

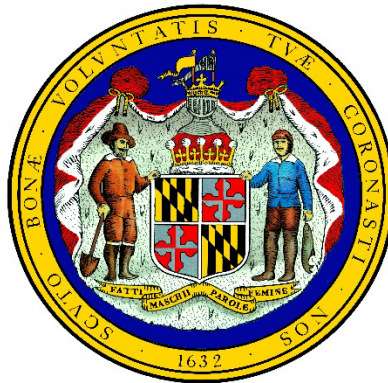
Audit Report

Maryland Higher Education Commission

March 2025

Public Notice

In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted cybersecurity findings and related auditee responses from this public report.



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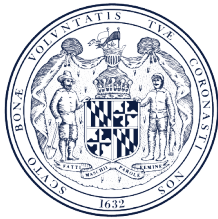
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Brian S. Tanen, CPA, CFE
Legislative Auditor

March 20, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 Higher Education Commission (MHEC) for the period beginning April 1, 2020 and ending November 30, 2023. MHEC provides statewide planning, leadership, coordination and advocacy for Maryland's postsecondary educational institutions. MHEC also administers several aid programs to these institutions and provides financial assistance to students.

Our audit disclosed that MHEC monitoring of recipient compliance with career-based financial aid service obligations was not timely or comprehensive. For example, follow-up notices to verify that required service obligations were being met were often sent weeks or months late, delaying further follow-up action. In addition, MHEC did not have adequate procedures and controls for accounting and collecting amounts due from recipients that did not meet their service obligations. For example, MHEC did not ensure that amounts due were posted to its accounts receivable records and that dunning notices and referrals to the State's Central Collection Unit (CCU) were performed timely. According to MHEC's records, as of January 18, 2024, there were 1,835 active recipients of career-based financial aid with original awards totaling \$30.9 million.

Furthermore, our audit disclosed cybersecurity-related findings. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the findings from this audit report. Specifically, State law requires the Office of Legislative Audits to redact cybersecurity findings in a manner consistent with auditing best practices before the report is made available to the public. The term "cybersecurity" is defined in the State Finance and Procurement Article, Section 3.5-301(b), and using our professional judgment we have determined that the redacted findings fall under

the referenced definition. The specifics of the cybersecurity findings were previously communicated to those parties responsible for acting on our recommendations.

In addition, we noted that MHEC did not independently review Student Loan Debt Relief Tax Credits and did not ensure the propriety of payments made to community colleges for retirement and pension contributions, which totaled \$61.7 million in fiscal year 2023.

Finally, our audit included a review to determine the status of the eight findings contained in our preceding MHEC audit report. For the non-cybersecurity-related findings, we determined that MHEC satisfactorily addressed one of those four findings. The remaining three findings are repeated in this report.

MHEC's response to this audit is included as an appendix to this report. Consistent with State law, we have redacted the elements of MHEC's response related to the cybersecurity audit findings. We have also edited MHEC's response to remove certain vendor names and applicant information, as allowed by our policy.

In accordance with State law, 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 MHEC.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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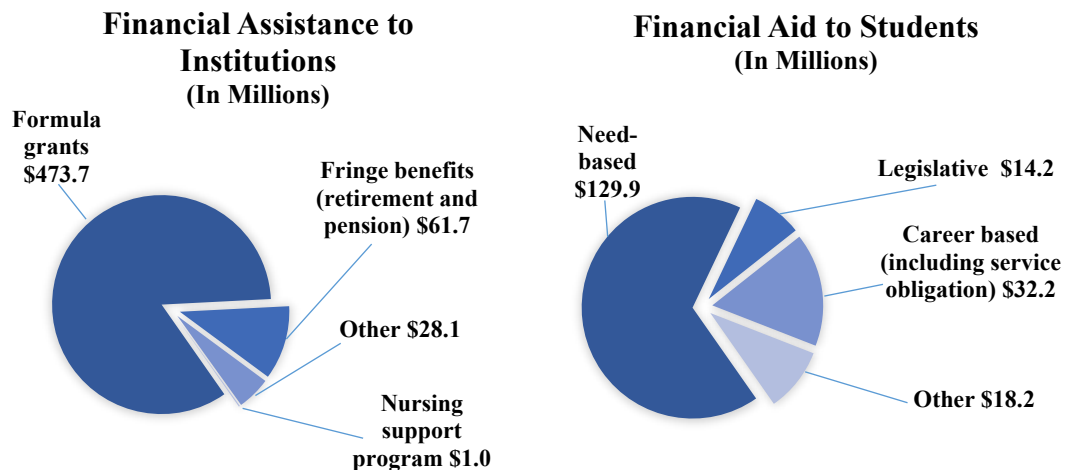
Background Information

Agency Responsibilities

The Maryland Higher Education Commission (MHEC) provides statewide planning, leadership, coordination, and advocacy for Maryland's postsecondary educational institutions. MHEC also administers several aid programs to these institutions and provides financial assistance to students. Student financial aid programs administered by MHEC are primarily State funded. According to the State's records, during fiscal year 2023, MHEC provided approximately \$564.5 million in financial assistance to public and non-public institutions of higher education (including community colleges) and more than 49,000 financial aid awards totaling approximately \$194.5 million to students pursuing postsecondary education (see Figure 1 below). In addition, MHEC provided approximately \$15.5 million in other education grants to various State, local, and private institutions during fiscal year 2023.

Figure 1

Fiscal Year 2023 Financial Assistance to Institutions and Students



Source: MHEC Records

According to the State's records, MHEC's expenditures totaled approximately \$805.4 million during fiscal year 2023, primarily funded with State general funds (see Figure 2 on following page). During the period April 1, 2020 through June 30, 2023, MHEC had vacancy rates that ranged from 8.3 percent to 20 percent.

As of June 30, 2023, 20 percent of the total 75 positions were vacant. These vacancies may have contributed, at least in part, to the findings in this report.

Figure 2
MHEC Positions, Expenditures, and Funding Sources

Full Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	58	77.3%
Frozen ¹	2	2.7%
Vacant	15	20.0%
Total	75	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages and Fringe Benefits	\$ 6,684,638	0.8%
Technical and Special Fees	307,107	0.1%
Operating Expenses	798,366,979	99.1%
Total	\$805,358,724	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
General Fund	\$758,509,214	94.2%
Special Fund	45,214,495	5.6%
Federal Fund	402,616	0.0%
Reimbursable Fund	1,232,399	0.2%
Total	\$805,358,724	

Source: State financial and personnel records

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the eight findings contained in our preceding audit report dated June 24, 2021. As disclosed in Figure 3 on the following page, for the non-cybersecurity-related findings, we determined that

¹ Prior to December 1, 2021, a hiring freeze resulted in certain positions being frozen. Agencies were not authorized to fill frozen positions according to budgetary instructions from the Department of Budget and Management. Any position that is currently marked as frozen has not been filled since the freeze was lifted; however, these positions are now available to be filled.

MHEC satisfactorily addressed one of the four findings. The remaining three findings are repeated in this report.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	MHEC did not monitor service obligation compliance in a timely and comprehensive manner, and consequently did not ensure that repayments were pursued when required.	Repeated (Current Finding 1)
Finding 2	Adjustments made to recipient accounts were not subject to independent review and approval, and MHEC did not ensure that repayments from recipients who did not meet their service obligation were recorded in its accounts receivable system.	Repeated (Current Finding 2)
Finding 3	Sufficient controls were not established over the issuance and monitoring of user access to MDCAPS.	Status Redacted ²
Finding 4	MHEC did not adequately restrict user access to the Service Obligation Loan Repayment module resulting in employees with unnecessary access to process critical functions and others with the ability to process adjustments without independent review and approval.	Status Redacted ²
Finding 5	MHEC had not implemented effective procedures for ensuring that all payments made to community colleges for retirement and pension contributions were proper.	Repeated (Current Finding 7)
Finding 6	MHEC did not ensure that community colleges returned unspent English for Speakers of Other Languages grant funds as required.	Not repeated
Finding 7	MHEC maintained sensitive personally identifiable information (PII) in a manner that did not provide adequate safeguards and lacked assurance that adequate security protections existed over PII on the vendor-hosted development servers.	Status Redacted ²
Finding 8	MHEC did not use a web application firewall to provide security over MDCAPS, which is a critical public web-enabled system.	Status Redacted ²

² Specific information on the current status of this cybersecurity-related finding has been redacted from the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

Findings and Recommendations

Career-Based Financial Aid

Background

The Maryland Higher Education Commission (MHEC) awards certain career-based financial aid that requires fulfillment of a service obligation. For example, recipients of graduate nursing faculty scholarships are required to work as a full or part-time nurse faculty member, hospital educator, or in an approved educational role for one year for each academic year the award was received (or 2 years of part-time service for each year received). Recipients who do not fulfill their service obligations must repay their awards unless the obligation is forgiven (for example, due to an unforeseen disability). According to MHEC's records, as of January 18, 2024, there were 1,835 active recipients of career-based financial aid with original awards totaling \$30.9 million in one of four obligation statuses (see Figure 4):

- **Deferral** – Recipients are placed in this status while still enrolled as a student during which the service obligation is deferred.
- **Pending** – Recipients are placed in this status when no longer enrolled as a student and must start fulfilling their service obligation.
- **Service** – Recipients are placed in this status when their reported service employment is confirmed by MHEC.
- **Repayment** – Recipients are placed in this status when MHEC is unable to confirm that a recipient in pending status is fulfilling their service obligation.

MHEC's policy is to request each recipient in pending status to provide information on a questionnaire as to whether they were fulfilling their service obligation. Eligible service employment reported by the recipient is confirmed with the employer using an employment verification notice. These requests and confirmations are repeated annually until the service obligation is fulfilled. On a monthly basis, MHEC generates various automated reports to help monitor the status of recipients and to identify accounts requiring follow-up action, such as generating the aforementioned requests for recipient employment information or employer verifications, or moving an account from one status to another.

Figure 4
Status of Service Obligation
Awards

(as of January 18, 2024)

Status	Recipients	Award Amount (millions)
Deferral	857	\$12.6
Pending	294	6.6
Service	397	7.7
Repayment	287	4.0
Total	1,835	\$30.9

Source: MHEC Records

Finding 1

MHEC did not always send required service questionnaires and employer verifications timely, and did not place the recipients in repayment mode when responses were not received.

Analysis

MHEC did not always send required service questionnaires and employer verifications timely, or follow up timely when recipients or employers did not respond to these notices. MHEC's policy requires initial employment information requests (including service questionnaires and employer verifications) to be sent either six months or one year after student graduation, depending on the type of grant awarded. Two follow-up requests are sent at 21-day intervals when recipients or employers do not respond to initial requests. Failure to respond to these requests results in the recipient being transferred to repayment status 21 days after the third follow-up notice. The collection efforts for accounts in repayment status are generally not initiated by MHEC's accounting department until all required requests have been sent and no response has been received.

Our review disclosed that MHEC did not send required service questionnaires and employer verifications timely. We tested 10 recipients who received financial aid awards totaling \$241,183 during our audit period and noted that 7 had not responded to one or more employment information requests.³ Our review disclosed that for 6 of these recipients with outstanding obligations totaling \$167,757, the initial or follow-up requests were sent to the recipients between 31 and 391 days late. For example, the initial service questionnaire for one recipient should have been sent May 15, 2021 but was not sent until November 14, 2022 (391 days late) and as of February 23, 2024, no subsequent notices were sent when the recipient did not reply.

Our review further disclosed that MHEC did not place recipients in repayment mode timely. Specifically, 6 of the aforementioned 7 recipients for which the recipient and employer did not respond had still not been placed in repayment mode as of February 23, 2024 (between 78 and 381 days after the third notice had been sent).

Similar conditions were commented upon in our four preceding audit reports dating back to 2010. In its response to our preceding audit report, MHEC agreed to conduct a review of each recipient's account and stated that by December 31,

³ We selected test items that had material award amounts from the two most significant aid programs with services obligations – the Graduate Nursing Faculty program and the Workforce Shortage Student Assistance Grant. Each of the recipient accounts tested were placed into their current status (pending and active) during our audit period.

2021, it would run monthly reports to ensure adequate follow-up was performed in a timely manner. In addition, MHEC stated all service questionnaires and employer verifications will be generated periodically. However, MHEC management advised us that these procedures were not implemented because of staffing issues.

Recommendation 1

We recommend that MHEC ensure that all required service questionnaires and employer verifications are sent timely, and that recipients are placed in repayment mode when responses to these notices are not received, including those noted above (repeat).

Finding 2

MHEC did not independently review adjustments to accounts receivable records, did not ensure that amounts due for unsatisfied service obligations were posted to the accounts receivable records, and did not send dunning notices or refer delinquent accounts to the State's Central Collection Unit (CCU) timely.

Analysis

MHEC did not independently review adjustments to accounts receivable records, did not ensure that amounts due for unsatisfied service obligations were posted to the accounts receivable records, and did not send dunning notices or refer delinquent accounts to CCU timely.

No Independent Review of Adjustments to Accounts Receivable Records

MHEC did not generate and review reports of accounts receivable adjustments to verify the propriety of the adjustments. Adjustments include closing accounts due to the recipient's fulfillment of their service obligation. According to MHEC's records, 1,799 accounts receivable adjustments totaling approximately \$6.9 million were processed during our audit period. The Comptroller of Maryland's *Accounting Policies and Procedures Manual* requires supervisory review and approval of adjustments to accounts receivable records. Our test of 10 adjustments totaling \$195,760 processed between May 2020 and August 2023 disclosed that the adjustments were proper.⁴

MHEC Did Not Ensure Amounts Due for Service Obligations Were Recorded

MHEC did not ensure that amounts due from recipients who did not meet their service obligation were posted to its accounts receivable records. Specifically,

⁴ We selected ten material adjustments, most of which occurred in fiscal year 2023. Consequently, six of the ten adjustments tested were from fiscal year 2023.

MHEC did not reconcile the total amount due from students on its financial aid system to the corresponding amount in its separate accounts receivable system, which is used for collection activity. MHEC's policies require an annual reconciliation between its financial aid system and its accounts receivable records. Consequently, there was a lack of assurance that all amounts due had been recorded in MHEC's accounts receivable system and pursued for collection. Our arbitrary test of 10 recipients that were placed in repayment status between March 2020 and November 2023 with amounts due totaling approximately \$256,000, disclosed that they were properly posted to the accounts receivable system.

Dunning Notices and Referrals to CCU Were Not Timely

MHEC did not send dunning notices for delinquent accounts to recipients or forward delinquent accounts to CCU within the required timeframes. Our arbitrary test of 10 delinquent accounts totaling \$347,347 that were opened between September 2020 through July 2023, disclosed that for 8 accounts totaling \$253,769, dunning notices were sent 37 to 766 days late. Furthermore, for 7 of the aforementioned 8 accounts, MHEC sent the accounts to CCU 70 to 148 days after the final dunning notice.

As of November 2023, there were 344 recipient accounts with unpaid balances totaling approximately \$3.8 million. We could not readily determine the number of these recipients who should have been referred to CCU due to the lack of available records. State regulations require agencies to send three written payment demands at 30-day intervals. These regulations also require accounts deemed uncollectible by an agency to be referred to CCU for additional collection efforts 15 days after the final payment demand.

Similar conditions regarding the lack of independent review of adjustments to accounts receivables records and not reconciling the financial aid and accounts receivable systems were noted in our preceding audit report. In response to our preceding audit report, MHEC agreed it would perform an independent documented review of adjustments and would periodically reconcile the financial aid system to the accounts receivable system by September 30, 2021. However, MHEC management advised us that the agreed upon tasks were not completed because of high employee turnover.

Recommendation 2

We recommend that MHEC

- a. generate output reports of adjustments posted to recipient accounts receivable records and independently verify and document the propriety of adjustments processed (repeat);**

- b. ensure that all repayments due from recipients are posted to its accounts receivable system by periodically reconciling its financial aid and accounts receivable systems as required by its policies (repeat); and
- c. send timely dunning notices to recipients and forward delinquent accounts to CCU as required, including those noted above.

Financial Aid Records

Finding 3

MHEC did not perform annual reconciliations of financial aid awards recorded in the Maryland College Aid Processing System (MDCAPS) to the State's accounting records and investigate and resolve differences on a timely basis.

Analysis

As of February 8, 2024, MHEC had not completed reconciliations of financial aid awards recorded in MDCAPS to awards recorded in the State's accounting records since fiscal year 2021. Although a reconciliation had been started for fiscal year 2022, differences totaling approximately \$8 million between MDCAPS (\$124.9 million) and the State's accounting records (\$116.9 million) had not been investigated and resolved. A reconciliation for fiscal year 2023 had not been started.

Timely and complete reconciliations are critical to help ensure the accuracy and propriety of financial aid transactions and the related records. The Comptroller of Maryland's *Accounting Policies and Procedures Manual* requires a monthly reconciliation of separate agency-based systems to the State's accounting records.

Recommendation 3

We recommend that MHEC complete annual reconciliations of financial aid awards recorded in MDCAPS to the corresponding totals in the State's accounting records, and investigate and resolve any differences, including those noted above.

Information System Controls

We determined that the Information System Controls section, including Findings 4 and 5 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore are subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Consequently, the specifics of the following findings, including the analysis, related recommendations, along with MHECs responses, have been redacted from this report copy.

Finding 4
Redacted cybersecurity-related finding.

Finding 5
Redacted cybersecurity-related finding.

Student Loan Debt Relief Tax Credits

Finding 6
MHEC did not independently review Student Loan Debt Relief Tax Credits (SLDRTC). Our test of 20 credits disclosed 4 that were not adequately supported and may not have been eligible for the credit.

Analysis

MHEC did not independently review SLDRTC to ensure the applicants qualified for the credit. According to MHEC’s records, MHEC issued \$18 million in SLDRTC to 8,255 individuals in fiscal year 2023. As a result, MHEC did not identify and resolve certain discrepancies in the applications. Specifically, our test of 20 tax credits issued in tax years 2021 through 2023 totaling \$52,032 disclosed 4 credits totaling \$3,965 did not have adequate supporting documentation and may not have been eligible for the credit.⁵ For example, the supporting tax return for one application included a social security number that did not agree to applicant’s social security number and another applicant used the same social security number for three applications. Both of these conditions may have been detected by an independent review process.

⁵ We selected our test items based on materiality, timing, and potential high-risk items (duplicates, Maryland employees, and potential out-of-state applicants) for tax years 2021 through 2023.

MHEC advised that although errors may occur, they rely on the Comptroller to ensure that all credits issued are proper. However, we continue to believe that MHEC should ensure reviews are completed properly and conclusions are supported.

The SLDRTC program was established under the Maryland College Affordability Act of 2016 to aid Maryland taxpayers in paying off student loan debt and is administered by MHEC. Current law provides \$18 million each year for SLDRTC, \$9 million of which must be prioritized for State employees. The maximum credit amount is \$5,000.

Recommendation 6

We recommend that MHEC

- a. independently review and approve the processing and issuance of SLDRTC, and**
- b. investigate and take appropriate corrective action regarding the four potentially invalid credits noted above.**

Aid to Community Colleges

Finding 7

MHEC did not implement effective procedures for ensuring that all payments made to community colleges for retirement and pension contributions were proper.

Analysis

MHEC did not implement effective procedures for ensuring that all payments made to community colleges for retirement and pension contributions were proper. The State, through MHEC, directly funds the employers' portions of the retirement and pension costs for community college employees who are members of the Maryland State Teachers Retirement and Pension System (MSTRPS). The community colleges are required to reimburse MHEC for any retirement and pension costs paid for employees for whom the college later received federal financial assistance. The State, through MHEC, also funds an optional private retirement plan for certain community college employees to help attract and retain qualified professors. According to the State's records, during fiscal year 2023, MHEC paid the community colleges approximately \$45 million for employees in MSTRPS (of which, \$1.5 million was reimbursed by the colleges) and approximately \$16.7 million for the optional retirement costs.

MHEC Did Not Reconcile Its Records to Audited Data

MHEC did not reconcile its records to amounts reported by the community colleges' independent auditors. MHEC requires the independent auditors to provide assurances that amounts reimbursed by the colleges for federally funded retirement and pension costs were complete and accurate; and that amounts billed by the colleges for employees in the optional retirement plan were based on actual costs incurred by the colleges and were for eligible employees. MHEC's procedure is to perform a reconciliation between the auditor reported information and its own records to identify and investigate any differences.

Our review disclosed that as of November 2023 MHEC had not reconciled the fiscal year 2022 and 2023 data. MHEC subsequently attempted to prepare the reconciliations, but substantial variances were not investigated and resolved. For example, according to the audited information, the colleges received \$14.6 million from MHEC during fiscal year 2023 for employees in the optional retirement plan when MHEC records indicated it disbursed \$16.7 million (a difference of \$2.1 million). Although there may be legitimate reasons for differences between these records, such as timing differences, MHEC did not investigate and resolve the differences.

Similar conditions were commented upon in our preceding audit reports dating back to 2001. In response to our most recent audit report, MHEC indicated that annual reconciliations would be performed, and differences would be resolved to determine any amounts due to or owed by the colleges. However, during our current audit MHEC management advised us that these reconciliations did not occur because of employee turnover.

MHEC Did Not Always Verify Employees Qualified for Reimbursement

MHEC did not always obtain documentation from the Maryland State Retirement Agency (MSRA) that community college employees qualified for a retirement matching contribution prior to releasing payments. Per MHEC's *Optional Retirement Program Payment Processing Manual*, to qualify for contribution reimbursement, MHEC must receive certification documentation that the employee has met all the requirements.

Our test of 10 employees for whom MHEC paid monthly retirement contributions totaling \$13,728 in fiscal years 2023 and 2024, disclosed that MHEC did not have certification documentation for 4 of the employees with monthly payments totaling \$4,136.⁶ We attempted to obtain the missing certification documentation from MSRA but they could not provide it for 2 of the employees with monthly

⁶ We selected two new addition employees from the five schools with the highest payment amounts from MHEC.

payments totaling \$2,538. As a result, there is a lack of assurance that these reimbursements were proper.

Recommendation 7

We recommend that MHEC ensure that the amounts paid for the State's share of community college employees' retirement and pension costs are proper. Specifically, we recommend that MHEC

- a. thoroughly review audited retirement and pension contribution data received from community colleges and resolve, on a timely basis, differences between the audited data and corresponding amounts in its own records, including the aforementioned differences (repeat);**
- b. take appropriate actions to pay or collect differences in amounts owed to or due from the colleges (repeat);**
- c. document the actions taken (repeat); and**
- d. ensure that employee certification documentation is obtained prior to paying matching retirement contributions for the optional retirement plan, and investigate and take appropriate actions regarding employees with missing documentation, including those noted above.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Higher Education Commission (MHEC) for the period beginning April 1, 2020 and ending November 30, 2023. 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 MHEC'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 financial aid, grants to nonpublic and community colleges, cash receipts, accounts receivable, budgetary transactions, and information system controls. We also determined the status of the findings contained in our preceding audit report.

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 April 1, 2020 to November 30, 2023, 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 MHEC's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us 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). 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 sources were sufficiently reliable for the purposes the data were used during this audit.

We also extracted data from the Maryland College Aid Processing System (MDCAPS) for examining user access and the monitoring of certain conditions of 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 this 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.

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

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity findings before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity findings – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain findings in this report fall under that definition. Consequently, for the publicly available audit report all specifics as to the nature of cybersecurity findings and required corrective actions have been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of these cybersecurity findings have been communicated to MHEC and those parties responsible for acting on our recommendations in an unredacted audit report.

MHEC’s response to our findings and recommendations is included as an appendix to this report. Depending on the version of the audit report, responses to any cybersecurity findings may be redacted in accordance with State law. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MHEC regarding the results of our review of its response.

APPENDIX



MARYLAND HIGHER EDUCATION COMMISSION

ENGAGE. INFORM. SUPPORT.

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Janet E. Wormack, Ed.D.
Praise Alayode, Student
Commissioner

Principal Counsel
Kimberly Smith Ward

March 14, 2025

Brian S. Tanen, CPA, CFE
Legislative Auditor
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Tanen,

Please find enclosed the Maryland Higher Education Commission (MHEC) response to the draft Legislative Audit Report for the period beginning April 1, 2020 and ending November 30, 2023.

If you have any questions regarding the response, please contact Mr. Geoffrey Newman, Assistant Secretary of Finance and Administration, at geoff.newman@maryland.gov or Mr. Samuel Pandian, Director of Finance and Administration, at samueldurai.pandian@maryland.gov.

Sincerely,

Dr. Sanjay Rai
Secretary

Maryland Higher Education Commission

Agency Response Form

Career-Based Financial Aid

Finding 1

MHEC did not always send required service questionnaires and employer verifications timely, and did not place the recipients in repayment mode when responses were not received.

We recommend that MHEC ensure that all required service questionnaires and employer verifications are sent timely, and that recipients are placed in repayment mode when responses to these notices are not received, including those noted above (repeat).

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	<p>In response to the audit findings, MHEC's Office of Finance and Administration acknowledges the prior backlog and related administrative challenges. Specifically, the agency faced a substantial backlog of over 1,000 cases dating back as far as fiscal year 2020. This backlog contributed significantly to delays and compliance issues identified during the audit.</p> <p>To address these issues proactively, MHEC implemented a comprehensive new process designed to significantly improve case management efficiency. As a result, we successfully cleared the backlog of over 1,000 outstanding cases spanning fiscal years 2020 to 2023. All previously unresolved cases have now been fully addressed.</p> <p>It is important to note that moving forward, MHEC is fully committed to ensuring ongoing compliance and maintaining timely resolution of cases. We are confident that our enhanced procedures will prevent recurrence of such backlogs, and we will maintain timely and accurate recordkeeping to remain fully compliant with audit recommendations and standards moving forward.</p>		
Recommendation 1	Agree	Estimated Completion Date:	November 2024
Please provide details of corrective action or explain disagreement.	<p>The recommendation has already been implemented within MHEC's Office of Student Financial Assistance's current process. MHEC has reorganized the Office of Student Financial Assistance (OSFA) and increased staff within the Service Obligation Unit to ensure that all required service information and employer confirmation requests are sent, and that follow-up action is taken in a timely manner.</p>		

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	<p>The recommendation identified in the audit has already been fully implemented within the Maryland Higher Education Commission's (MHEC) Office of Student Financial Assistance (OSFA). MHEC has completed an internal reorganization of OSFA, including strategically increasing staffing within the Service Obligation Unit. This restructuring ensures timely and consistent issuance of all required service information and employer confirmation requests.</p> <p>Furthermore, to enhance internal controls and oversight, MHEC has instituted an independent review process for critical service-obligation determinations. Under this new protocol, Nursing Support Program II (NSP II) staff members—who do not possess system permissions to directly modify or add records within the MDCAPS system—conduct independent reviews. These reviews are required whenever there is a determination of either service obligation fulfillment through eligible employment or referral of individuals to repayment status due to non-responsiveness or ineligible service employment.</p> <p>The implementation of these measures ensures transparency, accuracy, and compliance with audit recommendations, reinforcing MHEC's commitment to robust internal controls and effective administration of financial assistance programs moving forward.</p>
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Finding 2

MHEC did not independently review adjustments to accounts receivable records, did not ensure that amounts due for unsatisfied service obligations were posted to the accounts receivable records, and did not send dunning notices or refer delinquent accounts to the State's Central Collection Unit (CCU) timely.

We recommend that MHEC

- a. generate output reports of adjustments posted to recipient accounts receivable records and independently verify and document the propriety of adjustments processed (repeat);**
- b. ensure that all repayments due from recipients are posted to its accounts receivable system by periodically reconciling its financial aid and accounts receivable systems as required by its policies (repeat); and**
- c. send timely dunning notices to recipients and forward delinquent accounts to CCU as required, including those noted above.**

Agency Response	
Analysis	Factually Accurate
Please provide additional comments as deemed necessary.	<p>The Maryland Higher Education Commission (MHEC) acknowledges the findings of the audit and has proactively addressed the identified issues within its Office of Student Financial Assistance (OSFA).</p> <p>Specifically, MHEC has implemented a rigorous internal control process to ensure proper oversight of adjustments made to repayment accounts. Accounting supervisors independently review and provide documented written approval for all "Remove from Repayment" adjustments before any changes are applied to client accounts. Throughout the audit period, despite staffing shortages that contributed to delays, the accounting team consistently prioritized timely issuance of delinquent account notices and referrals to the Central Collection Unit (CCU).</p> <p>Moving forward, MHEC is committed to maintaining adequate staffing levels and enforcing strict adherence to established internal controls. We will continue to monitor processes closely to ensure timely referrals to the CCU and full compliance with state requirements, thereby addressing the audit recommendations thoroughly and proactively.</p>

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Recommendation 2a	Agree	Estimated Completion Date:	9/30/2024
Please provide details of corrective action or explain disagreement.	Accounting supervisors verify adjustments through the review of transaction records from the financial aid and accounts receivable systems. Once adjustments are completed, accounts receivable processors provide documentation of the transaction records, along with system client forms confirming that the adjustments have been properly processed.		
Recommendation 2b	Agree	Estimated Completion Date:	9/30/2024
Please provide details of corrective action or explain disagreement.	Accounting has made substantial efforts during the audit period to reconcile repayment recipients' accounts. Since the audit, reconciliation of repayment recipients' accounts between the financial aid system and accounts receivable records is ongoing. To further strengthen this process, accounting has introduced an additional measure, which includes a monthly schedule for repayment referrals sent to accounting from the Scholarship Program Managers. Furthermore, accounting periodically reviews repayment account statuses with the Scholarship Program Managers to ensure the accuracy of account records.		
Recommendation 2c	Agree	Estimated Completion Date:	9/30/2024
Please provide details of corrective action or explain disagreement.	<p>Regarding the issuance of CCU dunning notices and the timely referral of delinquent accounts, MHEC acknowledges that staffing shortages during the audit period resulted in some processing delays. Nevertheless, the accounting team diligently worked to issue delinquent notices and refer accounts to the Central Collection Unit (CCU) at the earliest allowable intervals.</p> <p>Moving forward, MHEC has implemented additional measures to ensure full compliance. Specifically, the accounting department will prioritize timely issuance of delinquent notices, and accounts will be consistently referred to CCU at the earliest permitted time frame—ensuring full adherence to state regulations. We remain committed to maintaining this compliance through ongoing monitoring, enhanced staffing, and strengthened internal controls.</p>		

Maryland Higher Education Commission

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Financial Aid Records

Finding 3

MHEC did not perform annual reconciliations of financial aid awards recorded in the Maryland College Aid Processing System (MDCAPS) to the State's accounting records and investigate and resolve differences on a timely basis.

We recommend that MHEC complete annual reconciliations of financial aid awards recorded in MDCAPS to the corresponding totals in the State's accounting records, and investigate and resolve any differences, including those noted above.

Agency Response	
Analysis	Factually Accurate
Please provide additional comments as deemed necessary.	<p>In response to the audit findings, the Maryland Higher Education Commission (MHEC) acknowledges the discrepancies identified in the reconciliation processes within the Office of Student Financial Assistance (OSFA).</p> <p>At the close of fiscal year 2022, OSFA underwent a significant leadership transition. Subsequently, six months into this transition, MHEC's Director of Finance and Budget resigned, and a replacement was not appointed until the beginning of fiscal year 2023. These leadership gaps impacted the timely completion of critical financial management processes.</p> <p>Following the staffing transitions, MHEC thoroughly reviewed its internal reconciliation procedures and identified the primary cause of discrepancies between expenditures reported in MDCAPS and the State's accounting records. Specifically, the issue arose from a previously established "wash" process in MDCAPS, where institutional refunds owed from prior fiscal years were recouped by reducing payments in subsequent fiscal years. This practice inadvertently caused inconsistencies in reported disbursement totals across various financial aid programs.</p> <p>MHEC recognizes that the correct reconciliation methodology involves directly comparing the total invoiced amounts for each program to the State's official accounting records, rather than relying on the totals after adjustments made by the "wash" process. To rectify this issue, MHEC</p>

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	<p>has eliminated the problematic process and implemented an updated reconciliation procedure aligned with state guidelines. This new method ensures accurate tracking of program expenditures and proper alignment with the State's accounting systems.</p> <p>MHEC remains committed to full compliance, improved transparency, and enhanced accuracy in financial reporting, and we anticipate that these corrective measures will resolve the audit findings moving forward.</p>		
Recommendation 3	Agree	Estimated Completion Date:	August 2025
Please provide details of corrective action or explain disagreement.	<p>For fiscal 2025, MHEC has resolved the issue by altering the “wash” process to only process refunds owed by institutions within the same fiscal year as the payment. In this manner, all payments and reductions will count toward the same fiscal year and provide a true count of all expenditures to match with State accounting records.</p> <p>MHEC identified that for fiscal years prior to 2025, it is not possible for MHEC to match financial aid awards recorded in MDCAPS to the corresponding totals in the State’s accounting records. This is because of the prior wash process, which has been resolved for fiscal 2025 and moving forward, but is unable to resolve for prior years. For prior years, the only thing that we can do is match payments/invoices from MDCAPS with the State's accounting records which is what MHEC has already done.</p>		

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Information System Controls

The Office of Legislative Audits (OLA) has determined that Findings 4 and 5 related to “cybersecurity,” as defined by the State Finance and Procurement Article, Section 3.5-301(b) of the Annotated Code of Maryland, and therefore is subject to redaction from the publicly available audit report in accordance with the State Government Article 2-1224(i). Although the specifics of the findings, including the analyses, related recommendations, along with MHEC’s responses, have been redacted from this report copy, MHEC’s responses indicated agreement with the finding and related recommendations.

Finding 4
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Finding 5
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

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Student Loan Debt Relief Tax Credits

Finding 6

MHEC did not independently review Student Loan Debt Relief Tax Credits (SLDRTC). Our test of 20 credits disclosed 4 that were not adequately supported and may not have been eligible for the credit.

We recommend that MHEC

- a. independently review and approve the processing and issuance of SLDRTC, and**
- b. investigate and take appropriate corrective action regarding the four potentially invalid credits noted above.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	<p>Yes, MHEC will independently review and approve the processing and issuance of Student Loan Debt Relief Tax Credit (SLDRTC) applications and tax credit awards. As part of this process, MHEC conducts a thorough review of each application to ensure accuracy, eligibility, and compliance with program requirements.</p> <p>The review process includes the following steps:</p> <ol style="list-style-type: none">1. Identity Verification:<ul style="list-style-type: none">• The applicant's name on the SLDRTC application is cross-referenced with the name on lender documents, college transcripts, and Maryland income tax returns.• Any discrepancies identified during this review result in the application being returned to the applicant for correction.2. Database Review and Validation:<ul style="list-style-type: none">• From July 1st through the end of October, the entire database of applications is downloaded weekly into Excel for systematic review.• Applications are evaluated based on key criteria:		

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	<ul style="list-style-type: none"> • Duplicate Social Security Numbers: Applications with matching Social Security Numbers are rejected. • Payment Delinquencies: Applications with proof of payment delinquencies are rejected. • Prior Year Award Claims: Applications incorrectly claiming that the applicant did not receive a prior year award are returned for correction. <p>3. Document and Data Verification:</p> <ul style="list-style-type: none"> • Attachments submitted with the application are reviewed for consistency with the information provided in the application form. • The following comparisons are conducted to identify discrepancies: • Lender Documents: The dollar amounts entered for the current balance and original loan amount are compared against supporting documents. • Maryland Income Tax Return: The adjusted gross income (AGI) reported on the tax return is cross-checked against the AGI field on the application. • College Transcripts: Reviewed to confirm the degree awarded, the date of conferral, and, where applicable, the name of the qualifying Pell-eligible institution. <p>MHEC maintains strict oversight throughout the review and approval process to ensure that only eligible applicants receive tax credit awards. The comprehensive verification procedures are designed to uphold the integrity of the SLDRTC program, prevent errors or fraudulent claims, and ensure compliance with program guidelines.</p>		
Recommendation 6b	Agree	Estimated Completion Date:	December 2024
Please provide details of corrective action or explain disagreement.	<p>MHEC has taken action with respect to the four credits as identified as invalid.</p> <p>Exception Item # 1 response: Award Year: 2021 The Comptroller gets a master list each year from MHEC of allowed tax credit award recipients. This ensures they issue only one award per SSN per tax year. Each year, MHEC reviews applications for duplicate SSNs and rejects all duplicates. Starting with 2024 awards, MHEC will review applications for duplicate names. The resolution to the duplication came in August 2024 when MHEC discovered the duplication for this</p>		

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	<p>applicant and contacted the Comptroller about it. It was confirmed that this applicant was given only one tax credit.</p> <p>Exception Item # 2 response: Award Year: 2022 Starting in 2024, it became a requirement for the name on the OneStop account be the applicant's name to prevent duplications and other errors when parents or spouses fill out applications on behalf of their relatives. The resolution for this tax credit comes from this applicant not being able to claim it if the applicant did not file a 2022 Maryland income tax return. The Comptroller confirmed that the applicant did claim the 2022 tax credit on the applicant's Maryland income tax return.</p> <p>Exception Item # 3 response: Award Year: 2022 The Comptroller gets a master list each year from MHEC of allowed tax credit award recipients. This ensures they issue only one award per SSN per tax year. The resolution to the two awards for this applicant came from the Comptroller's process of comparing tax returns to MHEC's master list. The Comptroller confirmed that this applicant received only one tax credit in tax year 2022.</p> <p>Exception Item # 4 response: Award Year: 2022 Same resolution as in item 3, above.</p>
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Aid to Community Colleges

Finding 7

MHEC had not implemented effective procedures for ensuring that all payments made to community colleges for retirement and pension contributions were proper.

We recommend that MHEC ensure that the amounts paid for the State's share of community college employees' retirement and pension costs are proper. Specifically, we recommend that MHEC

- a. thoroughly review audited retirement and pension contribution data received from community colleges and resolve, on a timely basis, differences between the audited data and corresponding amounts in its own records, including the aforementioned differences (repeat);
- b. take appropriate actions to pay or collect differences in amounts owed to or due from the colleges (repeat);
- c. document the actions taken (repeat); and
- d. ensure that employee certification documentation is obtained prior to paying matching retirement contributions for the optional retirement plan, and investigate and take appropriate actions regarding employees with missing documentation, including those noted above.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	We acknowledge and agree with the concerns raised in the audit regarding the adequacy of procedures for ensuring that all payments made to community colleges for retirement and pension contributions are accurate and proper. As of now, 15 community colleges are participating in the Optional Retirement Program (ORP), with a total of 2,526 active employees. We have taken steps to improve the verification and documentation processes related to employee certifications and to ensure proper payments are made.		
Recommendation 7a	Agree	Estimated Completion Date:	12/30/2024
Please provide details of corrective action or explain disagreement.	We recognize the importance of reconciling the audited retirement and pension data with our records. We have begun a comprehensive review process of the data provided by the community colleges and are working to resolve any discrepancies on a timely basis. Regular audits and cross-checks are now being implemented to ensure that all reported amounts align with our records.		

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Recommendation 7b	Agree	Estimated Completion Date:	12/30/2024
Please provide details of corrective action or explain disagreement.	MHEC has identified discrepancies between payments made and amounts owed and is actively addressing these issues. We are currently initiating corrective measures to promptly resolve all outstanding differences. This process includes settling discrepancies by either issuing additional payments or collecting owed amounts from the respective colleges. Moving forward, MHEC will strengthen monitoring processes to prevent future discrepancies and ensure accurate financial reconciliation and reporting.		
Recommendation 7c	Agree	Estimated Completion Date:	12/30/2024
Please provide details of corrective action or explain disagreement.	We understand the importance of maintaining clear documentation of all corrective actions. We have implemented a standardized process to document all actions taken to resolve discrepancies, including communication with community colleges, adjustments to payments, and resolutions of any outstanding issues.		
Recommendation 7d	Agree	Estimated Completion Date:	12/30/2024
Please provide details of corrective action or explain disagreement.	We have already gathered all employee certification documents from the participating community colleges and stored them securely on our shared drive. We are also verifying certification statuses before processing reimbursements to ensure compliance with ORP requirements. For employees with missing documentation, we are reaching out to the respective colleges to obtain the necessary certifications and will take appropriate action if required.		

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