

Audit Report

**Department of Human Services
Child Support Administration**

May 2021



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

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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
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

May 13, 2021

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol 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 Department of Human Services (DHS) – Child Support Administration (CSA) for the period beginning July 18, 2017 and ending August 31, 2020. CSA is responsible for operating the Statewide child support program, which includes the establishment of paternity and child support orders, and the collection and distribution of child support payments. For the federal fiscal year ended September 30, 2020, child support collections totaled \$582.9 million and unpaid child support due from obligors (non-custodial parents) totaled \$1.3 billion at that date.

Our audit disclosed that CSA had not obtained and investigated driver's license suspension referrals rejected by the Motor Vehicle Administration since April 2018. CSA also did not obtain adequate assurance that the vendor responsible for distributing child support payments had sufficient security over its information system to protect sensitive data such as personally identifiable information for custodial and non-custodial parents.

Our audit also included a review to determine the status of the six findings contained in our preceding audit report. We call your attention to our determination that CSA satisfactorily addressed these prior findings.

DHS' response to this audit, on behalf of CSA, is included as an appendix to this report. In accordance with State law, we have reviewed the response, and we identified statements in the response that conflict with or disagree with the report

findings. Consequently, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our two findings. For example, in response to Finding 1, CSA declines to reestablish the match program for rejected referrals because it believes that the use of truncated social security numbers would increase the risk of inadvertently suspending a driver's license in error; however, there was no documentation available to support this position. CSA also believes the number of additional driver's license suspensions that result from the possible match program represent an insignificant impact on enforcement. Given the number of suspensions that resulted during fiscal year 2017 (the last year any rejected referrals were investigated) and given that driver's license suspensions are a strong enforcement tool for delinquent obligors, we continue to believe that not reviewing these cases could have a significant impact on enforcement.

In accordance with generally accepted government auditing standards, we have included "auditor's comments" within DHS' response to further explain our positions. We will advise the Joint Audit and Evaluation Committee of any outstanding issues that we cannot resolve with DHS.

We wish to acknowledge the cooperation extended to us during the audit by CSA. We also wish to acknowledge DHS' and CSA'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

Background Information

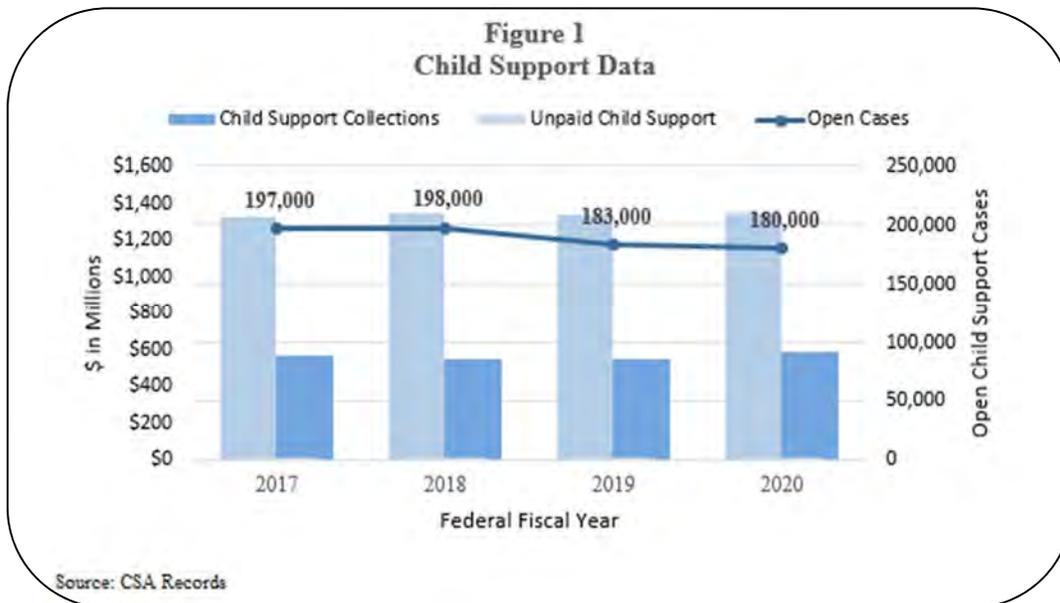
Agency Responsibilities

The Child Support Administration (CSA) is responsible for operating the Statewide child support program. CSA provides services to both the noncustodial and custodial parents, which include the establishment of paternity and child support orders, the collection of child support payments, and the distribution of such funds. According to the State's records, CSA's operating expenditures for State fiscal year 2020 totaled approximately \$42.9 million¹.

Local child support offices, under CSA's oversight, and other state and local government agencies (such as State's Attorneys' Offices) perform various child support services. Furthermore, a private vendor, under contract to CSA, provides child support functions in Baltimore City, which handles approximately 23 percent of the State's child support cases. In addition, CSA uses the services of two additional private vendors—one vendor maintains the new hire registry, which is used to identify noncustodial parent wages on a Statewide basis, and the other vendor centrally receives, processes, and distributes child support payments.

According to CSA's records, during federal fiscal year 2020 (October 1, 2019 through September 30, 2020), Statewide child support collections related to approximately 180,000 open cases totaled approximately \$582.9 million. As of September 30, 2020 the cumulative unpaid child support due from obligors totaled approximately \$1.3 billion. As reflected in Figure 1 on page 4, child support collections and the unpaid child support balance has remained consistent between federal fiscal years 2017 and 2020, while the number of open cases has decreased by 9 percent over this period.

¹ This excludes local child support office expenditures, which are included in a separate DHS budgetary unit.



Child Support Management System

CSA uses the Child Support Enforcement System (CSES) to record child support case information, including enforcement efforts, and to account for the collection and subsequent distribution of support payments. CSES also provides financial and statistical data for management oversight purposes, and has certain automated enforcement features to aid in the collection function.

In fiscal year 2017, the Maryland Total Human Services Integrated Network (MD THINK) project was initiated to modernize and integrate multiple State health and human services information systems. As part of this project, DHS is in the process of developing the Child Support Management System (CSMS) to replace CSES. As of March 30, 2021, DHS advised that it planned to begin implementation of CSMS in July 2021.

Enforcement Action Overview

Child support services are generally performed by local offices throughout the State, including the Baltimore City office where a vendor provides the services, with oversight and administration provided by CSA central office personnel. CSA uses several enforcement tools to pursue court-ordered child support when an obligor does not pay fully or on time. These tools include withholding wages, intercepting tax refunds, and seizing funds in personal bank accounts.

The primary source to facilitate the identification of wages for withholding is the State's new hire registry which is an automated system for collecting, storing, and extracting employer-reported information on new hires, mandated by federal law. The system is maintained by a vendor under contract to DHS. Other enforcement tools provided for in State law include driver's license and occupational license suspensions. For example, State law permits the suspension of driver's licenses by the Motor Vehicle Administration when an obligor is at least 60 days delinquent in child support payments.

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the six findings contained in our preceding audit report dated May 15, 2019. We determined that CSA satisfactorily addressed all six findings.

Findings and Recommendations

Driver's License Suspension Program

Finding 1

The Child Support Administration (CSA) did not obtain and investigate driver's license suspension referrals rejected by the Motor Vehicle Administration (MVA).

Analysis

CSA did not obtain and investigate driver's license suspension referrals that were rejected by the MVA, potentially resulting in the failure to suspend the driver's licenses of delinquent obligors. In accordance with State law, CSA refers a delinquent child support obligor to MVA requesting suspension of the individual's driver's license when the obligor is at least 60 days out of compliance with the most recent child support court order. MVA performs automated matches between the CSA referrals and its licensing system, and suspends the individual's driver's license if the debt is not subsequently paid. According to CSA records, approximately 50,600 driver's license suspensions were processed in fiscal year 2020.

The automated match process includes an edit feature that was designed to identify possible incorrect matches, such as instances in which name spellings differ between CSA's records and MVA's licensing system. Any referrals identified as possible matches were historically returned to CSA to investigate

and resolve. In June 2018, MVA notified CSA that, to comply with federal privacy requirements, it would only provide a truncated social security number (SSN) for the rejected referrals to only include the last four digits, and not the full nine-digit SSN as it had done in the past. CSA did not respond to MVA's notification; rather CSA management made a policy decision to discontinue all follow up on rejected driver's license suspension referrals because it did not believe the truncated SSN provided a sufficient basis, with other information, to suspend an individual's driver's license. Although, CSA advised that truncated SSNs substantially increases the risk of misidentifying an obligor and inadvertently suspending the individual's driver's license, it could not provide us with documentation to support this conclusion (for example, past reviews or incorrect suspensions). CSA further advised that MVA did not generate any possible matches after April 2018; therefore, we could not readily determine the number of possible matches that occurred after this date.

In our opinion, CSA's justification for not pursuing the rejected referrals did not appear valid because its past policy for rejection investigation provided that matches are verified primarily using an individual's driver's license number, full name, and date of birth, and that the SSN could be relied on to verify matches to the extent those other data elements are not available. This change in policy, to not review these cases, could have a significant impact on enforcement, because the rejected referrals investigated by CSA in past years often resulted in license suspensions. For example, during fiscal year 2017, CSA advised that it identified an additional 701 cases for suspension based on its review of 6,298 rejected referrals.

Recommendation 1

We recommend that CSA work with MVA to reestablish the possible match program for rejected referrals, review possible matches identified, and report corrected information to MVA to process drivers' license suspensions.

System Security

Finding 2

CSA did not obtain adequate assurance that the vendor responsible for distributing child support payments had sufficient security over its information system to protect sensitive data such as personally identifiable information (PII) for custodial and noncustodial parents.

Analysis

CSA did not obtain adequate assurance that the vendor responsible for distributing child support payments had sufficient security over its information system to protect sensitive data such as PII for custodial and noncustodial parents. According to CSA records, during fiscal year 2020, this vendors disbursed payments to custodial parents totaling approximately \$582.9 million related to 180,000 child support cases.

The American Institute of Certified Public Accountants' guidance for service organizations (like the aforementioned vendor) includes an independent review of controls for which the resultant independent auditor's report is referred to as a System and Organization Controls (SOC) report. One type of report, referred to as a SOC 2 Type 2 report, includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include an evaluation of system security, availability, processing integrity, confidentiality, and/or privacy.

The contract with the vendor which was procured by the State Treasurer's Office (STO) on CSA's behalf did not include a requirement for the vendor to obtain SOC 2 Type 2 reports for the current contract period of July 2016 through June 2021 or its two one-year renewal options. CSA advised that it was unable to obtain a SOC 2 Type 2 report from the vendor since it was not a contractual requirement; however, CSA could provide no documentation that it had acknowledged this as a significant omission in the contract and that it had discussed the matter of the SOC reporting requirement with the STO prior to the award of the contract. CSA did advise us that it had obtained a SOC 2 Type 1 report (dated May 31, 2019) from the vendor. Although this report did not disclose any significant operational or security-related concerns, SOC 2 Type 1 reports are limited to an evaluation of the system controls as of a point in time, while a Type 2 report provides an evaluation and related testing of the vendor's system and control environment over a period of time, providing greater assurance that the system was sufficiently protected. Subsequent to the completion of our audit fieldwork, CSA was able to obtain and provide us with

one SOC 2 Type 2 report for this vendor, which covered the 7-month period between February and July 2020.

Recommendation 2

We recommend that CSA

- a. obtain and review SOC 2 Type 2 reports from the vendor to ensure that sensitive data is properly safeguarded (this includes obtaining all reports, reviewing reports for critical issues, and ensuring vendor corrective action is taken, as needed); and**
- b. in conjunction with STO, ensure that future contracts include a requirement for the vendor to obtain SOC 2 Type 2 reviews covering each year of the contract.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Department of Human Services (DHS) – Child Support Administration (CSA) for the period beginning July 18, 2017 and ending August 31, 2020. 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 CSA’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 enforcement procedures (for example, occupational and driver’s license suspensions and wage withholding), access and controls over CSA’s Child Support Enforcement System (CSES), monitoring of local child support offices, and contracts. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include various support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) provided to CSA by DHS’ Office of the Secretary. Our audit also did not include an evaluation of

internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of CSA'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 CSA.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 18, 2017 to August 31, 2020, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of CSA's operations. 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 expenditure data). 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 this source were sufficiently reliable for the purposes the data were used during the audit. We also extracted data from CSES for the purpose of testing various enforcement efforts. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes they 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.

CSA'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 CSA, 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 CSA'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 CSA that did not warrant inclusion in this report.

The response from DHS, on behalf of CSA, to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 21224 of the Annotated Code of Maryland, we will advise DHS regarding the results of our review of its response.

APPENDIX



Larry Hogan, Governor | Boyd K. Rutherford, Lt. Governor | Lourdes R. Padilla, Secretary

May 5, 2021

Mr. Gregory A. Hook
Legislative Auditor
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201

Dear Mr. Hook:

Please find enclosed the Department of Human Services' (DHS) response to the draft Legislative Audit Report of the Child Support Administration (CSA) for the period beginning July 18, 2017 and ending August 31, 2020.

If you have any questions regarding the response, please contact the Inspector General, Marva Sutherland of my staff at 443-378-4060 or marva.sutherland@maryland.gov.

Sincerely,

A handwritten signature in blue ink that reads "Lourdes R. Padilla".

Lourdes R. Padilla
Secretary

Enclosures:

cc: Gregory James, Deputy Secretary, Operations
Netsanet Kibret, Deputy Secretary, Programs
Samantha Blizzard, Chief of Staff
Kevin Guistwite, Executive Director, CSA
Stafford Chipungu, Chief Financial Officer
Marva Sutherland, Inspector General, OIG
Keonna Wiley, Assistant Inspector General – Audits, OIG
David Walton, CPA, Director, Internal Audit & Quality Assurance, CSA



Driver's License Suspension Program

Finding 1

The Child Support Administration (CSA) did not obtain and investigate driver's license suspension referrals rejected by the Motor Vehicle Administration (MVA).

We recommend that CSA work with MVA to reestablish the possible match program for rejected referrals, review possible matches identified, and report corrected information to MVA to process drivers' license suspensions.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>The analysis states that CSA is required by state law to refer delinquent obligors for driver's license suspension. CSA is in full compliance with this state law. However, there is no provision in state law requiring CSA to investigate rejected records.</p> <p>Historically, CSA was able to properly investigate rejected records on its own accord with low risk and an adequate level of assurance as the following data elements were provided by MVA:</p> <ul style="list-style-type: none"> ● Name; ● Birth Date; ● Full Social Security number. <p>MVA can no longer provide the Full Social Security number and does not provide a driver's license number (SOUNDEX) relative to rejected records as CSA demonstrated by providing an actual file to the auditors. Further, CSA does not obtain drivers' licenses of noncustodial parents and therefore would be unable to match on this SOUNDEX even if provided by MVA.</p> <p>CSA Management is responsible for the following internal controls in adherence with the Standards for Internal Controls as prescribed by the U.S. Government Accountability Office (Green Book):</p> <ul style="list-style-type: none"> ● Establishing and maintaining internal controls to achieve the objectives of effective and efficient operations; ● Reliable financial information; ● Compliance with applicable federal and state laws, regulations and statutes; and, ● Accessing the risk relative to programs in the best interest of CSA and its stakeholders.

	<p>CSA management assessed the risk relative to the rate of return regarding the prior driver license possible match process and determined that the inherent risk of inadvertently suspending a drivers' license is too substantial to continue the process without required data elements as identified by CSA for an accurate match (Name, Birth Date, and Full Social Security number).</p> <p>The analysis states CSA did not provide documentation supporting CSA management's assessment of risk related to the possible match process ("past reviews or incorrect suspensions"). CSA management believes to test the process to determine if CSA would inadvertently suspend a driver's license would be irresponsible and not in the best interest of CSA and stakeholders.</p> <p>There remains a high level of risk that CSA may incorrectly suspend an individual's driver's license without matching on a full Social Security number for an insignificant impact on enforcement and low return on investment. In 2017, CSA referred 64,600 individuals for drivers' licenses suspensions, which resulted in 6,298 rejected records. Of the 6,298 rejected records CSA was able to match 701 of the 6,298 rejected records which represents approximately one percent (1%) of the 64,600 records referred for suspension.</p> <p>CSA applied the conceptual framework of the U.S. Government Accountability Office (Green Book) regarding analysis of risk, risk tolerance, and response to risk regarding the possible match process. CSA's management response to the risk associated with the possible match process is <i>risk avoidance</i>. (Note: Risk Avoidance-Action is taken to stop the operational process or the part of the operational process causing the risk).</p>		
Recommendation 1	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>CSA management respectfully disagrees with the finding.</p> <p>CSA management has the responsibility of risk management for the programs it administers in the best interest of all stakeholders. CSA is committed to the concept of reasonable assurance when taking enforcement actions against obligors (CSA does not want to inadvertently harm innocent individuals).</p> <p>To reestablish the possible match program with insufficient data elements (truncated social security numbers) would sustainably increase the risk of inadvertently suspending a driver's license that could result in the following:</p>		

	<ul style="list-style-type: none"> ● Innocent individuals arrested for driving with a suspended driver's license; ● Undue financial harm to innocent individuals; and, ● Possible litigation against the State. <p>CSA management previously concluded it's in the best interest of all stakeholders to discontinue the possible match process. To focus time and resources on such a low return on investment would detract from other more significant areas for which CSA could better spend efforts to improve program performance.</p>
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Auditor's Comment: CSA disagreed with our recommendation to reestablish the match program for rejected referrals because it believes that the use of truncated SSN would increase the risk of inadvertently suspending a driver's license in error. As noted in our analysis, there was no documentation available to support this position. Specifically, without conducting these matches and investigating the results, there is no basis for CSA's position that matches based on name, date of birth, and truncated SSN will result in erroneous suspensions. CSA's response also indicates that it believes the number of additional driver's license suspensions that result from the possible match program represent an insignificant impact on enforcement. We disagree with CSA's statement that the number of suspensions is insignificant since, as noted in our analysis, during fiscal year 2017 (the last year any rejected referrals were investigated), CSA claims to have identified an additional 701 cases for suspension based on its review of 6,298 rejected referrals. Our finding focused on CSA not investigating these rejected referrals and we continue to believe that not reviewing these cases could have a significant impact on enforcement. Given that driver's license suspensions are a strong enforcement tool for delinquent obligors provided for in State law, we believe it is critical that CSA maximize these enforcement efforts to the extent practicable.

System Security

Finding 2

CSA did not obtain adequate assurance that the vendor responsible for distributing child support payments had sufficient security over its information system to protect sensitive data such as personally identifiable information (PII) for custodial and noncustodial parents.

We recommend that CSA

- a. obtain and review SOC 2 Type 2 reports from the vendor to ensure that sensitive data is properly safeguarded (this includes obtaining all reports, reviewing reports for critical issues, and ensuring vendor corrective action is taken, as needed); and
- b. in conjunction with STO, ensure that future contracts include a requirement for the vendor to obtain SOC 2 Type 2 reviews covering each year of the contract.

Agency Response	
Analysis	
Please provide additional comments as deemed necessary.	<p>For clarification the fundamental difference between a SOC-2 Type 1 and SOC-2 Type 2 report is as follows:</p> <ul style="list-style-type: none"> ● SOC-2 Type 1 reporting as at a point in time; ● SOC-2 Type 2 reporting is over a period of time (week or more). <p>Both SOC-2 Type 1 and SOC-2 Type 2 reports incorporate the same framework and trust principles.</p> <p>Additionally, SOC-2 Type 2 compliance is not mandatory, and currently there are no known industries that require SOC-2 Type 2 reporting.</p> <p>The AICPA recommends that software as a service organization (SaaS) and organizations that maintain customer information on cloud-based systems obtain SOC-2 Type 2 reports however there is no requirement.</p> <p>Currently, the CSA referenced vendor in the analysis does not meet the criteria of a SaaS or an organization that maintains customer information on cloud-based systems.</p> <p>Additionally, the referenced vendor voluntarily, transitioned from SOC 2 Type 1 to SOC-2 Type 2 report following the AICPA guidance listed below:</p> <ul style="list-style-type: none"> ● SOC readiness assessment; ● SOC gap analysis; and,

	<ul style="list-style-type: none"> ● Issuance of initial report minimum six (6) month period. 		
Recommendation 2a	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>CSA management respectfully disagrees with the finding.</p> <p>The AICPA recommends that software as a service organization (SaaS) and organizations that maintain customer information on cloud-based systems obtain SOC-2 Type 2 reports, furthermore there is no statutory or regulatory requirement related to SOC-2 Type 2 reporting.</p> <p>Currently, the CSA referenced vendor does not meet the criteria of a SaaS or an organization that maintains customer information on cloud-based systems.</p> <p>Additionally, the CSA referenced vendor voluntarily transitioned from SOC-2 Type 1 to SOC-2 Type 2 report following the AICPA guidance listed below:</p> <ul style="list-style-type: none"> ● SOC readiness assessment; ● SOC gap analysis; and, ● Issuance of initial report minimum six (6) month period. <p>Moreover, CSA obtained the SOC-2 Type 2 report for the period ending July 2020 as provided to the auditors and noted in the analysis.</p>		
Recommendation 2b	Disagree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>CSA management respectfully disagrees with the finding.</p> <p>The referenced CSA vendor has provided a SOC-2 Type 2 report and is expected to provide SOC-2 Type 2 reports annually.</p> <p>CSA management will require SOC-2 Type 2 reporting, when appropriate, for future contracts with financial services contractors.</p>		

Auditor’s Comment: Although CSA’s official position is that it disagrees with this finding and related recommendations, in fact, there seems to be basic agreement with both of our recommendations in principle. Specifically, CSA’s response indicates that it expects to receive SOC 2 Type 2 reports from the vendor in the future, and that future contracts will include SOC 2 Type 2 reporting requirements.

AUDIT TEAM

Edward A. Rubenstein, CPA
Audit Manager

Abdullah I. Adam, CFE
Senior Auditor

Matusala Y. Abishe
Keli R. Edmonds
Mariyum Mahmood
Stacey D. Streett
Staff Auditors