reviews. All three units did not document supervisory reviews of changes to students' residency.

In addition, our test of five initial residency determinations and seven residency changes<sup>2</sup> made by these units disclosed that one student was improperly charged in-state tuition rather than out-of-state tuition for multiple semesters, resulting in lost tuition revenue of approximately \$15,600 for the applicable academic years. According to UMES' records, there were 237 residency status changes from out-of-state to in-state processed during fiscal year 2021.

- As of February 2022, certain non-cash credit adjustments posted to student accounts (such as credits processed due to the student's withdrawal from school) had not been reviewed since June 2021. Furthermore, UMES did not have a written policy regarding the review of non-cash credit adjustments. 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 \$2.1 million were recorded from June 1, 2021 through the end of the audit period that were not subject to independent review.

Similar conditions were commented upon in our preceding audit report.

## **Recommendation 2**

**We recommend that UMES**

- a. ensure that independent supervisory reviews of initial student residency status determinations and residency status changes recorded in the student accounts receivable system are conducted and adequately documented (repeat);**
- b. correct the student account records of the aforementioned student to reflect the proper residency status; and**
- c. establish and implement a written policy requiring that an independent verification of non-cash credit adjustments to source documents be performed, at least on a test basis (repeat).**

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<sup>2</sup> Test selection was based on auditor judgment, and considerations included students with out-of-state addresses charged in-state tuition and students changed to an in-state tuition rate.

## Cash Receipts

### **Finding 3**

**UMES did not adequately control and account for mail collections, and did not ensure electronic collections were properly deposited into the State's bank account.**

### **Analysis**

UMES did not adequately control and account for mail collections, and did not ensure electronic collections were properly deposited into the State's bank account. According to UMES' records, during fiscal year 2021, collections deposited totaled approximately \$6.7 million, consisting of \$4.5 million from walk-in receipts and \$2.2 million in mail collections. There was an additional \$6.5 million in electronic collections, which consisted primarily of credit card payments.

- UMES did not independently verify that all mail collections were deposited. Specifically, the employee conducting the verification also made the related deposits and did not use the initial record of collections (a check log) when performing the verification.
- UMES did not ensure all electronic collections were deposited in the State's bank account. Specifically, as of December 2021, UMES had not reconciled its record of electronic payments processed with receipt of the funds in the State's bank account since June 2020.

As a result of the aforementioned conditions, UMES lacked assurance that all mail collections and electronic payments were properly received and deposited. Similar conditions regarding the failure to reconcile electronic records with the State's bank account were commented upon in our preceding audit report. The Comptroller of Maryland's *Accounting Procedures Manual* requires an independent verification of collections from the initial point of recordation to deposit. USM's *Accounting Practices* states that, for cash held at the State Treasurer's Office (STO), reconciliations must be completed at least quarterly.

### **Recommendation 3**

**We recommend that UMES**

- a. ensure that the initial record of collections received through the mail is independently agreed to validated bank deposit documentation; and**
- b. reconcile its record of electronic collections with the receipt of the funds by the STO, at least quarterly, as required (repeat).**

**We advised UMES on accomplishing the necessary separation of duties using existing personnel.**

## **Information Systems Security and Control**

We determined that the Information Systems Security and Control section, including Findings 4 through 6, related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i).

Consequently, the specifics of cybersecurity-related background information as well as the following findings, including the analysis, related recommendations, along with USM’s responses, have been redacted from this report copy.

**Finding 4**  
**Redacted cybersecurity-related finding.**

**Finding 5**  
**Redacted cybersecurity-related finding.**

**Finding 6**  
**Redacted cybersecurity-related finding.**

## **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 July 17, 2017 and ending September 15, 2021. 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, 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 System 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.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 17, 2017 to September 15, 2021, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of UMES' operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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), as well as from the contractor administering the State's Corporate Purchasing Card Program (credit card activity). The 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 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to UMES, were considered by us during the course of this audit.

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.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3A-301(b), states that cybersecurity is defined as the “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation”. Based on that definition, and in our professional judgement, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to the USM Office and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from the USM Office, on behalf of UMES, to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. 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.

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OFFICE OF ADMINISTRATION AND FINANCE

December 1, 2022

Mr. Gregory A. Hook, CPA  
Legislative Auditor  
Office of Legislative Audits  
The Warehouse at Camden Yards  
351 West Camden Street, Suite 400  
Baltimore, MD 21201

Re: University System of Maryland – University of Maryland Eastern Shore  
Period of Audit: July 17, 2017 through September 15, 2021

Dear Mr. Hook,

Thank you for the work of your team and the recommendations you provided. 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,



Ellen Herbst  
Senior Vice Chancellor for Administration and Finance

Enclosures

cc: Dr. Heidi M. Anderson, President, University of Maryland Eastern Shore  
Ms. Linda R. Gooden, Chair, University System of Maryland Board of Regents  
Ms. Ellen Fish, University System of Maryland Board of Regents  
Dr. Jay A. Perman, Chancellor, University System of Maryland  
Ms. Celeste Denson, Associate Vice Chancellor for Financial Affairs, USM Office  
Mr. David Mosca, Vice Chancellor for Accountability, USM Office  
Mr. Michael C. Eismeier, Associate Vice Chancellor and CIO, USM Office  
Ms. Samantha Norris, Director – Financial Planning and Analysis, USM Office  
Ms. Anastasia Rodriguez, Vice President, University of Maryland Eastern Shore

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

**Agency Response Form**

**Food Service Vendor**

**Finding 1**  
The University of Maryland Eastern Shore (UMES) did not adequately monitor its food service vendor to ensure required facility upgrades, investments, and commissions were received.

We recommend that UMES

- a. verify that its food service vendor provides the capital and operational investments required by the contract terms (repeat), and
- b. verify reported food service sales and ensure that the proper commissions are remitted (repeat).

| Agency Response   |   |                                   |   |
|---|---|-----------------------------------|---|
| <b>Analysis</b>   |   |                                   |   |
| <b>Please provide additional comments as deemed necessary.</b>              |   |                                   |   |
| <b>Recommendation 1a</b>  | Agree   | <b>Estimated Completion Date:</b> | Implementation began July 11, 2022 and will continue through the duration of the contract |
| <b>Please provide details of corrective action or explain disagreement.</b> | <p>The University has taken the following corrective actions with regard to recommendation a to ensure future actions are properly complied with and documented:</p> <ol style="list-style-type: none"> <li>1. Hired a Director of Auxiliary Enterprises who has Six Sigma credentials and he will serve as the contract administrator of the food service management contract.</li> <li>2. Agreed to bi-weekly meetings between the contractor and UMES staff that will include status reports on contract compliance</li> <li>3. Requested monthly submissions of costs incurred, along with invoices and other pertinent documentation, related to capital and operational investments.</li> <li>4. The actual costs of investments vs. proposed investments will be tracked on a spreadsheet that will be maintained by the contract administrator and reviewed by the AVP monthly.</li> <li>5. The Director has requested current information on the renovations proposed by the contractor</li> </ol> |                                   |   |

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

**Agency Response Form**

|   |   |                                   |           |
|---|---|-----------------------------------|-----------|
| <b>Recommendation 1b</b>  | Agree   | <b>Estimated Completion Date:</b> | 8/31/2022 |
| <b>Please provide details of corrective action or explain disagreement.</b> | The University has taken the following corrective action with regard to recommendation b. <ol style="list-style-type: none"><li>1. The University is reviewing and updating its procedures for verifying reported food service sales and ensuring that the proper commissions are remitted.</li><li>2. The University implemented these updated procedures as of August 31, 2022.</li></ol> |                                   |           |

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

**Agency Response Form**

**Student Accounts Receivable**

**Finding 2**  
UMES had not established sufficient controls over student residency determinations and subsequent changes, and certain non-cash credits recorded in student accounts.

We recommend that UMES

- a. ensure that independent supervisory reviews of initial student residency status determinations and residency status changes recorded in the student accounts receivable system are conducted and adequately documented (repeat);
- b. correct the student account records of the aforementioned student to reflect the proper residency status; and
- c. establish and implement a written policy requiring that an independent verification of non-cash credit adjustments to source documents be performed, at least on a test basis (repeat).

| Agency Response  |   |                                   |          |
|--|---|-----------------------------------|----------|
| <b>Analysis</b>  |   |                                   |          |
| Please provide additional comments as deemed necessary.              |   |                                   |          |
| <b>Recommendation 2a</b>   | Agree   | <b>Estimated Completion Date:</b> | Jan 2023 |
| Please provide details of corrective action or explain disagreement. | Finance, Admissions, and the Registrar met regarding this issue and plan to review exception reports to look for potential issues of incorrect residency status. In addition, UMES will formalize the process of changing a student’s permanent address to ensure changes that effect residency status are not made in error. |                                   |          |
| <b>Recommendation 2b</b>   | Agree   | <b>Estimated Completion Date:</b> | Jan 2023 |
| Please provide details of corrective action or explain disagreement. | UMES is determining if the student charges based on residency were incorrect and if so will determine the appropriate adjustment required.  |                                   |          |
| <b>Recommendation 2c</b>   | Agree   | <b>Estimated Completion Date:</b> | Jan 2023 |
| Please provide details of corrective action or explain disagreement. | UMES will prepare and implement a written policy requiring that an independent verification of non-cash credit adjustments to source documents be performed, on a test basis once per month.  |                                   |          |

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**Cash Receipts**

**Finding 3**

**UMES did not adequately control and account for mail collections, and did not ensure electronic collections were properly deposited into the State’s bank account.**

**We recommend that UMES**

- a. ensure that the initial record of collections received through the mail is independently agreed to validated bank deposit documentation; and**
- b. reconcile its record of electronic collections with the receipt of the funds by the STO, at least quarterly, as required (repeat).**

**We advised UMES on accomplishing the necessary separation of duties using existing personnel.**

| <b>Agency Response</b>   |   |
|--|---|
| <b>Analysis</b>  |   |
| <b>Please provide additional comments as deemed necessary.</b> | <p>There are concerns with the factual accuracy pertaining to the adequate control and the accounting for mail collections. The auditors stated the same employee conducting the verification also made the related deposits. This is not factual as there are separation of duties.</p> <p>There are no concerns with factual accuracy concerning reconciling the electronic collections with the receipt of the funds by the STO, however, we note the following: The UMES Comptroller’s Office has been understaffed by a general ledger accountant (responsible for preparation of the bank reconciliation) since January 2017 due to hiring freezes and other budget deficits at the university. In addition, the AP accountant position has been vacant and was eliminated as well as the IT (general ledger) Data Entry Clerk. The workload of these three vacant positions has mainly been assumed by the Assistant Comptroller while still maintaining the existing responsibilities of that position.</p> <p>Reconciliations were resumed and prepared monthly for the period March 2019 through June 2020 by the Asst Comptroller but due to COVID and the commencement of the Workday financial system conversion project in November 2020, subsequent reconciliations were unable to be completed.</p> |

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**Auditor’s Comment:** UMES’ response indicates that our finding of no independent verification of collections is not factually accurate, and that there is a separation of duties. During the course of our fieldwork and our discussion of preliminary findings, there was agreement on the factual accuracy of the finding and the related recommendation. The report response disagreement was unexpected, and provides no specificity as to how the current process provides the necessary separation of duties. Subsequently, we contacted UMES management in an attempt to understand its changed position and were provided with no additional information that would lead us to conclude that this finding is factually inaccurate as claimed. UMES management’s position appears to rest on an erroneous conclusion that certain subsequent procedures performed serve to ensure that all collections were deposited. However, the procedures described to us by UMES do not mitigate the internal control deficiency addressed by this finding because, for example, the individual performing the procedure was not independent of the collection function. As a consequence, we continue to believe that this finding is factually accurate and our recommendations are appropriate.

|   |   |                                   |            |
|---|---|-----------------------------------|------------|
| <b>Recommendation 3a</b>  | Agree   | <b>Estimated Completion Date:</b> | 12/31/2022 |
| <b>Please provide details of corrective action or explain disagreement.</b> | The University feels we are adequately controlling and accounting for the mail collections coming into our office. An Account Clerk receives the mail at the front desk, logs it in the check log, stamps the checks then turns them over to two other Account Clerks working as cashiers for the Office. Note all checks received are logged however all may not belong to Student Accounts Receivable. UMES will implement a procedure to ensure all logged checks are deposited. |                                   |            |
| <b>Recommendation 3b</b>  | Agree   | <b>Estimated Completion Date:</b> | 12/31/2022 |
| <b>Please provide details of corrective action or explain disagreement.</b> | The University will take the following corrective action with regard to the recommendation: UMES has hired a General Ledger Accountant as of May 2022. The Comptroller’s office will train the new accountant on the responsibility of reconciling the electronic collections with the receipts of the funds by the STO. We estimate being current as of December 31, 2022. Following this, the reconciliation will be completed at least quarterly.                                |                                   |            |



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**Information Systems Security and Control**

OLA has determined that the Information Systems Security and Control section, including Findings 4 through 6, related to “cybersecurity”, as defined by the State Finance and Procurement Article, Section 3A-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available report in accordance with the State Government Article, Section 2-1224(i). Although the specifics of the cybersecurity-related background information as well as the findings, including the analysis, related recommendations, along with USM’s responses, have been redacted from this report copy, USM’s responses indicated agreement with the findings and recommendations.

**Finding 4**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

**Finding 5**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

**Finding 6**  
**Redacted cybersecurity-related finding.**

**Agency Response has been redacted by OLA.**

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