

Audit Report

**University System of Maryland
Towson University**

August 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Executive Director

Gregory A. Hook, CPA
Legislative Auditor

August 6, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carrol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – Towson University (TU) for the period beginning July 1, 2015 and ending June 24, 2019. TU is a comprehensive public institution and provides a broad range of baccalaureate, graduate, and doctoral programs in the liberal arts and sciences.

Our audit disclosed that TU did not require or obtain a sufficient independent review of the automated system used by its vendor responsible for disbursing student refunds to ensure that sensitive student information residing on the system was adequately safeguarded. Our audit also disclosed that TU lacked sufficient procedures to verify the propriety of certain transactions posted to student accounts including refunds, charges for returned checks, and removal of holds placed on student accounts. In addition, TU did not adequately segregate employee access capabilities for critical financial aid functions on its financial management system.

Finally, our audit included a review to determine the status of the nine findings contained in our preceding audit report. We call your attention to our determination that TU satisfactorily addressed all of these findings.

The USM Office's response to this audit, on behalf of TU, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by TU. We also wish to acknowledge USM's and TU's 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, prominent initial "G".

Gregory A. Hook, CPA
Legislative Auditor

Table of Contents

Background Information	4
Agency Responsibilities	4
Status of Findings From Preceding Audit Report	4
Findings and Recommendations	5
Student Personal Information	
Finding 1 – Towson University (TU) did not require or obtain a sufficient independent review of the automated system used by its vendor responsible for processing student refunds, to ensure that sensitive student information residing on the system was properly safeguarded.	5
Student Accounts Receivable	
Finding 2 – TU lacked sufficient procedures to verify the propriety of certain transactions posted to student accounts including refunds, charges for returned checks, and removal of holds placed on student accounts.	6
Student Financial Aid	
Finding 3 – TU did not adequately segregate employee access capabilities for critical financial aid functions on its financial management system.	7
Audit Scope, Objectives, and Methodology	9
Agency Response	Appendix

Background Information

Agency Responsibilities

Towson University (TU) is a comprehensive public institution of the University System of Maryland and operates under the jurisdiction of the System's Board of Regents. TU provides a broad range of baccalaureate programs in both the traditional arts and sciences, and in applied professional fields, as well as selected professionally oriented graduate and doctoral programs. According to TU's records, student enrollment for the Fall 2019 semester totaled 22,709, including 19,619 undergraduate students and 3,090 graduate students.

TU's budget is funded by unrestricted revenues, such as tuition and fees; a State general fund appropriation; and restricted revenues, such as federal grants and contracts. According to the State's accounting records, TU's revenues for fiscal year 2019 totaled approximately \$509 million, which included a State general fund appropriation of approximately \$115 million.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated November 1, 2016. We determined that TU satisfactorily addressed these findings.

Findings and Recommendations

Student Personal Information

Finding 1

Towson University (TU) did not require or obtain a sufficient independent review of the automated system used by its vendor responsible for processing student refunds, to ensure that sensitive student information residing on the system was properly safeguarded.

Analysis

TU did not require or obtain a sufficient independent review of the automated system used by its vendor responsible for processing student refunds, to ensure that sensitive student information residing on the system was properly safeguarded. These reviews are required by University System of Maryland (USM) policies. According to TU records, student refunds issued during fiscal year 2019 totaled approximately \$66.2 million. Our review disclosed that TU's contract with the vendor did not require them to obtain any of the reports required by USM *IT Security Standards*.

State law requires that a unit of State government, including a public institution of higher education, or a third-party service provider under contract with the unit shall implement reasonable security procedures and practices to protect personal information. In addition, USM *IT Security Standards* require USM institutions to obtain and review a control assessment report based on such a review performed by a recognized independent audit organization. The *Standards* provide several examples of acceptable reports, including the American Institute of Certified Public Accountants (AICPA) System and Organization Controls (SOC) 2 Type 2 report.

The AICPA 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 SOC report. There are several types of SOC reports, with varying scopes and levels of review and auditor testing. The aforementioned 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.

Recommendation 1

We recommend that TU comply with State law and USM *IT Security Standards* by requiring and obtaining from the aforementioned vendor a control assessment report, such as a SOC 2 Type 2 report, to ensure sensitive student information provided to the vendor is properly safeguarded.

Student Accounts Receivable

Finding 2

TU lacked sufficient procedures to verify the propriety of certain transactions posted to student accounts including refunds, charges for returned checks, and removal of holds placed on student accounts.

Analysis

TU lacked sufficient procedures to verify the propriety of student refunds, the recording of returned payments in student accounts, and the validity of transactions processed to release holds placed on student accounts. In the case of student refunds and returned payments, certain verification procedures were in place, but those procedures were not sufficient because they did not use the records necessary to ensure that all transactions were subject to verification. No verification procedures were in place for the release of account holds.

- TU did not use output reports of refunds recorded in student accounts to ensure the propriety of student refunds. As a result, there was a lack of assurance that all refunds processed were valid. According to TU records, refund payments totaled approximately \$66 million during fiscal year 2019.
- TU did not ensure that all charges relating to returned student payments (such as for insufficient funds) received from the bank were added back to the related student's account balance. Although TU had certain procedures in place to agree documentation of these charges to student accounts, the documentation used was not the record of returned payments received from the bank. Consequently these procedures did not ensure that all returned payments reported by the bank were posted. According to TU records, returned payments totaled approximately \$2.3 million during fiscal year 2019.
- Fourteen TU employees could release holds placed on student accounts without independent supervisory review and approval. Holds are placed on a student's account for several reasons, such as delinquent account balances or payments returned for insufficient funds. A hold generally prohibits subsequent account transactions, such as registering for classes and ordering

transcripts. Without an independent review of holds released, there was a lack of assurance that the release of all holds was proper. According to TU records, during fiscal year 2019, there were 333 account holds for delinquent account balances or returned payments that were released.

Recommendation 2

We recommend that TU

- a. use available output reports to independently verify the propriety of student refunds to supporting documentation;**
- b. ensure all charges relating to student payments returned by the bank due to insufficient funds are posted back to the student accounts; and**
- c. ensure that all holds removed from student accounts are subject to independent review and approval, including those noted above.**

Student Financial Aid

Finding 3

TU did not adequately segregate employee access capabilities for critical financial aid functions on its financial management system.

Analysis

TU did not adequately segregate employee access capabilities for critical financial aid functions on its financial management system, and although certain compensating controls had been put in place, these procedures were not sufficient. For example, our review of 18 critical financial aid functions on TU's financial management system disclosed that 2 users were assigned inappropriate system access capabilities to one or more critical functions. Specifically, these 2 users could make adjustments to the application data and financial aid awards and were also responsible for ensuring that financial aid data, including award amounts, were properly posted to student accounts. Although these employees conducted reviews of selected samples of financial aid recipients to ensure the accuracy and propriety of financial aid data recorded, this process was not adequate as these employees had the capability to adjust critical financial aid data and related awards without independent supervisory review and approval.

The *USM IT Security Standards* specify that institutions must segregate functions to ensure the appropriate separation of duties for system users, and where segregation of functions is not possible, compensating controls must be established to mitigate the risk.

Recommendation 3

We recommend that TU assign user access capabilities for critical financial aid functions in a manner that ensures a proper segregation of duties. If segregation of duties is not possible, establish adequate compensating controls, such as ensuring that comprehensive reviews of an appropriate number of financial aid recipient transactions are performed by independent supervisory personnel in accordance with USM *Standards*.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – Towson University (TU) for the period beginning July 1, 2015 and ending June 24, 2019. 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 TU'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, cash receipts, information systems security and control, payroll, student financial aid, and corporate purchasing cards. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to TU by the USM Office and the University of Maryland, Baltimore on a centralized basis for several other units of USM, such as bond financing and processing of certain construction vendor payments, respectively. These support services are included within the scope of our audits of the USM Office and the University of Maryland, Baltimore. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of TU'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 the components of the USM.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of TU'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). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these sources were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from TU's financial systems for the purpose of testing certain areas, such as financial aid and student accounts receivable. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

TU'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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to TU, were considered by us during the course of this audit.

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

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

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could

adversely affect TU'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 TU that did not warrant inclusion in this report.

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

OFFICE OF THE CHANCELLOR

July 31, 2020

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

Re: University System of Maryland – Towson University
Period of Audit: July 1, 2015 through June 24, 2019

Dear Mr. Hook:

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

Sincerely yours,



Jay A. Perman
Chancellor

Enclosures

cc: Dr. Kim E. Schatzel, Ph.D., President, Towson University
Mr. Benjamin Lowenthal, Vice President, Administration and Finance, Towson University
Mr. Vasu Bhatt, Director, Management Advisory and Compliance Services, Towson University
Ms. Linda R. Gooden, Chair, University System of Maryland Board of Regents
Mr. Robert L. Page, Associate Vice Chancellor for Financial Affairs, USM Office
Mr. David Mosca, Director of Internal Audit, USM Office

**University System of Maryland
Towson University**

Agency Response Form

Student Personal Information

Finding 1
Towson University (TU) did not require or obtain a sufficient independent review of the automated system used by its vendor responsible for processing student refunds, to ensure that sensitive student information residing on the system was properly safeguarded.

We recommend that TU comply with State law and USM *IT Security Standards* by requiring and obtaining from the aforementioned vendor a control assessment report, such as a SOC 2 Type 2 report, to ensure sensitive student information provided to the vendor is properly safeguarded.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	September 2021
Please provide details of corrective action or explain disagreement.	<p>Our current vendor leverages a subcontractor’s data center to process student refunds. The vendor only provides a portal to TU and outsources the IT functions relative to processing student refunds to the subcontractor. All of the servers where the student data is stored and processed reside with the subcontractor. The subcontractor maintains all controls including patch management, physical security, change management, etc. The subcontractor provided TU with SOC 2 Type 2 reports for the audit period in compliance with State Law and USM Standards.</p> <p>In order to comply with the recommendation, we will request that the vendor obtain an independent control assessment report. In the event they fail or refuse to obtain a control assessment report, we will look for another vendor. Our current contract is scheduled to end in August 2021.</p>		

**University System of Maryland
Towson University**

Agency Response Form

Student Accounts Receivable

Finding 2
TU lacked sufficient procedures to verify the propriety of certain transactions posted to student accounts including refunds, charges for returned checks, and removal of holds placed on student accounts.

We recommend that TU

- a. use available output reports to independently verify the propriety of student refunds to supporting documentation;**
- b. ensure all charges relating to student payments returned by the bank due to insufficient funds are posted back to the student accounts; and**
- c. ensure that all holds removed from student accounts are subject to independent review and approval, including those noted above.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	July 2020
Please provide details of corrective action or explain disagreement.	A detailed query has been created to capture all refunds processed the prior day and will reflect the student's current balance. An independent Bursar Associate will use the query results to verify the propriety of student refunds on a test basis. We have created criteria to review refunds based on risk and dollar amount, on a test basis.		
Recommendation 2b	Agree	Estimated Completion Date:	May 2020
Please provide details of corrective action or explain disagreement.	A Bursar Associate, separate from the Bursar Associate who posted the initial returned payment, ensures that all returned payments reported by the bank were posted on the student accounts accurately by comparing related bank statements to a system generated query.		
Recommendation 2c	Agree	Estimated Completion Date:	May 2020
Please provide details of corrective action or explain disagreement.	An independent Bursar Associate runs a system generated query daily to capture all manual release holds including but not limited to the student account holds, bad checks, and hold releases for transcripts & diplomas by verifying related source documents on a test basis.		

**University System of Maryland
Towson University**

Agency Response Form

Student Financial Aid

Finding 3
TU did not adequately segregate employee access capabilities for critical financial aid functions on its financial management system.

We recommend that TU assign user access capabilities for critical financial aid functions in a manner that ensures a proper segregation of duties. If segregation of duties is not possible, establish adequate compensating controls, such as ensuring that comprehensive reviews of an appropriate number of financial aid recipient transactions are performed by independent supervisory personnel in accordance with *USM Standards*.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	July 2020
Please provide details of corrective action or explain disagreement.	<p><u>Segregation of Duties</u>: The two users referenced above have appropriate and approved access for their assigned duties and responsibilities. They must continue to perform these reviews because we cannot assign this workload to other staff. These users will continue to conduct at least 200 Internal Audits per fiscal year under the supervision of our Associate Director of Reporting and Scholarships.</p> <p><u>Compensating Control</u>: Starting with the 2021 fiscal year, the Associate Director will conduct a complete independent review of 25% of randomly sampled audits of each employee, using source documents.</p>		

AUDIT TEAM

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