

Audit Report

Maryland State Department of Education

July 2019



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

Senator Craig J. Zucker (Senate Chair)	Delegate Shelly L. Hettleman (House Chair)
Senator Adelaide C. Eckardt	Delegate Steven J. Arentz
Senator George C. Edwards	Delegate Andrew P. Cassilly
Senator Guy J. Guzzone	Delegate Mark S. Chang
Senator Katie Fry Hester	Delegate Keith E. Haynes
Senator Cheryl C. Kagan	Delegate Michael A. Jackson
Senator Benjamin F. Kramer	Delegate David Moon
Senator Cory V. McCray	Delegate April R. Rose
Senator Douglas J.J. Peters	Delegate Geraldine Valentino-Smith
Senator Justin D. Ready	Delegate Karen Lewis Young

To Obtain Further Information

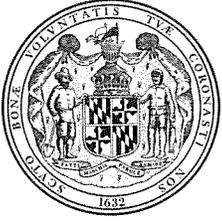
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
Website: www.ola.state.md.us

To Report Fraud

The Office of Legislative Audits operates a Fraud Hotline to report fraud, waste, or abuse involving State of Maryland government resources. Reports of fraud, waste, or abuse may be communicated anonymously by a toll-free call to 1-877-FRAUD-11, by mail to the Fraud Hotline, c/o Office of Legislative Audits, or through the Office's website.

Nondiscrimination Statement

The Department of Legislative Services does not discriminate on the basis of age, ancestry, color, creed, marital status, national origin, race, religion, gender, gender identity, sexual orientation, or disability in the admission or access to its programs, services, or activities. The Department's Information Officer has been designated to coordinate compliance with the nondiscrimination requirements contained in Section 35.107 of the United States Department of Justice Regulations. Requests for assistance should be directed to the Information Officer at 410-946-5400 or 410-970-5400.



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

July 2, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit and Evaluation Committee
Delegate Shelly L. Hettleman, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland State Department of Education (MSDE) for the period beginning July 1, 2014 and ending December 31, 2017. MSDE is responsible for setting statewide goals for school performance, monitoring school achievement, distributing financial aid, and providing technical assistance to local school and library systems. MSDE also operates educational programs in the State's juvenile facilities, provides services to people with disabilities, and oversees child care programs and family support centers in the State.

Our audit disclosed that MSDE's Division of Rehabilitation Services (DORS) did not always make initial contacts with consumers and prepare individual plans for employment (IPE) timely. Specifically, for a number of consumer cases tested, DORS did not comply with certain timing requirements (such as completing an IPE within 90 days of the eligibility determination) established by its policy. Furthermore, DORS did not have adequate controls in place to prevent payments for consumer services from exceeding amounts approved in the IPEs. Based on DORS expenditure data as of January 2018, cumulative payments for approximately 2,600 of the 12,500 active consumers exceeded approved amounts by \$10.9 million. Ensuring all services received are reflected in approved plans would provide DORS with added control over the related costs and would provide a better opportunity to address the number of applicants currently placed on a wait list.

In addition, federal fund reimbursement requests for the Nutrition Block Grant were not always complete and timely, resulting in lost investment income totaling

approximately \$300,000. For example, MSDE erroneously omitted \$92 million in qualified expenses over a three-month period and, although the error was subsequently resolved, the failure to recover these funds timely resulted in lost investment income.

We also noted a number of deficiencies with MSDE's security and control over its information systems and network. For example, MSDE inappropriately stored certain sensitive personally identifiable information for 1,430,490 students and 233,130 teachers in its databases and applications without adequate safeguards. In addition, MSDE lacked assurance that certain critical applications and systems managed by service providers were sufficiently protected against operational and security risks. Further, MSDE did not have a complete information technology disaster recovery plan. We also noted that malware protection was not sufficient to provide assurance that its computers were protected. Specifically, we found certain servers running on outdated and no longer supported operating systems and a number of computers had not been updated with the latest releases for software products that were known to have significant security-related vulnerabilities.

Our audit also disclosed other findings involving accounting for and controlling certain State-funded grants and collections.

Finally, our audit included a review to determine the status of 9 of the 11 findings contained in our preceding audit report. We determined that MSDE satisfactorily addressed 7 of these findings. The remaining 2 findings are repeated in this report. Our audit did not include a review of the status of the 2 findings contained in our preceding audit report that related to Child Care Programs; the status of these findings was determined during our separate audit of the MSDE's Division of Early Childhood.

MSDE's response to this audit is included as an appendix to this report. We reviewed the response and noted general agreement to our findings and related recommendations, and we will advise the Joint Audit Committee of any outstanding issues that we cannot resolve with MSDE.

We wish to acknowledge the cooperation extended to us during the audit by MSDE and its willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink that reads "Gregory A. Hook". The signature is written in a cursive style with a large initial 'G' and 'H'.

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	6
Agency Responsibilities	6
Maryland State Library Agency	6
Status of Findings From Preceding Audit Report	6
Findings and Recommendations	8
Division of Rehabilitative Services	
Finding 1 – The Maryland State Department of Education’s (MSDE) Division of Rehabilitation Services (DORS) did not always make initial consumer contacts and complete individual plans for employment (IPEs) timely. In addition, we determined that, as of January 2018, DORS paid \$10.9 million more for consumer services than budgeted in the approved IPEs for 2,600 consumers.	8
Federal Funds	
Finding 2 – Federal fund reimbursement requests for the Nutrition Block Grant were not always complete and timely, resulting in lost investment income totaling approximately \$300,000.	10
State-Funded Grants	
Finding 3 – MSDE did not verify the accuracy of grantee expenditure data and performance reports, and did not conduct comprehensive site visits of grantees.	11
Information Systems Security and Control	
* Finding 4 – Sensitive personally identifiable information maintained by MSDE was stored without adequate safeguards.	14
Finding 5 – MSDE lacked assurance that certain significant applications and sensitive student data managed by third-party contractors were properly secured against operational and security risks.	15
* Finding 6 – MSDE did not have a complete information technology disaster recovery plan for recovering computer operations.	17
* Denotes item repeated in full or part from preceding audit report	

Finding 7 – Malware protection was not sufficient to provide MSDE with adequate assurance that its computers were properly protected.	18
Cash Receipts	
Finding 8 – Certain MSDE units did not record and restrictively endorse check collections immediately upon receipt as required.	19
Audit Scope, Objectives, and Methodology	20
Agency Response	Appendix

Background Information

Agency Responsibilities

The Maryland State Department of Education (MSDE), as the staff agency of the State Board of Education, supports the development and operation of educational and library programs throughout the State. MSDE is responsible for setting Statewide goals for school performance, monitoring school achievement, distributing financial aid, and providing technical assistance to local school and library systems. MSDE also operates educational programs in the State's juvenile services facilities, and provides services to people with disabilities through its Division of Rehabilitation Services. According to the State's records, during fiscal year 2017, MSDE's operating expenditures totaled approximately \$7.7 billion, which included \$7.4 billion in grant-related expenditures that are primarily awarded to local education agencies.

MSDE's Division of Early Childhood (previously named the Division of Early Childhood Development), which oversees child care programs and family support centers in the State, was audited separately. Activities of the Division of Early Childhood were included in the scope of our preceding audit of MSDE.

Maryland State Library Agency

Chapter 338, Laws of Maryland 2017, effective July 1, 2017, established the Maryland State Library Agency and the Maryland State Library Board. This law also abolished the Division of Library Development Services within MSDE, and transferred the related duties and responsibilities of the Division to the newly established Agency and Board. The scope of our audit included all activities of the Division of Library Development Services prior to July 1, 2017. Activities of the Maryland State Library Agency and Board will be audited separately.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of 9 of the 11 findings contained in our preceding audit report dated June 22, 2016. We determined that MSDE satisfactorily addressed 7 of these findings. The remaining 2 findings are repeated in this report as findings 4 and 6. Our audit did not include a review of the status of the 2 findings contained in our preceding audit report that related to Child Care Programs; the status of these findings was determined during our separate audit of the Division of Early Childhood. The status of all preceding findings can be found in the following table.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	Statewide indirect cost recoveries totaling \$12.3 million were not reverted to the general fund as required by State law.	Not repeated
Finding 2	MSDE did not recover federal expenditures in a timely manner, resulting in lost interest income of \$140,000.	Not repeated
Finding 3	MSDE improperly used interagency agreements with a State university to staff its Chief Information Officer position, and the agreements lacked details to facilitate effective monitoring.	Not repeated
Finding 4	State regulations for procuring services were not always adhered to and the procedures for monitoring contractor performance were not sufficient.	Not repeated
Finding 5	Certain collections were not promptly endorsed and recorded, and prenumbered receipt forms were not accounted for.	Not repeated
Finding 6	MSDE did not ensure criminal background checks were obtained for all child care facility employees and the results of such checks indicating necessary follow-up were not always pursued.	Included in our separate audit of the Division of Early Childhood
Finding 7	User access to the Child Care Administration Tracking System was not adequately restricted to only those individuals requiring access to perform their jobs and to prevent the recording of improper transactions.	Included in our separate audit of the Division of Early Childhood
Finding 8	Contractors had unnecessary network level access to numerous critical MSDE servers and workstations unrelated to the project they were assigned.	Not repeated
Finding 9	MSDE did not properly safeguard sensitive personally identifiable information and malware protection over MSDE workstations could be inappropriately disabled.	Repeated (Current Finding 4)
Finding 10	Disaster recovery plans for two locations were not comprehensive and backups of certain critical databases were not stored offsite.	Repeated (Current Finding 6)
Finding 11	MSDE did not make timely disclosure to the appropriate legal authorities of certain questionable payroll and personnel activity related to five employees.	Not repeated

Findings and Recommendations

Division of Rehabilitative Services

Background

The Maryland State Department of Education's (MSDE) Division of Rehabilitation Services (DORS) helps enable persons with physical or mental disabilities to live and work independently by providing medical and vocational evaluation, counseling and guidance, and training in vocations and independent-living skills. DORS also provides reader and interpreter services, physical and mental restoration, and rehabilitation engineering to help persons with disabilities find and keep jobs.

Finding 1

MSDE's DORS did not always make initial consumer contacts and complete individual plans for employment (IPEs) timely. In addition, we determined that, as of January 2018, DORS paid \$10.9 million more for consumer services than budgeted in the approved IPEs for 2,600 consumers.

Analysis

DORS did not always make initial consumer contacts and complete IPEs timely, in accordance with its established policies, and certain documentation deficiencies were noted with consumer eligibility determinations and IPEs. In addition, DORS did not adequately control consumer payments. Based on DORS expenditure data as of January 2018, we determined that cumulative expenditures for approximately 2,600 active consumers exceeded the amounts in the approved IPEs by more than \$10.9 million during the consumers' enrollment in the program. According to State records, during fiscal year 2017 DORS expenditures for consumer-related services totaled approximately \$69.3 million, including \$51.9 million in federal fund expenditures.

Applicants seeking services from DORS are placed in one of three categories based on their level of disability during their eligibility determination.

- Individuals determined to be the most significantly disabled are to be provided services by DORS immediately after preparation of the related IPE.
- Individuals with less significant disabilities are initially placed on a wait list for DORS services.
- Individuals with non-severe disabilities are referred to other public and private entities for employment assistance resources. Because of limited DORS funding, these services are paid for by the other entities.

Consumer Contact, Eligibility Determination, and IPE Issues Existed

DORS did not always make consumer contacts and/or complete IPEs timely, If DORS' processes are not completed timely, the delivery of services to qualified consumers could be delayed. Additionally, certain documentation and approval deficiencies were noted related to eligibility determinations and IPEs. DORS caseworkers create an IPE for each consumer approved for services that outlines the services to be provided and an estimate of the related costs. DORS policies require all initial IPEs and any subsequent modifications receive supervisory review and approval. Our test of 20 consumer cases with related service expenditures paid by DORS totaling approximately \$1.4 million disclosed the following deficiencies.

- Eight individuals who had been referred to DORS for services from other entities (such as from the Maryland Department of Health) were not contacted by DORS within 10 working days of receipt of the referral, as required by its policies. Delays between the referral and initial contact with the eight individuals ranged from 12 to 77 days beyond the 10 days required by policy. This initial contact provides guidance to consumers regarding the application and eligibility processes.
- Two eligibility determinations were processed and approved by the same individual and, therefore, were not subject to independent review. In addition, 2 IPEs were not signed by the consumers until the consumers had received services for seven or eight months and, finally, DORS could not locate one of the 20 IPEs selected for testing.
- Six IPEs were not completed within 90 days of the eligibility determinations in accordance with DORS policies. Delays for these 6 IPEs ranged from 22 to 474 days beyond the 90-day requirement.

Consumer Payments Exceeded Approved Amounts

DORS did not have adequate controls in place to prevent payments for consumer services that exceeded the amounts approved in the related IPEs. DORS caseworkers routinely authorized payments for consumer services that exceeded the amounts approved in the IPEs without modifying the IPEs and obtaining supervisory approval as required. Specifically, DORS policies require all IPEs and related authorizations for services to be approved based on various criteria that consider the associated costs of services. The approved IPEs are entered into MSDE's automated system, which then tracks related expenditures by consumer. Based on DORS expenditure data from the automated system as of January 2018, cumulative expenditures for approximately 2,600 of the 12,500 active consumers (\$23.1 million) exceeded the amounts in the approved IPEs (\$12.2 million) by

approximately \$10.9 million, representing an excess of 89 percent over the approved amounts for these IPEs.

Payments in excess of amounts approved are particularly significant because if the related services were found to be unnecessary or excessive, the funds potentially could have been used to provide services to individuals who had been placed on the DORS wait list. Certain applicants are placed on a wait list instead of immediately receiving services because of mandatory federal funding levels for specific services and limited DORS staff. According to DORS, as of November 2018, there were approximately 2,600 individuals on the wait list, with a typical wait time of up to 32 months.

Recommendation 1

We recommend that MSDE

- a. ensure consumer contacts and IPEs are made timely, eligibility determinations are independently approved, and IPEs are appropriately documented in accordance with DORS policies; and**
- b. establish controls to ensure that payments do not exceed approved consumer IPEs and that any modifications are documented and approved as required.**

Federal Funds

Finding 2

Federal fund reimbursement requests for the Nutrition Block Grant were not always complete and timely, resulting in lost investment income totaling approximately \$300,000.

Analysis

Federal fund reimbursement requests for the Nutrition Block Grant were not always complete and were not always made timely, resulting in lost investment income of approximately \$300,000. During fiscal year 2017, MSDE processed federal fund reimbursement requests totaling approximately \$1 billion, including \$322.7 million for the Nutrition Block Grant.

- MSDE erroneously omitted \$92 million in qualified expenditures when processing the November 2017, December 2017, and January 2018 monthly reimbursement requests. These expenditures were not included in the reimbursement requests because the expenditure reports supporting the requests improperly excluded certain expenditures due to a coding error. MSDE identified and resolved the error in March 2018, and subsequently

recovered the funds. The failure to recover these expenditures in the appropriate monthly request resulted in lost investment income to the State of approximately \$232,000.

- MSDE did not always submit federal reimbursement requests in a timely manner. We tested 10 reimbursement requests submitted during the period between December 2014 and November 2017, totaling approximately \$440.9 million, and noted that 4 requests totaling approximately \$129.4 million were recovered between 7 and 33 days after the dates allowed by the grant agreements. As a result, MSDE lost investment income totaling approximately \$73,500. In addition, we reviewed MSDE's federal fund recoveries for grant years 2015 through 2017 and noted that approximately \$152,000 in expenditures incurred during that period had not been recovered as of June 2018. According to MSDE management, these funds are still available and MSDE plans to seek recovery of the funds in the near future.

Although reimbursement requests were reviewed by supervisory personnel, the reviews generally presumed the accuracy of the underlying expenditure reports, and did not ensure that comprehensive reimbursement requests were processed and subsequent recoveries were received in a timely manner.

Recommendation 2

We recommend that MSDE

- a. enhance its supervisory review process for federal fund reimbursement requests to ensure all allowable expenditures are included and requests are submitted timely, in accordance with the applicable grant agreements; and**
- b. take appropriate action to recover the aforementioned \$152,000 in expenditures that have not yet been recovered.**

State-Funded Grants

Finding 3

MSDE did not verify the accuracy of grantee expenditure data and performance reports, and did not conduct comprehensive site visits of grantees.

Analysis

MSDE did not verify the accuracy of expenditure and performance data reported by grantees, and did not conduct comprehensive site visits of grantees. According to its records, during fiscal year 2017, MSDE administered 28 State-funded grants

with expenditures totaling \$121.5 million.¹ We performed a detailed review of three State-funded grants with expenditures totaling \$21.2 million in fiscal year 2017. These grants, administered by three different MSDE divisions, were made to a non-profit educational institution to provide services to Maryland public school children, to a school for disadvantaged at-risk youth, and to a local government for a home visiting program that promotes health and development of families. Our review disclosed the following conditions:

- MSDE did not verify the accuracy of expenditure and performance data reported by any of the three grantees tested. Grantees were required to submit periodic expenditure and performance reports (such as, reports of enrollment and graduation rates); however, MSDE did not obtain documentation from the grantees to substantiate the self-reported data. These data are critical for ensuring the propriety of the grant expenditures and grantee compliance with grant performance requirements. The grant agreements authorize MSDE to inspect, audit, and examine grantee records.
- For the three grants reviewed, grantee site visits were not always documented, comprehensive, and timely. While not specifically required by the grant agreements, site visits help ensure that grant funds are being used as intended and that grantees are maintaining appropriate records. For example, site visits to the school for disadvantaged at-risk youth that received \$10.3 million in State funds during fiscal year 2017 did not include a review of procedures over student enrollment and incident reporting. For another grant to local governments for \$4.6 million, MSDE relied on a third party to perform monthly site visits, but did not confirm the site visits actually occurred. We subsequently obtained documentation of the site visits directly from the third-party entity and noted that the visits were appropriately comprehensive.

These conditions were caused, in part, by the lack of comprehensive grant policies and procedures to be used by the respective MSDE divisions that administered these grants. As a result, assurance was lacking that required services were provided and grant funds were used in accordance with the related grant agreements.

¹ These expenditures exclude grants for which there were no specific grant deliverables, such as the Bridge to Excellence grants to local education agencies.

Recommendation 3

We recommend that MSDE establish comprehensive grant policies and procedures that include uniform minimum requirements to

- a. verify the accuracy of the grantee's self-reported expenditure and performance data, and**
- b. ensure site visits are documented and comprehensive.**

Information Systems Security and Control

Background

MSDE information technology (IT) operations are decentralized over several sites including the MSDE headquarters. Each site's IT operations function as a separate entity, with its own applications, network components, and detailed disaster recovery plan. MSDE's Office of Information Technology (OIT) is responsible for its headquarters site's IT operations.

At the beginning of our audit period, the MSDE headquarters and other MSDE sites were each solely responsible for supporting their respective locations' IT operations. However, beginning in December 2015, the MSDE, across multiple sites, began a conversion to use the State of Maryland Department of Information Technology's (DoIT) IT support services, which ultimately would include the following functions:

- Network and IT Security Services (including firewall and intrusion detection prevention systems operations and maintenance and malware protection)
- IT Service Desk
- Hardware Support
- Software Support
- IT Procurement Services

As part of the conversion to DoIT IT support services, DoIT personnel assumed control of and began to operate and maintain the separate MSDE network, which connected MSDE's remote sites with MSDE headquarters. The combined MSDE network provides MSDE users access to various information technology applications, network and email services, and Internet access. MSDE personnel operated several critical computer applications and related databases on servers for which DoIT maintained the related servers' operating systems software. One such critical application included the Educator Information System (EIS), which maintains educator accreditation and certification information.

Based on our analysis of associated risks, our audit focused primarily upon reviewing IT security controls over the MSDE headquarters operations.

Finding 4

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

Analysis

Sensitive PII maintained by MSDE was stored without adequate safeguards. Specifically, we obtained confirmation from MSDE management personnel that certain significant applications included databases in which PII was stored in clear text. For example, as of June 29, 2018, we determined that separate databases for statewide student and teacher identity information held 1,430,940 unique student names and Social Security numbers (SSNs) and 233,130 unique teacher names and SSNs, respectively; all stored in clear text. In addition, we noted that this sensitive PII was not adequately protected by other substantial mitigating controls such as the use of data loss prevention software. Furthermore, while MSDE had manually inventoried its applications as of September 2017 to identify all sensitive PII, we determined that this effort was incomplete and had not included the identification of PII in all MSDE applications, including those noted above with PII stored in clear text. A similar condition concerning PII storage was commented upon in our preceding audit report.

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. The State of Maryland *Information Security Policy* states that confidential data should be protected using encryption and/or other substantial mitigating controls.

Recommendation 4

We recommend that MSDE, in conjunction with DoIT,

- a. perform a manual inventory of all of its systems, identify all sensitive PII, and delete all unnecessary sensitive PII; and**
- b. use an approved encryption method, or other substantial mitigating controls to properly protect all necessary sensitive PII (repeat).**

Finding 5

MSDE lacked assurance that certain significant applications and sensitive student data managed by third-party contractors were properly secured against operational and security risks.

Analysis

MSDE lacked assurance that certain significant applications and sensitive student data managed by third-party contractors were properly secured against operational and security risks.

Division of Special Education

MSDE lacked assurance that three significant Division of Special Education applications managed by a third-party service provider were sufficiently protected against operational and security risks. For the period of June 29, 2017 to September 30, 2018, the Division executed four grant agreements, utilizing federal funds, which outsourced the operations and maintenance of the three applications to a local university. The university, in turn, subcontracted with an IT service provider to maintain and host the applications within its data center. The applications each contained PII including names and related SSNs from approximately 57,000 to 719,000 records, and none of the applications were included in the manual inventory to identify PII noted in Finding 4.

Our review disclosed the grant agreements with the university did not contain provisions related to several significant control factors. For example, provisions were not defined relating to data retention and backup or disaster recovery. Additionally, the agreements did not require the university or the subcontractors to obtain an independent review of the operating effectiveness of critical controls over the systems.

As of June 2018, MSDE had not obtained a System and Organization Controls (SOC) report or any other similar independent security assurance report over the special education applications. Based on our inquiries, we determined that the university's IT hosting subcontractor had a recent SOC 2 Type 2 review performed, with a related report issued, covering the period of February 1, 2017 to January 31, 2018 which MSDE obtained at our request. Although the SOC report did not identify any weaknesses related to the service organization's system description and the suitability of the design and operating effectiveness of controls, the report did not address certain critical security controls necessary for the special education applications, which are typically included in a SOC 2 review for the security and availability principles. For example, the SOC review did not test controls related to encryption of sensitive data (such as PII) at rest.

Student Assessments Data

MSDE lacked assurance that sensitive student data and confidential testing material maintained by third-party school assessment contractors were properly secured against operational and security risks. MSDE contracted with five companies to develop, administer, and score school assessments and to report the related results. These contractors retained sensitive student data including names, dates of birth, gender, and special needs status, as well as assessment results and confidential test questions and answers. Our review of four contracts, collectively valued at approximately \$75 million, with three of the five contractors, disclosed that independent security review reports were not obtained during the audit period.

Specifically, MSDE did not require nor obtain a SOC 2 Type 2 or any other independent security review report for three contracts with two contractors. Although, effective April 1, 2017, the fourth contract required the contractor to obtain an independent review, MSDE had not obtained any review results as of July 2018. In response to our request, MSDE attempted to obtain the results in May 2018, but the contractor only provided a copy of its information security policy. We could not readily determine how many of the 886,221 students enrolled during the 2017 school year had sensitive information maintained by each contractor. However, according to MSDE records, one of the aforementioned contractors' system maintains data for approximately 166,000 students.

The American Institute of Certified Public Accountants has issued guidance concerning examinations of service organizations. Based on this guidance, service organizations (such as these MSDE third-party contractors) may contract for an independent review of controls for which the resultant independent auditor's report is referred to as a System and Organization Controls report. While SOC reports vary in scope, considering the nature and sensitivity of the applications managed and information maintained by the third-party contractors, we believe a SOC 2 Type 2 report should be required for the contractors.

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 privacy.

Recommendation 5

We recommend that MSDE

- a. as necessary, seek to amend its existing agreements and contracts to include provisions that address the aforementioned security and operational risks (such as independent security reviews);**
- b. ensure that future third-party agreements and contracts related to the maintenance of sensitive information require independent security reviews; and**
- c. obtain and review the results of these security reviews to ensure all relevant and critical security controls were addressed and that any deficiencies identified in the reviews are corrected, and document and retain these reviews for future reference.**

Finding 6

MSDE did not have a complete information technology disaster recovery plan (DRP) for recovering computer operations.

Analysis

MSDE's information technology DRP for recovering computer operations from disaster scenarios (for example a fire) was not comprehensive. The State of Maryland *Information Technology Disaster Recovery Guidelines* establish the minimum required elements needed for a DRP. MSDE's DRP did not address certain of these minimum requirements. For example, the DRP did not contain adequate details on the priorities of applications for restoration and comprehensive and up-to-date listings of required hardware and software. In addition, copies of the DRP had not been distributed to DRP team members for ready availability. Finally, as of May 2018, the DRP had not had significant testing performed during the two prior years. Without a complete and tested DRP, a disaster could cause significant delays (for an undetermined period of time) in restoring information systems operations above and beyond the expected delays that would exist in a planned recovery scenario. Our three prior audit reports have commented upon weaknesses in MSDE's existing information technology disaster recovery plans.

Recommendation 6

We recommend that MSDE, in conjunction with DoIT

- a. develop and implement a comprehensive DRP that is in accordance with the aforementioned *Information Technology Disaster Recovery Guidelines* (repeat); and**
- b. periodically test various DRP elements, document the testing, and retain the documentation for future reference.**

Finding 7

Malware protection was not sufficient to provide MSDE with adequate assurance that its computers were properly protected.

Analysis

Malware protection was not sufficient to provide MSDE with adequate assurance that its computers were properly protected. The MSDE headquarters operations involved approximately 1,000 active computers. Using two separate management consoles, DoIT controlled software products that were subject to periodic software updates in order to reduce the potential for significant security-related vulnerabilities.

- We identified 15 servers running an outdated operating system software version that was no longer supported by the operating system developer. Developer support for this operating system ended during 2015 and since then updates have not been provided for this software to address newly discovered software vulnerabilities.
- Additional computers had not been updated with the latest releases for software products that are known to have significant security-related vulnerabilities. Although the vendors for these products frequently provide software patches to address these vulnerabilities, MSDE computers had not been updated for these patches. For example, as of July 3, 2018, we determined that 249 of 483 computers running one potentially vulnerable application had not been updated for the latest application software update, but instead were using software versions whose last updates ranged from November 2010 to February 2018, with 3 additional computers whose software version was last updated in 2008.

The State of Maryland *Information Security Policy*, states that agencies, at a minimum, must protect against malicious code (viruses, worms, Trojan horses) by implementing protections (anti-virus, anti-malware) that, to the extent possible, include a capability for automatic updates.

Recommendation 7

We recommend that MSDE, in conjunction with DoIT, ensure that

- a. all servers operate with current vendor supported versions of operating system software installed, and**
- b. all active computers are kept up-to-date for critical security updates to potentially vulnerable installed software.**

Cash Receipts

Finding 8

Certain MSDE units did not record and restrictively endorse check collections immediately upon receipt as required.

Analysis

Collections received in certain MSDE units were not adequately controlled upon receipt. Collections received at the various MSDE units were forwarded to MSDE's Division of Business Services for deposit and processing. Our review of the cash receipts processes at 12 MSDE units disclosed that checks received through the mail at 2 units were not recorded and restrictively endorsed immediately upon receipt. Rather, these checks were handled by at least two employees prior to being recorded and endorsed. Mail receipts of these 2 units totaled approximately \$8.7 million during fiscal year 2018.

The Comptroller of Maryland's *Accounting Procedures Manual* requires immediate recordation and restrictive endorsement of check collections. According to MSDE records, the Division of Business Services processed collections received directly by mail and forwarded from other MSDE units totaling approximately \$13.8 million in fiscal year 2018.

Recommendation 8

We recommend that MSDE ensure that all units record and restrictively endorse checks immediately upon receipt as required by the Comptroller's *Accounting Procedures Manual*.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland State Department of Education (MSDE) for the period beginning July 1, 2014 and ending December 31, 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 MSDE'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 federal funds, grants, procurements and disbursements, budgetary closeout transactions, cash receipts, payroll, and information systems security and control. In addition, we reviewed MSDE's responsibilities related to its role on the Interagency Rates Committee, including the rate-setting process for residential child care. Our audit also included certain support services (including payroll processing, purchasing, maintenance of accounting records, and related fiscal functions) provided by MSDE to the Maryland Longitudinal Data System Center, the Division of Early Childhood, and the Maryland State Library Agency (effective July 1, 2017), all of which are audited separately. We also determined the status of 9 of 11 findings contained in our preceding audit report. We determined the status of the remaining 2 findings during our audit of the MSDE Division of Early Childhood.

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

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MSDE'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 the Division of Rehabilitation Services' financial records for the purpose of testing certain areas such as payments made for consumers under individual plans for employment. 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.

MSDE'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.

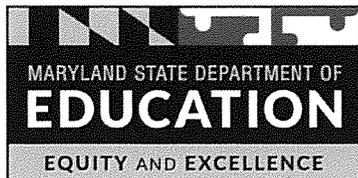
Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

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 MSDE'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, or regulations. Other less significant findings were communicated to MSDE that did not warrant inclusion in this report.

The response from MSDE 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 MSDE regarding the results of our review of its response.

APPENDIX



Karen B. Salmon, Ph.D.
State Superintendent of Schools

June 20, 2019

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, Maryland 21201

Dear Mr. Hook:

Enclosed is the Maryland State Department of Education (MSDE) responses to the draft audit report for the period beginning July 1, 2014, and ending December 31, 2017. We greatly appreciate the efforts of your audit staff in providing us with recommendations for improvements and developing a cooperative relationship with our agency personnel.

Please be assured that MSDE is giving significant attention to the issues identified in this audit. Should you have any additional questions or need additional clarification, please contact Ms. Channel Sumpter, Director of Audit at 410-767-0104. Again, thank you for your assistance.

Best Regards,

A handwritten signature in black ink that reads "Karen B. Salmon, Ph.D." in a cursive style.

Karen B. Salmon, Ph.D.
State Superintendent of Schools

KBS/cds
Enclosures

c: Sylvia Lawson, Ph.D.
Gayle Secrist
Amalie Brandenburg
Channel Sumpter
Richard McElroy

Maryland State Department of Education

Agency Response Form

Division of Rehabilitation Services

Finding 1
MSDE's DORS did not always make initial consumer contacts and complete individual plans for employment (IPEs) timely. In addition, we determined that, as of January 2018, DORS paid \$10.9 million more for consumer services than budgeted in the approved IPEs for 2,600 consumers.

We recommend that MSDE

- a. ensure consumer contacts and IPEs are made timely, eligibility determinations are independently approved, and IPEs are appropriately documented in accordance with DORS policies; and**
- b. establish controls to ensure that payments do not exceed approved consumer IPEs and that any modifications are documented and approved as required.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	<p>With regard to OLA's comment about the potential impact of discrepancies between estimated cost vs actual cost of the Individual Plan for Employment (IPE) and the MSDE Division of Rehabilitation Services (DORS) wait list, MSDE is providing some additional clarification. MSDE DORS wait list is caused by two factors. The first factor is the reduction of staff over the years and the second is the implementation of Pre-Employment Transitioning Services (Pre-ETS) as required by the Workforce Innovation and Opportunities Act of 2014 (WIOA). WIOA requires that DORS reserve 15% of its federal funds to provide specific services to students with disabilities while they are in school. This 15% reserve translates to about 20% to 23% of DORS Case Service budget that is no longer available to provide services to individuals on the wait list. In addition, the 15% reserve also impacts DORS resources since it requires DORS to move a number of Vocational Rehabilitation Counselors to handle just the Pre-ETS case load when these counselors were traditionally assigned to work with adults seeking employment.</p>		
Recommendation 1a	Agree	Estimated Completion Date:	October 2019
Please provide details of corrective action or explain disagreement.	<p>MSDE's DORS Quality Assurance Review Team is currently emphasizing during its meetings with district staff at the conclusion of quality assurance case reviews, the need to have documentation in the</p>		

Maryland State Department of Education

Agency Response Form

	<p>case record to validate the referral date entered and to schedule appointments to take place within 30 days of that referral date.</p> <p>Additionally, DORS has already begun work to streamline the on-line referral process that will enter the referrals directly into the DORS Case Management System. DORS is also investigating having the initial contact letter generated automatically upon the referral information being entered into the system. The estimated completion date of the implementation of the new on-line referral process is October 1, 2019.</p> <p>Finally, DORS executive staff has implemented a new analytical tool to provide a more robust reporting to ensure effective monitoring of the 60-day Eligibility Determinations and the timeliness of the 90-day IPE Development. DORS executive staff reviews these reports on a bi-weekly basis to identify issues with a particular office or individual counselor.</p>		
Recommendation 1b	Agree	Estimated Completion Date:	September 2019
Please provide details of corrective action or explain disagreement.	<p>DORS will be creating an Estimated vs Actual Cost Report that will help monitor when the actual cost reaches 90% or \$500, whichever is greater, of the plan's approved estimated cost. DORS executive staff will be monitoring the report on a bi-weekly basis to determine if adjustments to the estimated cost on an individual's IPE is necessary. In addition, DORS Policy for IPE Development will be updated to reflect this change.</p>		

Maryland State Department of Education

Agency Response Form

Federal Funds

Finding 2
Federal fund reimbursement requests for the Nutrition Block Grant were not always complete and timely, resulting in lost investment income totaling approximately \$300,000.

We recommend that MSDE

- a. enhance its supervisory review process for federal fund reimbursement requests to ensure all allowable expenditures are included and requests are submitted timely, in accordance with the applicable grant agreements; and**
- b. take appropriate action to recover the aforementioned \$152,000 in expenditures that have not yet been recovered.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	May 6, 2019
Please provide details of corrective action or explain disagreement.	Effective May 6, 2019, The Office of School and Community Nutrition Programs (OSCNP) has updated its policies and procedures related to the monthly draw down requests of federal funds and it's procedures regarding the reporting of federal authorized amounts from grant awards to the Accounting Office. The updated procedures specifically address the daily and monthly monitoring of grant activities to ensure the timely draw down of federal funds for grant payments. In May 2019, Department wide training was conducted on Fiscal Integrity of Federal Grants. The Financial Administrator provides the FMIS Focus report to the Financial Management Specialist to review posted expenditures and to prepare the drawdown request. The Financial Management Specialist uses the FMIS Focus report and the Automated Standard Application for Payments system report to complete the Letter of Credit. The Financial Supervisor will review, approve, and sign the monthly draw requests before forwarding to the Accounting Office for processing.		
Recommendation 2b	Agree	Estimated Completion Date:	June 28, 2019
Please provide details of corrective action or explain disagreement.	The OSCNP will contact to the United States Department of Agriculture (USDA) to submit an updated Food and Nutrition Service 777 (FNS-777) Report for the Child Nutrition Block Grant. Upon USDA approval, the OSCNP will submit the revised FNS-777 to request additional		

Maryland State Department of Education

Agency Response Form

	<p>funding on the Nutrition Block Grant. Once the approval is received from USDA, the draw request will be submitted to recover the funding of \$152,000 as noted in the finding. The draw is expected to be recovered in the June 2019 draw down request.</p>
--	--

Maryland State Department of Education

Agency Response Form

State Funded Grants

Finding 3
MSDE did not verify the accuracy of grantee expenditure data and performance reports, and did not conduct comprehensive site visits of grantees.

We recommend that MSDE establish comprehensive grant policies and procedures that include uniform minimum requirements to

- a. verify the accuracy of the grantee’s self-reported expenditure and performance data, and**
- b. ensure site visits are documented and comprehensive.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	August 2019
Please provide details of corrective action or explain disagreement.	<p>MSDE will establish procedures to verify the accuracy of the grantees’ self-reported expenditure and/or performance data for the three grants tested. In March 2019, MSDE Divisions began implementing procedures for verifying expenditure and certain performance data reported for the three grantees. The verification process will include but not limited to, reviewing a sample of school reservation, a review of some administrative or program components of the grant, and the implementation of a programmatic monitoring schedule to verify the accuracy of each grantees data.</p> <p>Program Directors and Contract Managers, on a sample basis, will obtain supporting documentation from the grantee (i.e., school reservations, review of program components, local management boards monitoring reports) to verify the accuracy of expenditure and/or performance data submitted in the grantees periodic reports. This verification will be performed on an annual basis during the grantees’ site visits or as part of a grantees’ contract and programmatic monitoring activities.</p> <p>In addition to the invoice review procedures currently performed, MSDE DEI/SES will conduct comprehensive site visits beginning July 2019. The comprehensive site visit will also include a review to verify the</p>		

Maryland State Department of Education

Agency Response Form

	<p>accuracy of the grantee’s expenditures. DEI/SES staff will select a sample of expenditures from the budget objects and review the grantee's supporting documentation during the site visit. All reviews and verifications performed will be documented by MSDE Divisions and documentation will be retained for audit purposes.</p>		
Recommendation 3b	Agree	Estimated Completion Date:	August 2019
Please provide details of corrective action or explain disagreement.	<p>MSDE will ensure that site visits conducted are documented, comprehensive and timely. MSDE’s Division of Student Support, Academic Enrichment, and Educational Policy (DOSSAEEP) will have an annual site visit completed for all 42 grantees by the end of fiscal year 2019 with the exception of programs funded for summer activities. All completed site visits are documented and each grantee receives a copy of the site visit report. MSDE DOSSAEEP will annually review one of the administrative or program components listed in grantees’ operating contract. The administrative or program component review as well as any follow up actions will be documented and retained for audit verification purposes. MSDE, DEI/SES will review the fiscal monitoring reports performed by the Governor’s Office for Children (GOC) to ensure that site visits are documented and comprehensive. The GOC fiscal monitoring reports will be copied and placed in the corresponding grant folder filed at MSDE. For programmatic oversight, the MSDE, DEI/SES will conduct comprehensive site visits and retain documentation of each site visit in the corresponding grant folder.</p>		

Maryland State Department of Education

Agency Response Form

Information Systems Security and Control

Finding 4
Sensitive personally identifiable information (PII) maintained by MSDE was stored without adequate safeguards.

We recommend that MSDE, in conjunction with DoIT,

- a. perform a manual inventory of all of its systems, identify all sensitive PII, and delete all unnecessary sensitive PII; and
- b. use an approved encryption method, or other substantial mitigating controls to properly protect all necessary sensitive PII (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	September 30, 2019
Please provide details of corrective action or explain disagreement.	MSDE's Information Technology Division, in conjunction with DoIT, will work with the appropriate divisions to manually survey the agency's automated applications and to identify all MSDE applications containing sensitive PII. Once the final list of all MSDE applications containing PII has been defined, MSDE's Information Technology Division will work with each division to identify what PII needs to be retained. Any sensitive PII that does not need to be retained, will be deleted from the systems.		
Recommendation 4b	Agree	Estimated Completion Date:	September 30, 2019
Please provide details of corrective action or explain disagreement.	MSDE's Information Technology Division, in conjunction with DoIT, will implement an approved encryption method or implement substantial mitigating controls on systems that contain PII.		

Maryland State Department of Education

Agency Response Form

Finding 5

MSDE lacked assurance that certain significant applications and sensitive student data managed by third-party contractors were properly secured against operational and security risks.

We recommend that MSDE

- a. as necessary, seek to amend its existing agreements and contracts to include provisions that address the aforementioned security and operational risks (such as independent security reviews);**
- b. ensure that future third-party agreements and contracts related to the maintenance of sensitive information require independent security reviews; and**
- c. obtain and review the results of these security reviews to ensure all relevant and critical security controls were addressed and that any deficiencies identified in the reviews are corrected, and document and retain these reviews for future reference.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	MSDE DEI SES agrees that alone the grant agreement with the local university lacked provisions regarding cited security and operational risks. However, it should be noted, that the grant agreement addresses project management not data security responsibilities. Aside from the grant agreement, MSDE and the university have a Memorandum of Understanding (MOU) regarding the three referenced applications which does address various data security issues. Specifically, it outlines the responsibilities of the university as it relates to maintenance of confidential education records and the personally identifiable information (PII) contained therein. The Security Requirements of the MOU states that the university shall maintain data on secure servers that are assessed for security risks annually by an independent entity.		
Recommendation 5a	Agree	Estimated Completion Date:	September 30, 2019
Please provide details of corrective action or explain disagreement.	MSDE will amend the existing MOU with the university and one of the assessments contracts to include the significant security control provisions such as an independent security review as noted in the analysis section of the finding. MSDE will incorporate by reference the revised MOU in all SFY 2020 grant agreements by June 30, 2019. Upon renewal of the remaining two assessment contracts, MSDE will ensure that the contracts include provisions that address security and operational risks and require an independent security review.		

Maryland State Department of Education

Agency Response Form

Recommendation 5b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	In the future, MSDE will ensure that third party agreements and contracts related to the maintenance of sensitive information require independent security reviews.		
Recommendation 5c	Agree	Estimated Completion Date:	September 30, 2019
Please provide details of corrective action or explain disagreement.	<p>MSDE DEI SES has obtained and reviewed the SOC 2 Type 2 report that was performed of the university's subcontractor for the period February 1, 2018 through January 31, 2019. There were no findings identified in the report.</p> <p>In the future, MSDE will ensure that independent security reviews are obtained as required by the agreement or contract. Upon receipt of the independent security review report, MSDE division personnel will obtain and review the report to determine if the related review adequately address security concerns regarding its system applications. MSDE division personnel will also review the independent security reports to identify any exceptions for the tests performed, follow up on any noted exceptions and ensure that the contractor implements the related corrective action. Finally, MSDE division personnel will create and retain documentation regarding their review activities for future reference.</p>		

Maryland State Department of Education

Agency Response Form

Finding 6
MSDE did not have a complete information technology disaster recovery plan (DRP) for recovering computer operations.

We recommend that MSDE, in conjunction with DoIT

- a. develop and implement a comprehensive DRP that is in accordance with the aforementioned *Information Technology Disaster Recovery Guidelines* (repeat); and
- b. periodically test various DRP elements, document the testing, and retain the documentation for future reference.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	September 30, 2019
Please provide details of corrective action or explain disagreement.	MSDE's Information Technology Division, in conjunction with DoIT, will complete the development of an updated MSDE Headquarters Disaster Recovery Plan (DRP) in compliance with the State of Maryland <i>Information Technology Disaster Recovery Guidelines</i> . In this regard, the updated MSDE Headquarters DRP will include current and complete information regarding: required hardware and software, application inventories and contact information as required by the State of Maryland <i>Information Technology Disaster Recovery Guidelines</i> .		
Recommendation 6b	Agree	Estimated Completion Date:	September 30, 2019
Please provide details of corrective action or explain disagreement.	MSDE's Information Technology Division, in conjunction with DoIT, will periodically test various DRP elements, document the relevant testing, and retain the documentation for audit verification purposes.		

Maryland State Department of Education

Agency Response Form

Finding 7
Malware protection was not sufficient to provide MSDE with adequate assurance that its computers were properly protected.

We recommend that MSDE, in conjunction with DoIT, ensure that

- a. all servers operate with current vendor supported versions of operating system software installed, and**
- b. all active computers are kept up-to-date for critical security updates to potentially vulnerable installed software.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	December 31, 2019
Please provide details of corrective action or explain disagreement.	MSDE's Information Technology Division, in conjunction with DoIT, will ensure that all servers operate with the current vendor supported versions of operating system software installed. MSDE and DoIT's Cloud Services Team investigated the 15 servers identified by OLA as running outdated operating system software. As a result of reviewing the 15 servers noted in the finding, MSDE's Information Technology Division determined that seven of the 15 servers were decommissioned and the remaining 8 are scheduled for migration or replacement during calendar year 2019.		
Recommendation 7b	Agree	Estimated Completion Date:	Bi-Annually
Please provide details of corrective action or explain disagreement.	MSDE's Information Technology Division, in conjunction with DoIT, will ensure that all active computers are kept up-to-date for critical security updates to potentially vulnerable installed software. DoIT's End User Services Team is currently in the process of investigating, documenting, and removing unnecessary or outdated third party software installations. DoIT's End User Services Team will perform reviews every six months of software and perform software patching on approved third party software. DoIT's Security Team will ensure that unnecessary software is removed.		

Maryland State Department of Education

Agency Response Form

Cash Receipts

Finding 8
Certain MSDE units did not record and restrictively endorse check collections immediately upon receipt as required.

We recommend that MSDE ensure that all units record and restrictively endorse checks immediately upon receipt as required by the Comptroller’s *Accounting Procedures Manual*.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 8	Agree	Estimated Completion Date:	May 9, 2019
Please provide details of corrective action or explain disagreement.	<p>MSDE agrees with the recommendation. MSDE updated its cash procedures to clarify that all checks received should be restrictively endorsed immediately by the recipient before forwarding to the Accounting Office. All checks received in the Accounting Office are restrictively endorsed upon receipt. The Accounting Office has ordered and distributed the restrictive endorsement stamps to MSDE divisions. On May 9, 2019, MSDE’s Division of Business Services issued a memo to all MSDE staff detailing the procedures for the immediate restrictive endorsement of payments received. In order to improve internal controls for non-cash payments that are received by MSDE, each division head was issued an endorsement stamp labeled “for deposit only”. When a payment is received, the back of the check must be restrictively endorsed immediately with the stamp.</p> <p>The MSDE Division of Business Services will also issue an annual memo to all MSDE staff reminding them of the policy. In addition, the two divisions noted in the analysis have received stamps to ensure that any checks received are immediately endorsed and subsequently forwarded to the Accounting Office.</p>		

AUDIT TEAM

Heather A. Warriner, CPA
Audit Manager

Richard L. Carter, CISA
R. Brendan Coffey, CPA, CISA
Information Systems Audit Managers

Adam M. Auerback
Lisa M. Beers, CFE
Nathan H. Suffin, CPA
Senior Auditors

Edwin L. Paul, CPA, CISA
J. Gregory Busch, CISA
Information Systems Senior Auditors

Marina I. Bulatova
Jordan T. Duke
Keli R. Edmonds
Tony M. Kinsler
Joshua A. Naylor
John B. Wachter, CFE
Staff Auditors

Joseph R. Clayton
Robert H. Dean
Information Systems Staff Auditors