

Audit Report

Morgan State University

January 2019



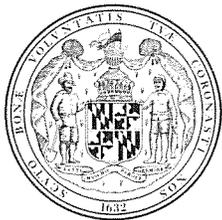
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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

January 11, 2019

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee
Delegate Shelly L. Hettleman, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of Morgan State University (MSU) for the period beginning July 1, 2013 and ending January 3, 2017. MSU operates under a Board of Regents and offers baccalaureate, masters, and doctoral degree programs. MSU has been officially designated by State law as Maryland's preeminent public urban research university.

Our audit disclosed a number of procedures and processes requiring corrective measures to improve financial and operational controls and to ensure adherence to existing State or MSU policies. Although the findings and related recommendations contained in this report cover ten different functional areas of operation, four areas — financial aid and scholarships, student accounts receivable, contracts and disbursements, and information systems security and control — account for the majority of the findings.

Regarding financial aid and scholarships, for example, we noted that reviews were not adequately performed and sufficiently documented to ensure their propriety. According to MSU records, financial aid awarded to students totaled approximately \$106.5 million during fiscal year 2016. Also, MSU did not consistently perform monthly reconciliations of its student financial aid records with corresponding federal financial aid information. As a result, we noted that MSU had not recovered \$1.6 million in eligible federal funds.

Student accounts receivable findings include the lack of a policy, consistent with State law, stipulating the maximum amount of debt each student may carry into the next semester without first establishing a deferred payment plan. Based on our review of MSU records, at least 201 students were allowed to roll over spring

2016 semester balances totaling \$781,502 to a subsequent semester without a deferred payment plan. Further, when deferred payment plans were established, the plans were not always consistent with applicable MSU or Board of Regent's policies. We also found that adjustments to student room and board charges were not subject to a documented independent review and approval process to ensure accuracy and proper posting to student accounts receivable records.

For contracts and disbursements, we found that MSU did not properly procure and monitor vendor staffing for its \$35 million food services contract and did not properly approve certain increases to the vendor's fees. During the procurement process, MSU disqualified a bidder based on its failure to meet the minimum technical score established in the related request of proposals even though MSU subsequently excluded that work element from the scope of the awarded food services contract. Performance monitoring deficiencies were also noted with respect to this vendor, including certain payments for services not rendered. As a result, we estimated that MSU should recover vendor payments totaling approximately \$2.2 million for the four-year period ending June 30, 2017. We also noted two smaller procurements, valued at \$600,000, that were procured as sole source contracts even though the related justification prepared by MSU did not justify that procurement method.

With respect to information systems security and control, we noted that sensitive student personally identifiable information was stored without adequate safeguards. Also, we found that user access to three automated systems, including MSU's financial system, was not adequately monitored; and certain network security risks existed that would allow malicious data to reach MSU's network servers without timely detection.

Additional findings contained in this report include the failure of MSU to maintain complete grant records; the lack of sufficient controls over certain cash collection activities, which totaled \$24.4 million in fiscal year 2016; and the failure to conduct annual physical inventories of equipment in accordance with MSU policy.

MSU's response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while MSU generally agrees with the recommendations in this report, we identified certain instances in which statements in the response conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor comments" within MSU's response to explain our positions. Finally, there are

other aspects of MSU's response which will require further clarification, but we do not anticipate that these will require the Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the course of this audit by MSU and its willingness, in a collaborative manner, to address the audit issues raised and to implement appropriate corrective action to improve its operations.

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

Morgan State University (MSU) offers baccalaureate, masters, and doctoral programs, and has been officially designated by State law as Maryland's preeminent public urban research university. MSU is governed by a Board of Regents appointed by the Governor with the advice and consent of the Maryland Senate. Based on MSU's records, its student population for the Fall 2017 semester totaled 7,747, including 6,440 undergraduate students and 1,307 graduate students. MSU's 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 records, MSU's revenues for fiscal year 2016 totaled approximately \$227.3 million, including a State general fund appropriation of approximately \$82.0 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the seven findings contained in our preceding audit report dated October 9, 2014. We determined that MSU satisfactorily addressed five of these findings. The remaining two findings are repeated in this report, one of which appears as two findings.

Findings and Recommendations

Financial Aid and Scholarships

Finding 1

Reviews of financial aid awards and scholarships were not adequately performed to ensure their propriety and were not sufficiently documented. As a result, Morgan State University (MSU) did not identify certain awards that were overstated or issued to ineligible students.

Analysis

Reviews of financial aid awards and scholarships were not adequately performed to ensure the propriety of the awards, and the reviews were not sufficiently documented. According to MSU records, financial aid awarded to students totaled approximately \$106.5 million during fiscal year 2016, which primarily consisted of federally funded aid (\$81.4 million) and institutional aid, including honors scholarships (\$3.8 million) and athletic scholarships (\$4.1 million). Specifically, the original aid calculations were not subject to an independent review and approval at the time of awards and, consequently, MSU relied on post-award reviews to ensure the propriety of certain financial aid awards credited to student accounts.

- Federal financial aid awards were not independently selected for subsequent review and the results of the reviews were not sufficiently documented. MSU hired a contractor to review federal financial aid awards for propriety on a test basis. However, the awards reviewed by the contractor were selected by the MSU employees who processed the original financial aid awards. In addition, while the contractor prepared a checklist of the attributes tested for each award reviewed, the contractor did not document if it identified any errors as a result of its review and the related corrective actions that were taken. Our test of federally funded financial aid did not identify any erroneous awards.
- Honors and athletic scholarship awards were generally not subject to any independent review and, therefore, there was a lack of assurance that financial aid awards were proper. Rather, these award determinations were reviewed only if they were included in certain targeted reviews MSU conducted (such as reviews of financial aid that exceeded a student's established budget or financial need). In addition, when performed, the targeted reviews were not conducted by individuals independent of the aid award process. Specifically, we noted that the targeted reviews for five semesters (Spring 2015 through Spring 2017) were performed by employees who had the ability to post the

awards. Therefore, these employees may have reviewed the same awards that the employees originally posted to the student accounts (reducing the tuition amount owed by a student).

Our test of honors and athletic scholarship awards disclosed that certain scholarship amounts were overstated and were awarded to ineligible students. For example, we tested five honors scholarships totaling \$97,980 awarded during fiscal years 2014 and 2016 and noted that two awards totaling \$35,852 exceeded the amounts in the related award letters by \$26,852. In addition, four of these students, with scholarships totaling \$80,054, did not meet the eligibility requirements for their scholarships. For example, one student had a lower than required scholastic assessment test score.

Recommendation 1

We recommend that MSU

- a. ensure that financial aid awards are subject to independent review and approval and the reviews, including the results, are properly documented; and**
- b. review the aforementioned scholarships and make necessary adjustments or recoveries, as deemed appropriate.**

Finding 2

MSU did not always perform monthly reconciliations of federally funded financial aid records and, consequently, had not recovered \$1.6 million in eligible aid awards from the United States Department of Education.

Analysis

MSU did not consistently perform monthly reconciliations of its records of federally funded financial aid disbursed to students with the corresponding financial aid amounts approved by the United States Department of Education (DoE). As a result, we found that MSU had not recovered \$1.6 million in eligible federal funds.

To ensure the proper amounts of federal funds are recovered from DoE for federal financial aid, MSU advised us that it had a policy to conduct monthly reconciliations between the amounts of financial aid disbursed to students from its records and the amounts initially approved by DoE for the same students. When performed, the reconciliations identify potential adjustments to the amounts eligible for federal reimbursement that resulted from changes to the initial student awards. However, MSU was unable to document that reconciliations were performed for four of the five months we tested during the period between June

2014 and May 2017, and we were advised that reconciliations were not always performed due to staff vacancies. Consequently, there was a lack of assurance that MSU recovered the proper amount of federal aid for these months.

We also tested four MSU reimbursement requests submitted to DoE in September 2016 through November 2016, totaling \$9.1 million (including two requests submitted for one of the aforementioned months for which there were no documented reconciliations), and found that MSU did not recover all the amounts disbursed to the students. This condition appeared to be due to differences between DoE's records and MSU's automated system, which should have been identified if MSU had performed the appropriate reconciliations. Specifically, based on its automated records, MSU had distributed \$10.7 million to students, but only requested reimbursement for the \$9.1 million of the aid previously approved by DoE. The \$1.6 million difference was subsequently recovered by MSU.

DoE approves a student's financial aid amount based on data supplied during the student's completion of the Free Application for Federal Student Aid (FAFSA). The FAFSA data are interfaced into MSU's automated records to post the financial aid to student accounts. After initial awards are made, students can change their FAFSA data (such as for a change in income or enrollment) and the MSU financial aid counselors can update both the FAFSA and the related MSU automated records. Accordingly, differences can exist between the initial award amounts approved by DoE and the amount of federal financial aid actually disbursed to students by MSU.

Recommendation 2

We recommend MSU perform documented monthly reconciliations of its records of federally funded aid disbursed to students with the amounts approved by DoE to ensure that the proper amount of federal funds are recovered.

Finding 3

Eligibility requirements for three of MSU's honors scholarships were not consistent with MSU Board of Regents (BoR) policy.

Analysis

Eligibility requirements for three of MSU's honors scholarships were not consistent with BoR policy. Specifically, certain scholarship requirements were not as strict as the requirements for admission to the Honors College established by BoR policy. As a result, MSU awarded honors scholarships to certain students

who did not qualify for admission into the College, which was also a requirement for receipt of these honors scholarships.

For example, the BoR's criteria for admission to the Honors College required a minimum grade point average or GPA of 3.2 to 3.5 (depending on the student's SAT score) while two of the honors scholarships only required a 3.0 GPA. As a result, certain students were awarded these honors scholarships but did not meet the BoR criteria for the Honors College. Based on MSU records, we determined that 40 of the 421 students MSU were admitted into the Honors College in the fall of 2015 by virtue of the fact that they received honors scholarships totaling \$244,835, even though they did not meet the BoR's stricter academic requirement for admission to the Honors College.

MSU management acknowledged that the honors scholarship criteria were not consistent with the related BoR criteria for Honors College admission, and advised us that it would be reviewing the requirements and proposing changes to the Honors College admission criteria to reflect the current practices.

Recommendation 3

We recommend that MSU review its eligibility requirements for the honors scholarships and admission to the Honors College, revise them as necessary to ensure the two are consistent, and establish practices that are consistent with these requirements.

Student Accounts Receivable

Finding 4

MSU had not established a maximum amount, consistent with State law, of unpaid student charges that could be carried forward from one semester to the next, did not comply with established policies regarding student deferred payment plans, and permitted students with delinquent balances to register for classes and receive transcripts and diplomas.

Analysis

MSU's policy regarding the rollover of unpaid student charges from semester-to-semester was not in accordance with State law, and its practices regarding the establishment of student deferred payment plans did not comply with MSU and BoR policies. In addition, MSU allowed students with outstanding balances to register for classes and obtain transcripts and diplomas under certain circumstances, which violated MSU policy. According to MSU records, as of April 25, 2017, MSU's student accounts receivable totaled \$10.4 million

including \$4.2 million that had been carried over from a prior semester. The State's Central Collection Unit (CCU) has authorized MSU to deviate from standard State collection requirements while a student is actively enrolled. The CCU deviation authorizes MSU to award deferred payment agreements and to roll over "reasonable" charges from semester-to-semester as long as the student is attending and passing classes.

MSU Did Not Establish Maximum Student Rollover Charges Consistent with State Law

MSU did not establish the maximum amount of a student's account balance that is allowed to be rolled into a subsequent semester without the establishment of a deferred payment plan. Based on our review of MSU records, at least 201 students were allowed to roll over Spring 2016 semester balances totaling \$781,502 to the subsequent semester without a deferred payment plan. Of these 201 students, 157 students had account balances that ranged from \$1,000 to \$16,915, and totaled \$761,330. State law, which applies to all public institutions of higher learning, provides for reasonable rollover charges (without a deferred payment plan) of \$250 or less.

Deferred Payment Plans Were Not Consistent with BoR and MSU Policies

MSU granted deferred payment plans to students who did not meet the MSU criteria for these plans, did not establish payment terms consistent with BoR policies, and did not take appropriate action when the students defaulted on their plans. These plans allow students to pay off their outstanding balances over extended periods while enabling them to register for classes. During fiscal years 2014 to 2017, MSU granted 3,676 deferred payment plans to 1,665 students totaling approximately \$7 million. As of May 24, 2017, these 1,665 students had outstanding balances on their plans totaling approximately \$3.8 million.

We tested three students who were granted 17 deferred payment plans during the audit period totaling \$234,000. We found that these students were not eligible for the payment plans, because they generally had not paid or received tuition waivers for 80 percent or more of the semester's charges, as required by MSU policy. For 15 of the plans totaling \$199,000, MSU did not require the students to pay one-third of the payment plan amount at the time it was established, which is required by BoR policy. Finally, MSU allowed all three students to remain enrolled in classes even though they subsequently defaulted on each of their plans. MSU policy requires enrollment to be cancelled for students who default on their plans.

In addition, MSU granted deferred payment plans for the Fall 2016 semester totaling at least \$1.2 million even though BoR policy limits the total value of all

plans to \$150,000 per semester. MSU management acknowledged that it exceeded the maximum allowed by the policy and stated it would pursue with the BoR changes to the policy to increase the maximum total to reflect current needs.

Students with Outstanding Balances Were Allowed to Register for Classes and Receive Transcripts and Diplomas

MSU did not place timely administrative holds on delinquent student accounts to prevent the students from registering for classes and receiving a transcript or diploma, in violation of MSU policy. Our test of nine student accounts with outstanding balances totaling \$107,000 disclosed that no administrative hold had been placed on three accounts with balances totaling \$31,000. For four other accounts with balances totaling \$44,000, we found that the administrative holds were not processed timely, allowing the students to register for classes in the following semester. Finally, for one \$4,000 account, an administrative hold previously placed was not reinstated when the student did not make timely payments.

MSU policy prohibits students with outstanding balances (and not in a deferred payment plan) from registering for classes, and generally from obtaining transcripts or diplomas. While MSU policy does allow transcripts or diplomas to be issued to students with outstanding balances under certain circumstances, there was no documentation to support the justification for two of the three students we tested that had received a transcript. According to its records, MSU granted diplomas to 159 students during our audit period that had outstanding balances totaling approximately \$507,000, and issued 361 transcripts to 95 of these students that had outstanding balances approximately \$446,000.

Recommendation 4

We recommend MSU

- a. establish the maximum amount of a student's account balance that is allowed to be rolled into a subsequent semester before requiring the establishment of a deferred payment plan consistent with State law;**
- b. ensure deferred payment plans are administered in accordance with BoR and MSU policies, including taking appropriate action for plans in default; and**
- c. place timely administrative holds on delinquent student accounts, and refrain from allowing the students to register for classes in following semesters and from issuing diplomas or transcripts to students with outstanding balances unless there is a documented justification.**

Finding 5

Adjustments to student room and board charges were not subject to an independent review and approval process to ensure accuracy and proper posting to student records.

Analysis

MSU had not established adequate controls over adjustments to student room and board charges. Although MSU management advised us that these adjustments were reviewed and approved for propriety by supervisory personnel, the employee conducting the reviews could also process the related adjustments and thus was not independent. In addition, these reviews were performed before the transactions were recorded in MSU's automated records. As a result, there is a lack of assurance that adjustments processed were accurate and valid, and complied with MSU policy. During fiscal year 2016, according to its records, MSU processed adjustments reducing room and board charges by approximately \$6.8 million. Our test of adjustments that collectively reduced room and board charges to 10 student accounts by \$36,000 disclosed that adjustments for 6 accounts were not properly documented. For example, four adjustments totaling \$13,000 were not supported by the required documentation (such as a signed housing contract release form).

Recommendation 5

We recommend MSU ensure that adjustments to student accounts for room and board charges are properly supported and subject to independent supervisory review for propriety after being recorded in MSU's automated records. We advised MSU on accomplishing the necessary separation of duties using existing personnel.

Finding 6

MSU did not adequately monitor the vendor that was responsible for disbursing student refunds to ensure that the vendor properly issued all refunds and that sensitive student information retained by the vendor was properly safeguarded.

Analysis

MSU did not adequately monitor the vendor that was responsible for disbursing student refunds to ensure the vendor properly issued all refunds and safeguarded sensitive student information it retained. MSU policy dictates that a student is eligible for a refund when the student's total account credits (such as payments and financial aid awards) exceed the student's total account charges (such as tuition, fees, and housing). MSU calculated student refund amounts and

transferred the funds weekly to an independent vendor to issue the refunds to the students. To perform this task, it is necessary for the vendor to maintain sensitive personally identifiable information. According to MSU records, student refunds totaled \$31 million during fiscal year 2016.

- MSU did not ensure the vendor properly issued all student refunds and returned any funds that could not be refunded to the students. Although the vendor periodically provided MSU with an online report of the refunds issued, MSU did not have a process to confirm that the refunds were actually disbursed to the intended students. In addition, MSU did not have a process to ensure funds that were not disbursed to students (for example, if the student moved and could not be located, or refund checks were not deposited) were returned to MSU.
- MSU did not require, nor obtain comprehensive, independent reviews of the vendor's automated system to ensure sensitive data, including personally identifiable information such as students' full names, bank account numbers, and mailing addresses, were properly safeguarded. The American Institute of Certified Public Accountants has issued guidance for various reviews of service organizations. Based on this guidance, service organizations (like the aforementioned vendor) may contract for an independent review of controls and the resultant independent auditor's report is referred to as a System and Organization Controls (SOC) report. There are several types of SOC reports, with varying scopes and levels of review and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include an evaluation of system security, availability, processing integrity, confidentiality, and/or privacy.

MSU's contract with the vendor did not require a SOC 2 report. In response to our request, the vendor provided MSU with a SOC 1, Type 2 report which addressed the vendor's information technology general control system for the period from August 4, 2016 to May 12, 2017. Although the report did not disclose any significant operational or security-related concerns, such SOC 1 reports are generally intended to focus on service organization controls relevant to financial reporting for user entities and would not provide MSU the degree of assurances necessary for confirming the security of MSU data.

Recommendation 6

We recommend that MSU

- a. ensure the vendor properly issued refunds to students and returned any amounts not disbursed; and
- b. require the vendor to obtain periodic SOC 2 Type 2 reviews, and obtain and review the resulting reports to ensure sensitive student data maintained by the vendor is properly safeguarded.

Student Residency

Finding 7

Documented supervisory reviews of student residency determinations were not performed or were not adequately performed in certain instances.

Analysis

Supervisory reviews of initial student residency determinations and residency changes for undergraduates were not performed or documented, and the reviews performed for graduate students were not adequate. Specifically, initial student residency determinations for undergraduate students were not subject to independent supervisory review and, while MSU management advised us that such reviews were performed for undergraduate residency changes, no documentation was available to support the performance of certain reviews. In addition, an independent employee performed a review of graduate residency determinations and changes; however, these reviews were performed before the residency determinations were entered into MSU's automated residency records. As a result, there was a lack of assurance that residency determinations and related changes recorded in the automated system were proper.

MSU's Board of Regents *Policy on Student Residency Classification for Admission and Tuition Purposes* states that a student requesting initial in-state residency status must provide evidence of residency in the State for at least the last twelve consecutive months and, for a change in residency status, must submit a MSU *Petition for Change in Classification for Tuition Purposes* along with supporting evidence that provides clear and convincing evidence of his or her residency status, such as a valid Maryland driver's license.

An accurate student residency status determination is critical because of the significant differences between resident and nonresident tuition rates. For example, full-time undergraduate tuition and fee charges for the Fall 2016 semester totaled \$3,818 for Maryland residents and \$8,752 for non-Maryland residents. According to MSU records, during fiscal year 2016, MSU added 5,316

new students as Maryland residents and changed the status of another 611 students from out-of-state to in-state status. Similar conditions regarding controls over changes to student residency status were commented upon in our two preceding audit reports.

Recommendation 7

We recommend that MSU ensure documented independent supervisory reviews, using appropriate records, are performed on initial student residency determinations and changes for both graduate and undergraduate students, at least on a test basis (repeat).

Grants

Finding 8

MSU did not maintain current, complete, and accurate grant records, and did not pursue collection of outstanding grant receivables as required.

Analysis

MSU did not maintain current, complete, and accurate grant records and did not pursue the collection of outstanding grant receivables as required by CCU regulations. MSU receives grants from federal, State, and private entities for research and development and periodically bills these entities for qualifying grant expenditures. Grant activity is recorded in an automated system, and the Office is responsible for coordinating all necessary record keeping, billings, and reporting.

- MSU did not have a process to independently verify the accuracy of grant information, such as the grant amounts, fund codes, and indirect cost rates recorded in its automated records, resulting in certain errors going undetected. We noted that a \$1 million federal grant, covering fiscal year 2017, had an incorrect indirect cost rate recorded in MSU's automated records. Specifically, the indirect cost rate was recorded as 48.5 percent instead of as 8 percent and, as a result, MSU improperly recovered \$236,800 from the federal granting agency. For this same grant, we also noted an adjustment to increase indirect cost expenditures that was incorrectly posted to another federal grant, resulting in an improper recovery of \$3,700 from the grantee. MSU, which was unaware of these errors until we brought them to its attention, advised us that it subsequently took action to address these conditions by reducing future recoveries by appropriate amounts.
- MSU did not maintain current, complete, and accurate grant receivable records. Our review disclosed that, as of August of 2017, MSU's grant

receivable records had not been updated since March 2017 when the employee who maintained the records resigned. In addition, the grant records did not include all of MSU's grant activity since March 2017. For example, the records did not include any data on grant funds that were received through electronic drawdowns. Finally, certain information, such as the outstanding balance (that is, the total open requests for funds from grantors) reflected in the grant records, was inaccurate. In this regard, the file provided to us reflected a total outstanding grants receivable balance of \$106,000 as of March 2017. However, when we calculated the total of the outstanding grants, we determined that, based on existing records, the actual receivable balance at that date was \$1.6 million. Similar conditions regarding the lack of adequate records were noted in our preceding audit report.

- MSU could not document its formal pursuit of outstanding grant reimbursement requests as required, and it did not routinely prepare reports to monitor the age of outstanding grant reimbursements. Our test of 10 grant reimbursement requests for fiscal years 2014 through 2017 totaling \$580,000 disclosed that no formal requests for payment were made after the initial billings for all 10 requests. Ultimately, 7 of these requests totaling \$315,400 were paid between 7 and 13 months after the initial requests for reimbursement. However, 2 requests totaling \$234,000 that were delinquent for 5 and 19 months had not been paid as of August 25, 2017. The remaining request for \$30,600 was written off by MSU in June 2016 without State CCU approval (as commented below).

MSU advised us that it made attempts to collect the outstanding grant receivables verbally or through email; however, evidence of these efforts was generally not documented or retained. Furthermore, MSU did not produce and review reports of outstanding grant reimbursement requests to identify the age of outstanding reimbursements to aid in its collection efforts. Similar conditions have been commented upon in our three preceding audit reports dating back to February 2008.

- MSU did not forward any delinquent grant reimbursement requests to CCU during the audit period as required by CCU regulations. MSU management advised us that it does not refer delinquent accounts to CCU because doing so could jeopardize future grants from the related grantors. Determining the merits of MSU's assertion is the responsibility of CCU, which can authorize deviations from the requirement to refer these accounts to CCU. However, MSU had not requested a CCU waiver or deviation from such requirements.

- MSU wrote off delinquent receivables without CCU’s approval and without written justification. Certain of the amounts written off were delinquent because MSU failed to comply with the related grant agreements. For example, for the aforementioned reimbursement request written off by MSU in June 2016, MSU had invoiced the grantor \$30,600 on September 8, 2014 for qualifying grant expenditures. On February 6, 2015, the grantor responded that no payment would be made until MSU submitted a certain required report that was due on May 1, 2014. MSU did not submit the report and instead wrote off \$42,200 due from the grantor (including an additional \$11,600 owed). According to its records, MSU wrote off \$295,000 in outstanding grant reimbursement requests in fiscal year 2016, including the aforementioned \$42,200.

According to MSU’s records, grant expenditures totaled \$31.2 million during fiscal year 2016. As previously mentioned, we determined that MSU’s outstanding grants receivable balance as of March 31, 2017 totaled \$1.6 million; this balance included \$906,000 that had been outstanding for more than 90 days. State regulations generally require that three written demands for payment be made on accounts at 30-day intervals. If payment is not received within 75 days of the original demand for payment, outstanding accounts should be transferred to CCU for further collection efforts. Delays in the pursuit of outstanding debts may decrease the likelihood of collecting the funds.

Recommendation 8

We recommend that MSU

- a. ensure grant information is entered into its automated records accurately, and is subject to independent verification, at least on a test basis;**
- b. maintain current and accurate grant receivable records (repeat);**
- c. routinely prepare and review reports to track and monitor the age of grant receivables (repeat);**
- d. send written payment demands to grantors and submit delinquent accounts to CCU, in accordance with State regulations (repeat); and**
- e. discontinue the practice of writing off delinquent accounts without CCU approval or written justification and, in consultation with legal counsel, determine the feasibility of collecting amounts improperly written off, including those noted above.**

Contracts and Disbursements

Background

MSU established procurement policies and procedures that have been approved by its BoR and by the Board of Public Works (BPW). According to State and MSU records, during our audit period, 10,843 purchase orders totaling \$176 million were issued to 2,303 vendors (excluding capital construction). We judgmentally selected and reviewed the procurements of four contracts collectively valued at \$36.7 million. We also reviewed MSU's contract monitoring and disbursements for these four contracts as well as for five additional contracts; these nine contracts had expenditures totaling \$25.6 million as of July 2017.

Finding 9

MSU did not properly procure and monitor a five-year \$35.1 million food services contract. Based on the deficiencies we noted, MSU should recover vendor payments totaling approximately \$2.2 million.

Analysis

MSU did not properly procure and monitor staffing for its food services contract, and did not properly approve increases to the vendor's fees. As a result of the deficiencies noted below for the four-year period ending June 30, 2017, we estimate that MSU should recover vendor payments totaling approximately \$2.2 million.

In June 2014, MSU entered into a \$35.1 million five-year-contract with a vendor to provide various food services to MSU students. The contract included five one-year renewal options with a maximum contract value of \$77.7 million and was awarded to the incumbent as a single source award. While three vendors submitted bids on the contract, MSU disqualified the other two vendors — one for failing to meet the 40 percent minority business enterprise requirement and the other because the vendor's technical score fell below the minimum score established in the request for proposal (RFP).

Questionable Disqualification of Bidder

MSU disqualified one of the three bidding vendors for failing to meet the minimum technical score established in the RFP; however, this disqualification related to work that MSU subsequently excluded from the scope of the food services contract after the original RFP was issued. Furthermore, this information was not disclosed to BPW when the single source contract award was presented for approval. Specifically, the only available documentation from MSU submitted to BPW regarding this bid evaluation indicated that the vendor failed to

meet the minimum technical score regarding its proposal for a capital investment and facility enhancement project at the north end of MSU's campus. MSU failed to disclose that it had previously removed this project from the scope of the contract that it was presenting for approval. In fact, in response to BPW inquiries regarding the lack of qualified bidders on the contract, MSU stated that this vendor lost points in its evaluation due to its proposal for the facility enhancement project, without disclosing that this project had been removed from the contract's scope. Had MSU reassessed the vendors' technical scores without consideration of this project, we concluded that this vendor would have met the minimum qualifications.

Payments Made for Services Not Provided

MSU did not obtain staffing reports to monitor vacancy rates of key positions. As a result, MSU did not identify certain vacant positions and reduce the related payments in accordance with the contract terms. The contract provided for the vendor to maintain certain key staff and to submit bi-weekly vacancy reports for these positions. MSU was to reduce its payment by 50 percent for any position vacant for four to six weeks, and by 100 percent for any position vacant for more than six weeks. However, MSU did not obtain the reports of staffing data to identify these vacancies and, accordingly, did not reduce vendor payments.

In response to our request, the vendor provided us the staffing data for the key management employees. Our review of these data disclosed several vacancies, certain of which were for extended periods. For example, one position had been vacant beginning one week after the start of the contract term. We estimated that MSU could have reduced vendor payments by approximately \$1.2 million for seven vacant management positions during the period from July 1, 2014 to June 30, 2017. MSU management stated that certain of these positions were removed during initial contract negotiations, but could not provide us with documentation of these changes to the contract.

Vendor Fee Increases Inconsistent with Contract Terms

MSU allowed the vendor to increase its fee without obtaining and reviewing justification for the increases, certain of which were not consistent with the contract. Contract language provided for MSU to pay the vendor a set weekly fee for the students enrolled in meal plans each semester. The fee was subject to modification annually based on changes in the applicable consumer price index (CPI), and for other reasons if the reasons were deemed justified by MSU. However, MSU could not document that it reviewed the CPI prior to approving vendor fee increases. We noted that MSU approved CPI-related increases in the fee which ranged from 1.2 percent to 4 percent that were not consistent with the change in CPI. For example, MSU approved a 4 percent rate increase for fiscal

year 2015 when the applicable CPI increase was only 0.8 percent. MSU could not provide documentation supporting or justifying those fee increases. Based on our estimates, these unsupported fee changes, beyond actual CPI increases, resulted in MSU paying the vendor an additional \$962,000 during fiscal years 2015 through 2018.

In October 2016, MSU also approved a fee increase for the vendor to extend the daily hours of operation by two hours at one dining location. However, our review of the contract found that one of these two additional hours was already considered in the initial fee. Based on the vendor's estimates, we calculated that the annual value of the fee increase related to this already included hour was \$35,000.

Recommendation 9

We recommend that MSU

- a. ensure technical evaluations consider any changes to the project scope made after the RFP is issued;**
- b. retroactively notify the BPW of the cancellation of this specific project and the impact on the contract award, and provide accurate information to the BPW when submitting future contracts for approval;**
- c. obtain the required staffing reports and adjust payments for any vacancies;**
- d. ensure fee increases are properly supported and reviewed, and immediately adjust any improperly increased fees; and**
- e. identify and recover any improper vendor payments, including those noted above.**

Finding 10

MSU procured two contracts totaling approximately \$600,000 to renovate a food service area without competitive procurements, and did not adequately monitor two housekeeping contracts with one vendor totaling \$1.3 million.

Analysis

MSU contracts were not always competitively procured, and monitoring of vendor compliance with related contractual terms and conditions was not always adequate.

- MSU procured two contracts totaling approximately \$600,000 to renovate its food service facilities without conducting a competitive procurement, as required by its BoR policies. Specifically, MSU entered into sole source contracts with two vendors to perform these renovations without any

competitive procurement. Rather, MSU allowed the food services vendor to select the two contractors. Although MSU prepared written sole source justifications for using the contractors selected by the food services vendor, the justifications did not support the use of the sole source method. For example, one justification stated that the contractor was selected because it was part of the food services vendor's network of retail contractors. MSU ultimately paid \$635,910 for the food service area renovation project. MSU's *BoR Procurement Policies and Procedures Manual* requires competitive procurement of all contracts exceeding \$5,000.

- MSU did not adequately monitor two housekeeping contracts totaling \$1.3 million that were awarded to one vendor during the prior audit period to ensure the contracted services were performed, and did not obtain required documentation to support invoices for these services. For both contracts, MSU did not obtain the vendor's work plan and written summaries of the monthly activities as required by the contract as a means to ensure the vendor was performing the contracted services. Although MSU performed inspections of the vendor's activities, without the work plan there was no assurance that the vendor adequately performed all contracted services.

MSU also did not ensure the vendor submitted the required documentation with its invoices. Our review of four payments on these contracts totaling \$67,559 disclosed that the vendor did not submit a list of itemized hours worked and materials furnished as required by the contract. In addition, we found that MSU paid the vendor \$77,411 on one of these contracts for weekend housekeeping services that were already included in the vendor's monthly fee. These overpayments occurred during fiscal years 2011 through 2015.

Recommendation 10

We recommend that MSU

- a. competitively procure all contracts in accordance with its BoR policies and procedures;**
- b. ensure that vendors provide all required contract documentation to support services performed; and**
- c. ensure that payments made are in accordance with contract terms and are properly supported, and recover amounts improperly paid to the housekeeping vendor.**

Capital Construction Projects

Finding 11

MSU could not document that it received and reviewed critical documentation to help monitor capital construction projects and did not adjust contractor performance and payment bonds when contract values increased.

Analysis

MSU could not document that it received and reviewed critical documentation to help monitor capital construction projects and did not adjust contractor performance and payment bonds when contract values increased. According to MSU records, during our audit period, work was in progress on 10 capital construction projects under 31 contracts valued at \$173 million. We performed a detailed review of two construction contracts: one valued at \$67.3 million for building construction and one valued at \$1.6 million for facility renovations.

Critical Project Monitoring Documents Were Not Received or Maintained

MSU could not document that it had received and reviewed certain critical documents needed to monitor its capital construction projects. For example, MSU could not provide any of the daily construction reports for the \$1.6 million facility renovations contract. Daily construction reports were required by the contract and are an essential document in construction projects, as they include critical information regarding job progress and the number of employees and equipment at the construction site. Regarding the \$67.3 million construction contract, MSU could not provide documentation that management had reviewed and approved changes to three key contractor employees, including the field superintendent who was to provide daily supervision on the project. The contract required that MSU be notified of such personnel changes for its subsequent review and approval. We were advised by MSU management that all of these documents for both contracts had been received and reviewed, but that it could not locate them and did not always document the related reviews.

Performance and Payment Bonds Were Not Sufficient to Protect the State

MSU did not ensure contractors adjusted performance and payment bonds when the contract amounts were modified. MSU processed modifications that significantly increased the value of both contracts but did not ensure the contractors modified the related bonds. For example, the current bond for the building construction contract provided coverage for up to \$36.9 million; however, as of September 2015, the estimated value of the contract after several modifications was \$67.3 million. In response to our inquiries, the contractor increased its bond coverage in October 2017 for the total contract value. These

bonds protect the State in the event the contractor does not complete the project in accordance with the contract.

Recommendation 11

We recommend that MSU ensure

- a. critical project monitoring documents required by the contract are received, reviewed, and maintained; and**
- b. contractor performance and payment bonds are sufficient to protect the State.**

Cash Receipts

Finding 12

MSU did not adequately control receipts at four locations which processed cash and check collections totaling \$24.4 million in fiscal year 2016.

Analysis

MSU did not adequately control collections received at four locations. These collections either were received at three MSU locations (the Financial Aid Office, the Finance Office, and the Student Center) that then forwarded to the Bursar's Office for deposit or were directly received and processed in the Bursar's Office. According to MSU records, during fiscal year 2016, receipts collected by the four locations totaled approximately \$24.4 million. Examples of the procedural and control deficiencies found include the following conditions:

- The Bursar's Office did not adequately segregate duties and establish accountability over cash and check collections, which totaled \$23.3 million during fiscal year 2016. Specifically, four Bursar's Office employees who processed or had access to these collections from students could also modify the related student accounts receivable records. In addition, the Office did not document the transfer of collections from the Bursar's Office to the courier for delivery to the bank to establish accountability over the funds.
- The Student Center did not reconcile tickets issued for various events with the related collections. Total Student Center collections, including ticket sales, totaled \$1.1 million for fiscal year 2016. To process event sales, the Student Center maintained two independent automated systems – a ticketing system, which issued prenumbered tickets to be purchased, and a cashiering system to record the purchases and related collections. The collections as recorded in the cashiering system were then manually recorded in MSU's automated financial records. MSU did not reconcile the value of the tickets issued by the

ticketing system with the related collections recorded in its cashiering system and in its automated records, and did not account for and retain cancelled or refunded tickets to document any disparity. As a result, tickets could be printed and issued and the related collections misappropriated without detection.

MSU advised us of an allegation of improper ticket sales during the course of our audit fieldwork. In response to this allegation, which was received in July 2017, MSU conducted an investigation that identified tickets valued at \$20,580 for the 2015 and 2016 Homecoming events that had been issued and printed by the ticketing system, but then cancelled with no related sales recorded in the cashiering system. We identified a similar situation during our testing of 196 ticket refunds, with MSU unable to account for 173 refunded tickets valued at \$5,415. MSU referred the matter to the appropriate entities for follow-up.

- Collections received by the Finance and Financial Aid Offices, which totaled \$838,000 and \$464,000 during fiscal year 2016, respectively, were not properly controlled. For example, checks received by the Financial Aid Office were not restrictively endorsed immediately upon receipt, and neither office consistently documented the transfer of collections to the Bursar's Office for further processing and deposit, to establish accountability over the funds.
- MSU did not independently verify that all collections were subsequently deposited. Specifically, daily verifications of daily cash accounting summary sheets to the deposit tickets conducted by the Bursar's Office were performed by individuals with prior access to the collections. While an independent verification was performed by the MSU Comptroller's Office, the employee performing the verification did not use the initial record of collections. Rather, the employee used reports from MSU's automated records (which were created after the initial receipt occurred) to perform the verification, which provided no assurance that all collections initially received were deposited.

The Comptroller of Maryland General Accounting Division's *Accounting Procedures Manual* requires agencies to restrictively endorse collections immediately upon receipt, segregate the cash receipts and accounts receivable functions, and independently reconcile collections to bank records using initial source documents.

Recommendation 12

We recommend that MSU establish adequate accountability and control over collections received in the aforementioned locations in accordance with the Comptroller of Maryland General Accounting Division's *Accounting Procedures Manual*. Specifically, we recommend that MSU

- a. segregate the cash receipts and accounts receivable functions;**
- b. restrictively endorse all checks immediately upon receipt;**
- c. document the transfer of collections to establish accountability over the funds;**
- d. reconcile event tickets sold with the related collections, account for all tickets to ensure all funds are accounted for, and investigate any missing tickets, including those noted above; and**
- e. ensure employees independent of the collection process reconcile collections to related bank records using initial records of collections.**

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

Corporate Purchasing Cards

Finding 13

MSU did not adequately monitor corporate purchasing card (CPC) purchases and did not comply with the requirements of the Comptroller of Maryland's *Corporate Purchasing Card Policy and Procedures Manual*.

Analysis

MSU did not adequately monitor CPC purchases and comply with the requirements of the Comptroller of Maryland's *Corporate Purchasing Card Policy and Procedures Manual*, which was incorporated by reference in MSU's CPC procedures. Our review of procedures and controls and our test of 37 transactions processed during the audit period totaling \$101,279 identified the following conditions:

- MSU artificially split certain purchases into smaller transactions, circumventing competitive procurement requirements and/or the cardholder's single transaction spending limit. Specifically, 11 of the 37 transactions tested totaling \$31,457 were payments to vendors on the same day that had been split into multiple transactions. For example, one procurement for clothing totaling \$7,425 was artificially split into two smaller CPC transactions on the same day, circumventing both the related CPC transaction dollar limit and competitive procurement requirements.

Furthermore, MSU made additional purchases from certain vendors noted in our test that should have been consolidated to maximize the State's purchasing power. Specifically, our expanded review of the aforementioned 37 transactions disclosed that MSU processed purchases totaling \$616,254 from 3 of the vendors during fiscal years 2014 through 2017 (as of December 25, 2016) in 315 individual transactions, by their nature these purchases could have been consolidated into three separate contractual procurements.

- MSU could not provide us with documentation (such as receipts or invoices) for four transactions tested totaling \$16,228. For another transaction totaling \$3,720, the invoice on file did not include any detail of what was purchased to enable a determination of the propriety of the transaction.
- Supervisory personnel did not perform a documented review of available Level-3 purchasing card data as required by the *Manual* to help determine the propriety of the CPC transaction. Level-3 data, which are provided by certain merchants, consist of detailed descriptions of items purchased and provide supervisory personnel with additional information to help detect questionable purchases.

According to the issuing bank's records, as of November 17, 2017, MSU had 230 active cards, and the expenditures totaled approximately \$9.9 million during fiscal year 2017.

Recommendation 13

We recommend that MSU ensure compliance with the *Corporate Purchasing Card Policy and Procedures Manual*. Specifically, we recommend that MSU

- a. ensure that CPC transactions are not split to circumvent established controls and competitive procurement requirements, and consolidate purchases from the same vendor to maximize State purchasing power;**
- b. obtain and review the supporting documentation for the aforementioned transactions that were missing such documentation, and ensure all future CPC purchases are adequately supported by itemized receipts; and**
- c. incorporate and document the use of Level-3 purchasing card data in supervisory reviews of the activity logs to help ensure the propriety of CPC activity.**

Equipment

Finding 14

MSU did not adequately account for and control its equipment inventory.

Analysis

MSU did not adequately account for and control its equipment. MSU equipment was categorized as capital equipment (consisting of sensitive equipment valued at over \$2,500, non-sensitive equipment over \$5,000, and the MSU police firearms) and non-capital equipment. MSU's *Inventory Control Manual* requires MSU to maintain complete and accurate detail records and to conduct annual physical inventories of all equipment. MSU's Property Control Department accounted for all capital equipment which, according to MSU's records, totaled \$51.9 million as of June 30, 2016. The Manual requires 158 individual MSU departments to maintain property records for the non-capital equipment in their possession and to conduct the annual inventories of both capital and non-capital equipment. Because each department maintains its own records for non-capital equipment, and the non-capital equipment was not recorded in the centrally maintained detail equipment records, the total value of non-capital equipment was not readily available.

- All annual physical inventories of capital and non-capital equipment required for fiscal years 2014 through 2017 were not conducted. MSU could only provide documentation of 17 departments' inventories of capital equipment conducted during this period: 3 for fiscal year 2017, 9 for fiscal year 2016, and 5 for prior years. In addition, MSU could only provide documentation of 21 departments' inventories of non-capital equipment conducted during the same period: 7 for fiscal year 2017, 9 for fiscal year 2016, and 5 for prior years.
- Equipment records were not always complete and accurate. For example, our test of 32 non-capital items (including computer equipment), which we physically sighted at 4 departments, disclosed that 21 items were not recorded on the appropriate department's equipment records.
- MSU could not locate certain equipment. For example, we selected 77 non-capital equipment items, including computer equipment, from four departments' records; MSU could not locate 34 items, including 15 of 17 items from one department.

Under these conditions, errors or discrepancies could occur without timely detection.

Recommendation 14

We recommend that MSU comply with the aforementioned requirements of its *Inventory Control Manual* and investigate the aforementioned missing items.

Information Systems Security and Control

Background

MSU's Information Technology Office maintains campus-wide administrative applications, including the student administration, human resources, and financial system. The Office also maintains a website that functions as an entry point to many of MSU's services. The Office also operates an integrated administrative and academic computer network, which provides connectivity to the Internet, protective firewall appliances, and connections to multiple servers used for administrative and academic applications and related databases. In addition, MSU units are permitted to establish user access capabilities for their employees to certain automated systems needed for the employees to perform their job duties.

Finding 15

Sensitive personally identifiable information (PII) maintained by MSU was stored without adequate safeguards.

Analysis

Sensitive PII maintained by MSU was stored without adequate safeguards. Specifically, as of April 3, 2017, a critical database table associated with the student administration, human resources, and financial system contained approximately 301,000 unique social security numbers stored in clear text along with names and dates of birth. In addition, we were advised that this sensitive PII was not protected by other substantial mitigating controls. Furthermore, MSU had not performed a review of its servers, to identify all instances of stored sensitive PII in order to determine whether such PII needed to be retained and if so, properly controlled. Software products exist which provide the capability to scan computers, including servers in order to identify instances of PII storage.

This sensitive PII is commonly associated with identity theft. Accordingly, appropriate information system security controls need to exist to ensure that this information is safeguarded and not improperly disclosed. Best practices found in the State of Maryland's *Information Security Policy* require that agencies protect confidential data using encryption technologies and/or other substantial mitigating controls.

Recommendation 15

We recommend that MSU

- a. review its systems for purposes of identifying all sensitive PII;
- b. delete any unnecessary sensitive PII found; and
- c. for necessary PII, ensure that it is properly protected by encryption or other substantial mitigating controls.

Finding 16

MSU did not adequately monitor user access to certain automated systems. As a result, critical functions on one of these systems were assigned to employees who did not need the access for their job duties, and access was not terminated timely when employees left State service.

Analysis

MSU did not adequately monitor user access to three critical automated systems (see table). In addition, our detailed review of user access to MSU’s financial system disclosed that access to critical functions was assigned to employees who did not need the access for their job duties, and access was not timely removed for employees who left state service.

MSU could not document that periodic reviews of user access reports for MSU’s financial system were performed. In addition, as of June 1, 2017, we were advised that the most recent review of residential system user access had been performed in October 2015. Furthermore, MSU did not perform periodic reviews of user access to the residency system.

Specifically, our review of MSU’s financial system disclosed that supervisors did not document their reviews of user access. MSU sent monthly security reports to supervisors to review access granted to employees under their supervision. However, our test of the supervisors’ reviews for six months during the period between November 2013 and November 2016 disclosed that MSU could not document that any of the reviews had been performed. As a result, there is a lack of assurance that system access was properly restricted.

**MSU Automated Systems
Reviewed by OLA for User Access**

System	Critical Functions	Total Active Users As of April 2017
Financial	Procurements and disbursements, student accounts receivable, financial aid, payroll, and grants	778
Residential	Student room and board charges	69
Residency	Student enrollment, Student residency	40

In this regard, our review of user access to the financial system disclosed that MSU did not properly restrict user access to critical functions and did not remove user access capabilities timely when such access was no longer necessary. For example, 41 of the 206 users with access to one critical student accounts receivable function (access to modify student residency) did not need the access to perform their normal job duties. In addition, user access for 19 former employees was not immediately disabled when the employees left State service. Delays in terminating user access ranged from four months to three years after the employees left State service, including one user's access that was not disabled until we brought it to MSU's attention eight months after the employee left State service.

Best practices found in the State of Maryland's *Information Security Policy* state that system access should be limited to the appropriate authorized individuals and should be properly controlled. A similar condition regarding improper user capabilities was commented upon in our preceding audit report.

Recommendation 16

We recommend that, for these three critical automated systems, MSU

- a. periodically generate reports of critical user access capabilities, and ensure the reports are reviewed by independent employees and that the reviews are documented;**
- b. assign user access capabilities to only those employees who require such capabilities to perform their normal job duties (repeat); and**
- c. timely remove unnecessary access capabilities, including access capabilities for terminated employees and the employees with improper access noted above.**

Finding 17

MSU lacked intrusion detection prevention system (IDPS) coverage for encrypted traffic entering the MSU network.

Analysis

MSU lacked IDPS coverage for encrypted traffic entering the MSU network. MSU network devices provided the capability for decrypting encrypted traffic to permit inspection for IDPS purposes. Additionally, MSU's malware protection software included host-based intrusion protection system (HIPS) features, which could be enabled at a server level. Our review disclosed that neither the MSU network devices nor the server based forms of IDPS coverage were enabled for MSU's inbound encrypted network traffic. We identified 37 MSU network servers that received such encrypted traffic and did not have IDPS coverage.

The absence of IDPS coverage for such encrypted traffic creates a network security risk as such traffic could contain malicious data, which would not be detected before, or prevented from, reaching its network servers. Best practices found in the State of Maryland *Information Security Policy* require controls for protection against malicious code and attacks, by using IDPS to monitor system events, detect attacks, and identify unauthorized use of information systems and/or confidential information.

Recommendation 17

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

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of Morgan State University (MSU) for the period beginning July 1, 2013 and ending January 3, 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 MSU's 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, financial aid, cash receipts, payroll, federal funds, construction, and information technology systems. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and assessment of MSU's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MSU.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MSU's 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). 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 various sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from MSU's financial system for the purpose of testing payroll, purchases, disbursements, 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 objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MSU's 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 MSU's 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, and regulations. Other less significant findings were communicated to MSU that did not warrant inclusion in this report.

MSU's response 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 MSU regarding the results of our review of its response.

APPENDIX



Office Of the President

December 17, 2018

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

Mr. Hook:

I have enclosed Morgan State University's responses to your draft report for the audit period of July 1, 2013 through January 3, 2017. Our comments refer to the individual items in the report.

Kind Regards,

A handwritten signature in black ink, appearing to read "David Wilson".

David Wilson
President

Enclosures

cc: Mr. Sidney Evans, Vice President for Finance and Management
Mr. Abraham Mauer, Director for the Office of Internal Audit
Dr. Anna McPhatter, Interim Provost and Senior Vice President for Academic Affairs
Mr. Kweisi Mfume, Chair, Board of Regents
Dr. Oladipupo, Vice President and CIO for the Office of Information Technology
Dr. Don-Terry Veal, Chief of Staff

**MORGAN STATE UNIVERSITY
MANAGEMENT'S RESPONSES
AUDIT PERIOD JULY 1, 2013 – JANUARY 3, 2017**

Finding 1

Reviews of financial aid awards and scholarships were not adequately performed to ensure their propriety and were not sufficiently documented. As a result, Morgan State University (MSU) did not identify certain awards that were overstated or issued to ineligible students.

Recommendation 1

We recommend that MSU

- a. ensure that financial aid awards are subject to independent review and approval and the reviews, including the results, are properly documented; and**
- b. review the aforementioned scholarships and make necessary adjustments or recoveries, as deemed appropriate.**

University Response

- a. The University concurs with the recommendation and has subsequently strengthened the independent contractor's review of award propriety to meet the audit requirements. Results of the review and follow-up actions are now documented as well.
- b. The University agrees to review the scholarships in question and make any necessary adjustments by February 28, 2019. Please note that the financial aid criteria used for this test originate from a Board policy that was approved in 1981, and has subsequently been repealed and replaced with documented procedures that meet the University's current needs. Aid was approved by the appropriate administrators and in accordance with the current procedures. Incremental financial aid awards will be supported with additional financial aid award letters.

Auditor's Comment: MSU's response indicates that the aid was approved by appropriate administrators. This was not consistent with the results of our audit testing. Specifically, at the time of and subsequent to our testing, MSU could not provide any evidence of such review or approval for the transactions selected for testing on which this finding was based.

Finding 2

MSU did not always perform monthly reconciliations of federally funded financial aid records and, consequently, had not recovered \$1.6 million in eligible aid awards from the United States Department of Education.

Recommendation 2

We recommend MSU perform documented monthly reconciliations of its records of federally funded aid disbursed to students with the amounts approved by DoE to ensure that the proper amount of federal funds are recovered.

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University Response

The University concurs with the recommendation and now performs a reconciliation monthly. A critical vacant position was filled. The \$1.6 million had been recovered in the period following the audit testing (drawn-down within two months of the activities that gave rise to that balance).

Finding 3

Eligibility requirements for three of MSU's honors scholarships were not consistent with MSU Board of Regents (BoR) policy.

Recommendation 3

We recommend that MSU review its eligibility requirements for the honors scholarships and admission to the Honors College, revise them as necessary to ensure the two are consistent, and establish practices that are consistent with these requirements.

University Response

The University concurs with the recommendation. The University has since repealed the outdated policy from 1987, and has developed eligibility requirements for the honors program that reflects its current business needs and practices.

Finding 4

MSU had not established a maximum amount, consistent with State law, of unpaid student charges that could be carried forward from one semester to the next, did not comply with established policies regarding student deferred payment plans, and permitted students with delinquent balances to register for classes and receive transcripts and diplomas.

We recommend MSU

- a. establish the maximum amount of a student's account balance that is allowed to be rolled into a subsequent semester before requiring the establishment of a deferred payment plan consistent with State law;**
- b. ensure deferred payment plans are administered in accordance with BoR and MSU policies, including taking appropriate action for plans in default; and**
- c. place timely administrative holds on delinquent student accounts, and refrain from allowing the students to register for classes in following semesters and from issuing diplomas or transcripts to students with outstanding balances unless there is a documented justification.**

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University Response

- a. The University concurs with the recommendation and, at the next BoR's meeting, will establish a documented maximum dollar amount of a student's account balance that may be rolled into a subsequent semester without a deferred payment plan.
- b. The University concurs with the recommendation to administer deferred payment plans in accordance with BoR policies and to take any necessary follow-up actions. The University has repealed the outdated policy that was approved by the BoR in 1981 that imposed restrictions that are no longer consistent with its evolving needs and dynamic mission. Revisions that require CCU approval will be secured, as necessary, and clearly documented by fiscal year-end.
- c. The University concurs with the recommendation as outlined above, and will update the internal control process to accommodate the revised policy within three months of adoption.

Finding 5

Adjustments to student room and board charges were not subject to an independent review and approval process to ensure accuracy and proper posting to student records.

We recommend MSU ensure that adjustments to student accounts for room and board charges are properly supported and subject to independent supervisory review for propriety after being recorded in MSU's automated records. We advised MSU on accomplishing the necessary separation of duties using existing personnel.

University Response

The University concurs with the recommendation. The independent review of all adjustments has been strengthened to encompass all transactions entered in the automated information system and proper segregation of duties. Please note that the University always makes a concerted effort to obtain a signed housing contract release form from the student, albeit many times without success (e.g., the student withdraws from the institution and cannot be contacted). This effort is ongoing.

Finding 6

MSU did not adequately monitor the vendor that was responsible for disbursing student refunds to ensure that the vendor properly issued all refunds and that sensitive student information retained by the vendor was properly safeguarded.

We recommend that MSU

- a. **ensure the vendor properly issued refunds to students and returned any amounts not disbursed; and**

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- b. require the vendor to obtain periodic SOC 2 Type 2 reviews, and obtain and review the resulting reports to ensure sensitive student data maintained by the vendor is properly safeguarded.**

University Response

- a. The University concurs with the recommendation and will immediately implement a process to obtain reasonable assurance that the vendor has issued refunds to students (reconciliation of vendor distribution report with internal records and/or third-party confirmation process). Although the University has a process to recoup and remit monies not issued to students, in accordance with Title IV regulations, we will immediately improve the level of documentation to better support this to the auditors.
- b. The University concurs with the recommendation and will immediately amend the contract to require the vendor to undergo and share the results of a SOC 2 Type 2 review. Please note that universities throughout the country use this vendor and security requirements are incorporated into the contract.

Finding 7

Documented supervisory reviews of student residency determinations were not performed or were not adequately performed in certain instances.

We recommend that MSU ensure documented independent supervisory reviews, using appropriate records, are performed on initial student residency determinations and changes for both graduate and undergraduate students, at least on a test basis (repeat).

University Response

The University will comply and implement the recommendations by fiscal year-end. Please note that it is not the industry norm to test initial residency status determinations, but rather only *changes*. We will expand the independent contractor's review in any event. This will be conducted on a sample test basis. Please know that we shared our disagreement with the auditors' analysis above and elsewhere in this report. An independent review was conducted at the Office of Undergraduate Admissions and Recruitment, as well as at the Office of Graduate Studies. The documented review at the Office of Records and Registration fell short this audit cycle.

Auditor's Comment: MSU's response indicates that independent reviews were conducted. This was not consistent with our audit testing during which no evidence of such a review could be provided. Specifically, at the time of and subsequent to our testing, MSU could not provide any evidence of such review or approval for the transactions selected for testing on which this finding was based.

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Finding 8

MSU did not maintain current, complete, and accurate grant records, and did not pursue collection of outstanding grant receivables as required.

We recommend that MSU

- a. ensure grant information is entered into its automated records accurately, and is subject to independent verification, at least on a test basis;
- b. maintain current and accurate grant receivable records (repeat);
- c. routinely prepare and review reports to track and monitor the age of grant receivables (repeat);
- d. send written payment demands to grantors and submit delinquent accounts to CCU, in accordance with State regulations (repeat); and
- e. discontinue the practice of writing off delinquent accounts without CCU approval or written justification and, in consultation with legal counsel, determine the feasibility of collecting amounts improperly written off, including those noted above.

University Response

The University concurs with the recommendations.

- a. Effective immediately, we will enter grant information into the automated system accurately and verify this independently. The exceptions cited above were isolated oversights that will not occur again. The current verification process covers the entire population of accounts. Please note that adjusting journal entries were executed; therefore, ultimately, there were no improper recoveries.

Auditor's Comment: MSU's response indicates adjusting entries were executed therefore, there were no improper recoveries. The entries referenced were not made until after we brought the matter to MSU's attention.

- b. We will maintain current and accurate grant receivable records effective immediately. Please note that the exceptions cited here are management reports that were created manually and not always kept current due to reporting capability and staffing limitations. A new automated reporting tool was subsequently implemented and staff was trained in its use. We expect the system to be fully operational by April 30, 2019. This will help streamline the monitoring process so that supervisors may manage grant accounts more effectively and efficiently.
- c. As mentioned immediately above, we will use the newly implemented reporting system to routinely track and age grant receivables.
- d. We will send written payment demands to sponsors and submit delinquent accounts to CCU, in accordance with State regulations. The University will endeavor to obtain approval from CCU, by April 30, 2019, to follow a time frame that better suits the higher education business environment, as was already secured by peer institutions in the State of Maryland. Please

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note that the overwhelming majority of accounts are collected timely via letter of credit draw-down. These accounts pertain to sponsors without payment management systems.

- e. We have advised staff that it is prohibited to write-off any accounts without approval from CCU or a written justification. The write-off cited above was reversed and subsequently collected.

Finding 9

MSU did not properly procure and monitor a five-year \$35.1 million food services contract. Based on the deficiencies we noted, MSU should recover vendor payments totaling approximately \$2.2 million.

We recommend that MSU

- a. **ensure technical evaluations consider any changes to the project scope made after the RFP is issued;**
- b. **retroactively notify the BPW of the cancellation of this specific project and the impact on the contract award, and provide accurate information to the BPW when submitting future contracts for approval;**
- c. **obtain the required staffing reports and adjust payments for any vacancies;**
- d. **ensure fee increases are properly supported and reviewed, and immediately adjust any improperly increased fees; and**
- e. **identify and recover any improper vendor payments, including those noted above.**

University Response

The University concurs with the recommendations.

- a. The procurement process was enhanced to help ensure technical evaluations consider changes to the project scope once the RFP is issued.
- b. We will immediately schedule a meeting with BPW and make the notification. It is our position that we made the necessary notification at the time of procurement.

Auditor's Comment: MSU's response indicates that the necessary notification was made to BPW at the time of the procurement. However, after several requests, MSU could not provide us any documentation of the referenced notification.

- c. We will immediately obtain the staffing reports and adjust payments for vacancies, as necessary. Please note that the scope of the food service contract was subsequently modified and approved by the BPW, thereby necessitating a change in the food service delivery and support staffing model. Consequently, the staffing levels were legitimately adjusted downward to a certain extent, and we anticipate the overpayment to be significantly less than what the auditors estimated.

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Auditor's Comment: MSU's response indicates that the contract was subsequently modified with BPW approval which resulted in the need to change the staffing model. MSU further contends that the amount of the overpayment was significantly lower than we reported. However, MSU has not been able to provide any support for the modification, BPW approval, or its claim regarding the amount of the overpayment.

- d. Effective immediately, we will ensure fee increases are properly supported and reviewed and will adjust any improperly increased fees. Please note that we maintain the fee increase for the current food services contract is legitimate and proper.

Auditor's Comment: MSU claims that the fee increase was legitimate and proper. However, as noted in the finding, MSU did not use the consumer price index specified in the contract and was unable to provide us with documentation linking the reported fee increase to the existing contractual terms and conditions.

- e. The University agrees that an error occurred, and will recoup overpayments associated with extended hours of service.

Finding 10

MSU procured two contracts totaling approximately \$600,000 to renovate a food service area without competitive procurements, and did not adequately monitor two housekeeping contracts with one vendor totaling \$1.3 million.

We recommend that MSU

- a. competitively procure all contracts in accordance with its BoR policies and procedures;**
- b. ensure that vendors provide all required contract documentation to support services performed; and**
- c. ensure that payments made are in accordance with contract terms and are properly supported, and recover amounts improperly paid to the housekeeping vendor.**

University Response

- a. The University concurs with the recommendation to competitively procure all contracts in accordance with BoR policies and procedures. We maintain that the renovation complied accordingly.

Auditor's Comment: MSU's response indicates that the renovation complied with BoR policies and procedures. However, as noted in the finding, MSU did not justify the use of the sole source method for procuring the services that were well in excess of the \$5,000 minimum required for competitive procurements.

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- b. The University concurs with the recommendation to ensure that vendors provide all required contract documentation to support services performed. We have enhanced the monitoring process to comply with this requirement.
- c. The University concurs with the recommendation to ensure payments are made in accordance with contract terms and are properly supported, and to immediately recover any amounts paid to the housekeeping vendor in error.

Finding 11

MSU could not document that it received and reviewed critical documentation to help monitor capital construction projects and did not adjust contractor performance and payment bonds when contract values increased.

We recommend that MSU ensure

- a. **critical project monitoring documents required by the contract are received, reviewed, and maintained; and**
- b. **contractor performance and payment bonds are sufficient to protect the State.**

University Response

The University concurs with the recommendations and has implemented processes to ensure the audit requirements are met.

Finding 12

MSU did not adequately control receipts at four locations which processed cash and check collections totaling \$24.4 million in fiscal year 2016.

We recommend that MSU establish adequate accountability and control over collections received in the aforementioned locations in accordance with the Comptroller of Maryland General Accounting Division's *Accounting Procedures Manual*. Specifically, we recommend that MSU

- a. **segregate the cash receipts and accounts receivable functions;**
- b. **restrictively endorse all checks immediately upon receipt;**
- c. **document the transfer of collections to establish accountability over the funds;**
- d. **reconcile event tickets sold with the related collections, account for all tickets to ensure all funds are accounted for, and investigate any missing tickets, including those noted above; and**
- e. **ensure employees independent of the collection process reconcile collections to related bank records using initial records of collections.**

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University Response

The University concurs with the recommendations and will strictly comply with the Accounting Procedures Manual.

- a. By February 28, 2019, an employee from the Accounting Operations and Compliance unit will independently sample student accounts to ensure cash receipts were received, recorded in the accounting system accurately and completely, and deposited intact. This compensating control will address the aforementioned risk sufficiently. In addition, the University will evaluate establishing a new cashiering function (Treasurer's office) that will not have access to post accounting entries.
- b. Stamps were ordered and distributed to all satellite locations collecting cash and staff was trained to restrictively endorse checks immediately, deposit monies the next business day, and use the prescribed forms.
- c. The courier now signs a document evidencing the transfer of funds to his or her possession. Please note that couriers transporting monies were always accompanied by a campus police officer for protection and to witness the transfer of funds. In addition, staff has been re-trained to always use the prescribed forms that were issued by the Office of the Bursar to document and evidence the transfer of funds.
- d. The Student Center has enhanced the reconciliation process and has deployed ticket scanners to address prior inadequacies. All tickets and funds are now accounted for. The investigation of missing tickets from the past is ongoing.
- e. The review mentioned in the first bullet point will utilize source records.

Finding 13

MSU did not adequately monitor corporate purchasing card (CPC) purchases and did not comply with the requirements of the Comptroller of Maryland's *Corporate Purchasing Card Policy and Procedures Manual*.

We recommend that MSU ensure compliance with the *Corporate Purchasing Card Policy and Procedures Manual*. Specifically, we recommend that MSU

- a. **ensure that CPC transactions are not split to circumvent established controls and competitive procurement requirements, and consolidate purchases from the same vendor to maximize State purchasing power;**
- b. **obtain and review the supporting documentation for the aforementioned transactions that were missing such documentation, and ensure all future CPC purchases are adequately supported by itemized receipts; and**
- c. **incorporate and document the use of Level-3 purchasing card data in supervisory reviews of the activity logs to help ensure the propriety of CPC activity.**

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University Response

The University concurs with the recommendation to comply with the CPC Policy and Procedures Manual, and has taken corrective actions immediately.

- a. Although the Purchasing Card Office has always reviewed transactions to identify split purchases, it will continue to be vigilant and train cardholders to comply with the manual. We disagree regarding the number and dollar amount of split transactions that was identified above.

Auditor's Comment: MSU's response indicates that it disagrees with the number and dollar amount of the split purchases. In response to several discussions during and subsequent to the audit, MSU has not provided any documentation to refute the accuracy of our finding.

- b. We have obtained supporting documentation for the transactions in question. The purchases are for legitimate business. The card was revoked and the cardholder's privileges were suspended due to the delinquent submission of receipts. We will ensure to obtain itemized receipts for all transactions going forward.
- c. We have improved the quality of the Level-3 review, as recommended.

Finding 14

MSU did not adequately account for and control its equipment inventory.

Recommendation 14

We recommend that MSU comply with the aforementioned requirements of its *Inventory Control Manual* and investigate the aforementioned missing items.

University Response

The University concurs with the recommendation to comply with the Inventory Control Manual and has taken the following actions.

- Strengthened central oversight of inventory by augmenting Property Control Department staff and conducting documented annual physical counts. A full annual physical count of inventory will be completed by fiscal year-end.
- Purchased and implemented an automated inventory management system to assist with inventory recording, asset tagging, tracking, and reporting at a detailed level. This tool will be rolled-out to the entire University by fiscal year-end.
- Accounted for the missing equipment. Please note that although University representatives could not locate equipment at the time of inspection, several of those items were identified as obsolete equipment placed in storage or off-campus with property pass documents filed away and not readily available.

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Finding 15

Sensitive personally identifiable information (PII) maintained by MSU was stored without adequate safeguards.

Recommendation 15

We recommend that MSU

- a. review its systems for purposes of identifying all sensitive PII;**
- b. delete any unnecessary sensitive PII found; and**
- c. for necessary PII, ensure that it is properly protected by encryption or other substantial mitigating controls.**

University Response

The University concurs with the recommendations.

- a. By fiscal year-end, we will evaluate, acquire, and deploy a scanning solution to identify sensitive PII. Please note that the University has conducted discovery and inventorying activities to identify, classify, and protect sensitive data; however, a scan was not performed to complement those activities.
- b. We will delete unnecessary PII within a month of detection.
- c. We will protect PII with encryption or other substantial mitigating controls. Please note that the database does not afford encryption. The University is evaluating the feasibility of purchasing a third-party tool to satisfy the audit requirement, and will implement the solution by fiscal year-end. Please know that the University employs various defense-in-depth strategy elements including, for example, a risk management program, cyber security architecture, physical and logical security controls, network architecture and perimeter security, host security, security monitoring, vendor management, and security awareness programs.

Finding 16

MSU did not adequately monitor user access to certain automated systems. As a result, critical functions on one of these systems were assigned to employees who did not need the access for their job duties, and access was not terminated timely when employees left State service.

We recommend that, for these three critical automated systems, MSU

- a. periodically generate reports of critical user access capabilities, and ensure the reports are reviewed by independent employees and that the reviews are documented;**
- b. assign user access capabilities to only those employees who require such capabilities to perform their normal job duties (repeat); and**
- c. timely remove unnecessary access capabilities, including access capabilities for terminated employees and the employees with improper access noted above.**

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University Response

- a. Access list reviews are now enforced and conducted quarterly.
- b. We will enhance the process for requesting user access to comply with the least privilege principle by fiscal year-end.
- c. The University has improved the process so that access is revoked in a timely fashion. The access cited above has been terminated.

Finding 17

MSU lacked intrusion detection prevention system (IDPS) coverage for encrypted traffic entering the MSU network.

We recommend that MSU perform a documented review and assessment of its network security risks, and identify how network 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 the recommendations and have addressed the deficiencies. During the audit period we were transitioning from the existing IDPS to a new appliance, and have been continuously evaluating and fine-tuning the security features. Subsequently, we have performed documented reviews and assessments of our network security risk and have applied the recommended adjustments.

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