

Audit Report

**University System of Maryland
Salisbury University**

October 2019



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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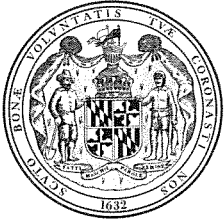
Office of Legislative Audits
301 West Preston Street, Room 1202
Baltimore, Maryland 21201
Phone: 410-946-5900 · 301-970-5900 · 1-877-486-9964 (Toll Free in Maryland)
Maryland Relay: 711
TTY: 410-946-5401 · 301-970-5401
E-mail: OLAWebmaster@ola.state.md.us
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DEPARTMENT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

Victoria L. Gruber
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Gregory A. Hook, CPA
Legislative Auditor

October 22, 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 University System of Maryland (USM) – Salisbury University (SU) for the period beginning September 9, 2014 and ending December 10, 2018. SU is a comprehensive public institution of USM and provides a broad range of baccalaureate programs as well as selected professionally oriented master's programs and doctoral programs.

Our audit disclosed that SU failed to obtain the required approval from the USM Board of Regents for disbursements totaling \$1.1 million made to one of its affiliated foundations. The disbursements were made as part of a loan agreement for capital improvements to the Ward Museum of Wildfowl Art of Salisbury, which, although owned by SU, is operated by an affiliated foundation.

Our audit also disclosed that SU did not properly verify certain invoices to ensure that payments were in agreement with the related contracts. We noted that vendor billing errors on four payments totaling \$566,000 were not detected, resulting in vendor overpayments totaling approximately \$21,000. In addition, financial aid awards posted to student accounts totaling approximately \$11.7 million were not subject to an independent review for propriety.

SU also lacked assurance that the two vendors responsible for disbursing student refunds and for collecting student online payments were adequately safeguarding sensitive student personally identifiable information. Furthermore, the monitoring of the student administration and financial systems' security was not adequate because critical database activities either were not logged or could not be reviewed when logged.

Finally, our audit included a review to determine the status of the four findings contained in our preceding audit report. We determined that SU satisfactorily addressed these findings.

The USM Office's response to this audit, on behalf of SU, 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 SU. We also wish to acknowledge USM's and SU'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, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

Salisbury University (SU) is a comprehensive public institution of the University System of Maryland and operates under the jurisdiction of the System's Board of Regents. SU offers baccalaureate, master's, and doctoral programs. Student enrollment for the Fall 2018 semester totaled 8,567, including 7,650 undergraduate students and 917 graduate students.

SU's budget is funded by unrestricted revenues, such as tuition and fees and a State general fund appropriation, as well as restricted revenues, such as federal grants and contracts. According to the State's accounting records, SU's revenues for fiscal year 2018 totaled approximately \$201.8 million, which included a State general fund appropriation of approximately \$54.3 million. The State's accounting records also indicated that SU's expenditures for fiscal year 2018 totaled approximately \$203.1 million.

Status of Findings from Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated May 6, 2015. We determined that SU satisfactorily addressed these findings.

Findings and Recommendations

Affiliated Foundation

Finding 1

Salisbury University (SU) did not obtain required approval from the University System of Maryland (USM) Board of Regents for disbursements totaling \$1.1 million made to an affiliated foundation.

Analysis

SU did not obtain approval from the USM Board of Regents (BOR) to make disbursements totaling \$1.1 million to an affiliated foundation, as required by the BOR *Policy on Affiliated Foundations*. The disbursements were made during the period from August 2016 through December 2018 as part of a loan agreement between SU and its affiliated Ward Foundation, which allowed the Foundation to make capital improvements to the Ward Museum of Wildfowl Art of Salisbury. The Ward Museum is owned by SU, but operated by the Foundation.

In August 2016, SU entered into the bridge loan agreement with the Ward Foundation, a voluntary, not-for-profit organization dedicated to perpetuating and promoting wildfowl carving and art. According to the loan agreement, although the Foundation had conducted fundraising for the Museum's improvements, much of the funding was to be received through multi-year pledges. The loan was meant to provide more immediate funding to the Foundation. As of December 2018, the outstanding balance of the loan was \$379,000. According to the loan agreement, all loaned funds were to be reimbursed by the Foundation by December 31, 2018. According to SU management, as of September 2019, steps are being taken to request approval from the BOR to forgive the remaining loan balance.

According to the BOR *Policy on Affiliated Foundations*, USM trust funds shall not be transferred to foundations for any purpose except by action of the BOR after approval by the Attorney General's Office. SU management personnel advised us that, because the Museum is SU property, it did not believe that BOR approval was required.

Recommendation 1

We recommend that SU

- a. obtain the required BOR and Attorney General’s Office approvals for the aforementioned disbursements, as well as for any similar future transactions; and**
- b. take the necessary action to resolve the aforementioned unpaid loan balance.**

Contracts and Disbursements

Finding 2

SU did not adequately verify certain contract invoices to ensure that payments were made only in accordance with contract terms and conditions.

Analysis

SU did not adequately verify certain contract invoices to ensure that payments were made only in accordance with contract terms and conditions. We reviewed 17 invoices from fiscal years 2017 through 2019 totaling approximately \$2.8 million relating to 15 contracts. Our review disclosed a lack of adequate verifications for four payments totaling \$566,000 relating to two contracts in different SU departments. In all four instances, the invoices were approved but had not been appropriately verified.

- Our review of three payments totaling \$183,000 to a vendor for electrical services disclosed that SU overpaid the vendor approximately \$21,000 as a result of billing errors on all three invoices that SU did not detect. In certain instances, SU was billed using an emergency labor rate when a lower non-emergency rate should have been charged. In addition, the vendor included yearly rate increases for additional non-emergency work performed, even though the contract did not provide for those increases. Finally, although the contract established different rates depending on the qualifications of the employees performing the work, such as master electrician or apprentice, SU did not verify that the rates billed were correct for the employees named in the invoices.
- SU also paid this electrical services vendor approximately \$85,900 (of the aforementioned \$183,000) for supplies and equipment even though the contract did not provide for additional charges for these items, nor did SU amend the original contract to provide for these items. In addition, SU did not obtain any supporting documentation evidencing that the vendor actually purchased these items for SU services.

- SU did not adequately verify a payment for annual digital library services totaling \$383,000. Specifically, SU had not obtained the subscription rates and, accordingly, did not verify that it was charged the proper rates under the contract. We independently obtained the related subscription rates for a selection of charges and confirmed that SU was properly charged based on the information we obtained.

Recommendation 2

We recommend that SU

- a. verify that prices invoiced are in accordance with approved contract pricing prior to payment;**
- b. pay only for goods specified in contracts or contract modifications, and verify receipt;**
- c. obtain support for and verify the propriety of all payments to the aforementioned two vendors; and**
- d. seek legal advice regarding the recovery of any overpayments identified, including the aforementioned \$21,000.**

Student Financial Aid

Finding 3

SU's procedures for verifying the propriety of financial aid awards recorded in its automated records were not effective since the employee responsible for performing this verification was not independent of the process.

Analysis

Procedures established by SU for verifying the propriety of financial aid awards recorded in its automated records were not effective since the financial aid employee responsible for performing this verification was not independent of the process. Specifically, the employee who, at least on an annual basis, examined a selection of awards that had been processed during the year to ensure their propriety, including verifying student eligibility, also recorded financial aid awards totaling \$11.7 million in the system during the audit period.

Appropriate personnel within various SU departments calculated financial aid award amounts based on various eligibility criteria and student financial data. According to SU's records, during fiscal year 2018, financial aid awarded to students, excluding loans, totaled approximately \$30 million.

Recommendation 3

We recommend that SU

- a. ensure that financial aid awards processed are subject to an independent review; and**
- b. verify the propriety, at least on a test basis, of the aforementioned \$11.7 million in awards.**

Student Personal Information

Finding 4

SU did not ensure the vendors responsible for disbursing student refunds and for collecting student online payments were properly safeguarding students' sensitive personal information.

Analysis

SU did not adequately monitor the two vendors responsible for disbursing student refunds and for collecting student online payments to ensure the vendors properly safeguarded students' sensitive personal information. According to SU records, student refunds issued and online payments processed totaled approximately \$27 million and \$35 million, respectively, during fiscal year 2018.

Specifically, SU did not require nor obtain comprehensive, independent reviews of the vendors' automated systems to ensure personally identifiable information residing on the systems—which included students' full names, bank account numbers, and mailing addresses—was properly safeguarded. State law defines personal information as an individual's name in combination with one or more other data elements, including a financial or other account number or credit card. State law also 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 that 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 vendors) 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.

SU's contracts with the vendors did not require them to obtain any of the reports required by the USM *Standards*. In response to our request, both vendors provided SU with a SOC 1, Type 2 report which addressed the vendor's information technology general control system. The reports covered the period from October 1, 2017 to June 30, 2018 for the student refund processing vendor and from July 1, 2017 to June 30, 2018 for the online payment processing vendor. Although neither report disclosed any significant operational or security-related concerns, SOC 1 reports are generally intended to focus on service organization controls relevant to financial reporting for user entities and would not provide SU the degree of assurances necessary for confirming the security of sensitive student information.

Recommendation 4

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

Information Systems Security and Control

Background

The SU Information Technology Department (ITD) manages the development, maintenance, and support of SU's information technology infrastructure including networking, telecommunications, and business information systems. The ITD maintains a campus-wide network that supports both administrative and academic operations. The network includes Internet connectivity, various administrative servers, and firewalls. ITD also maintains critical application systems supporting student administration, human resources, and financial management.

Finding 5

The monitoring of the student administration and financial systems' security was not adequate because critical database activities either were not logged or could not be reviewed when logged.

Analysis

The monitoring of the student administration and financial systems' security was not adequate because critical database activities either were not logged or could not be reviewed when logged. The student administration and financial systems' databases were not configured to log direct changes, such as (insert, update, delete), made to five and ten critical tables, respectively, for subsequent reporting. In addition, direct changes to other critical tables within these databases were logged, but this activity was not presented on logging reports and therefore could not be reviewed.

Accordingly, effective monitoring did not exist over security-related activities related to these systems and their related databases. The student administration system supports significant SU functions, including student admissions, enrollment, financial aid, and student accounts receivable, while the financial system provides for procurement and accounts payable operations. The USM IT Security Council *Guide for Security Event Logging* requires each institution to maintain appropriate audit trails of events and actions performed related to controlling critical applications and data. In addition, these significant events and actions must be reviewed and documented.

Recommendation 5

We recommend that, for its student administration and financial systems, SU

- a. log all significant database activities, including direct changes to critical database tables, and generate reports that include this related database activity; and**
- b. ensure that individuals perform regular, independent documented reviews of the aforementioned reports and retain the information for reference purposes.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the University System of Maryland (USM) – Salisbury University (SU) for the period beginning September 9, 2014 and ending December 10, 2018. 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 SU'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 procurements and disbursements, student accounts receivable, financial aid, cash receipts, payroll, and information technology systems. We also determined the status of the findings included in our preceding audit report.

Our audit did not include certain support services provided to SU by the USM Office. These support services (such as bond financing) are included within the scope of our audit of the USM Office. 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 SU'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 procedures included inquiries of appropriate personnel, inspections of documents and records, observations of SU'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 SU's financial systems for the purpose of testing certain areas, such as student accounts receivable and financial aid. 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.

SU'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 SU's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to SU that did not warrant inclusion in this report.

The response from the USM Office, on behalf of SU, 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.

APPENDIX



3300 METZEROTT ROAD // ADELPHI, MD 20783
WWW.USMD.EDU // 301.445.2740

OFFICE OF THE CHANCELLOR

October 18, 2019

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 – Salisbury University
Period of Audit: September 9, 2014 through December 10, 2018

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 – Salisbury University. Our comments refer to the individual items in the report.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Robert L. Caret'.

Robert L. Caret
Chancellor

Enclosures

cc: Dr. Charles A Wight, President, Salisbury University
Mr. Marvin L. Pyles, Vice President, Administration and Finance, Salisbury 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
Salisbury University**

Agency Response Form

Affiliated Foundation

Finding 1
Salisbury University (SU) did not obtain required approval from the University System of Maryland (USM) Board of Regents for disbursements totaling \$1.1 million made to an affiliated foundation.

We recommend that SU

- a. obtain the required BOR and Attorney General’s Office approvals for the aforementioned disbursements, as well as for any similar future transactions; and
- b. take the necessary action to resolve the aforementioned unpaid loan balance.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.	SU would like the report to show that the Ward Foundation made about \$2 million in capital improvements to the SU-owned Ward Museum, including \$1.7 million for a new addition – the Legacy Center.		
Recommendation 1a	Agree	Estimated Completion Date:	November 30, 2019
Please provide details of corrective action or explain disagreement.	SU will obtain the required approvals from the BOR and Office of the Attorney General for this transaction and any future transactions.		
Recommendation 1b	Agree	Estimated Completion Date:	November 30, 2019
Please provide details of corrective action or explain disagreement.	SU will take appropriate action to resolve the unpaid loan balance.		

**University System of Maryland
Salisbury University**

Agency Response Form

Contracts and Disbursements

Finding 2
SU did not adequately verify certain contract invoices to ensure that payments were made only in accordance with contract terms and conditions.

We recommend that SU

- a. verify that prices invoiced are in accordance with approved contract pricing prior to payment;
- b. pay only for goods specified in contracts or contract modifications, and verify receipt;
- c. obtain support for and verify the propriety of all payments to the aforementioned two vendors; and
- d. seek legal advice regarding the recovery of any overpayments identified, including the aforementioned \$21,000.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	Estimated Completion Date:	May 1, 2019
Please provide details of corrective action or explain disagreement.	SU will verify that invoiced prices are in accordance with approved contract pricing prior to payment.		
Recommendation 2b	Agree	Estimated Completion Date:	May 1, 2019
Please provide details of corrective action or explain disagreement.	SU will ensure that we only pay for goods specified in contracts or contract modifications, and will verify receipt prior to payment.		
Recommendation 2c	Agree	Estimated Completion Date:	June 1, 2019
Please provide details of corrective action or explain disagreement.	SU has obtained and verified the propriety of all payments to these two vendors.		
Recommendation 2d	Agree	Estimated Completion Date:	May 1, 2019

**University System of Maryland
Salisbury University**

Agency Response Form

Please provide details of corrective action or explain disagreement.	The electrical contractor believes that all charges were made in accordance with the contract. Given the non-specificity in the contract regarding emergencies and the related billing rates, and the amount of the potential overpayment versus potential legal costs and associated time, SU legal counsel, in consultation with our OAG attorney, decided not to pursue litigation.
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**University System of Maryland
Salisbury University**

Agency Response Form

Student Financial Aid

Finding 3
 SU's procedures for verifying the propriety of financial aid awards recorded in its automated records were not effective since the employee responsible for performing this verification was not independent of the process.

We recommend that SU

- a. ensure that financial aid awards processed are subject to an independent review; and
- b. verify the propriety, at least on a test basis, of the aforementioned \$11.7 million in awards.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	May 1, 2019
Please provide details of corrective action or explain disagreement.	SU's financial aid director continues to independently review awards posted by Financial Aid employees. SU changed its procedures about two years ago, whereby the financial aid director rarely posts financial aid awards. However, if the director has to post awards because volumes and/or circumstances warrant such, then SU will ensure that an employee (likely the director's supervisor who is independent of the award process), will verify the propriety of these awards on a test basis.		
Recommendation 3b	Agree	Estimated Completion Date:	July 31, 2019
Please provide details of corrective action or explain disagreement.	SU independently verified the propriety, on a test basis, of the \$11.7M of awards posted by a former financial aid director.		

**University System of Maryland
Salisbury University**

Agency Response Form

Student Personal Information

Finding 4
SU did not ensure the vendors responsible for disbursing student refunds and for collecting student online payments were properly safeguarding students' sensitive personal information.

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

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4	Agree	Estimated Completion Date:	May 31, 2019
Please provide details of corrective action or explain disagreement.	For the two aforementioned vendors and the related existing agreements, SU cannot unilaterally amend legally enforceable contracts and require a report, but we have been able to obtain a control assessment report from both vendors. For all future agreements involving sensitive student information, SU will comply with State law and USM IT Security Standards by requiring and obtaining a control assessment report to ensure that sensitive student information maintained by the vendors is properly safeguarded.		

**University System of Maryland
Salisbury University**

Agency Response Form

Information Systems Security and Control

Finding 5
The monitoring of the student administration and financial systems' security was not adequate because critical database activities either were not logged or could not be reviewed when logged.

We recommend that, for its student administration and financial systems, SU

- a. log all significant database activities, including direct changes to critical database tables, and generate reports that include this related database activity; and**
- b. ensure that individuals perform regular, independent documented reviews of the aforementioned reports and retain the information for reference purposes.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5a	Agree	Estimated Completion Date:	October 31, 2019
Please provide details of corrective action or explain disagreement.	SU will log all significant database activities, including direct changes to critical database tables, into our established database triggers and review process. Reports of this related database activity will be generated and retained.		
Recommendation 5b	Agree	Estimated Completion Date:	March 22, 2019
Please provide details of corrective action or explain disagreement.	As of March 22, 2019, SU implemented an additional independent review of critical security events and changes to critical database tables. All reviews are retained for audit and reference purposes.		

AUDIT TEAM

Adam J. Westover, CPA
Audit Manager

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

Ken H. Johanning, CPA, CFE
Senior Auditor

J. Gregory Busch, CISA
Matthew D. Walbert, CISA
Information Systems Senior Auditors

Stephen R. Alexander
Kush C. Patel
Gary B. Staples
Staff Auditors

Roman J. Gouin
Information Systems Staff Auditor