

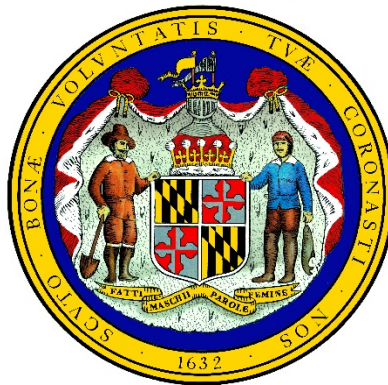
Audit Report

Maryland 529

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

Brian S. Tanen, CPA, CFE
Legislative Auditor

February 3, 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 Maryland 529 for the period beginning July 1, 2018 and ending May 31, 2023. Maryland 529 administered the Maryland Senator Edward J. Kasemeyer College Investment Plan (MCIP) and the Maryland Senator Edward J. Kasemeyer Prepaid College Trust (MPCT), to help individuals save for future college expenses and to reduce dependence on student loans and other forms of debt. The plans also provide account holders with certain Maryland income tax benefits. Effective June 1, 2023 the Maryland 529 Board was abolished and all Maryland 529 programs, functions, and operations were transferred to the State Treasurer's Office (STO).

MCIP allows individuals to invest funds to help pay the cost of college education for designated beneficiaries, and is managed by a private investment company. As of June 30, 2023, 280,175 beneficiaries had accounts with balances totaling approximately \$7.9 billion. MPCT offers tuition contracts, purchased by individuals on behalf of beneficiaries, which require scheduled payments for the future cost of tuition and fees at eligible institutions of higher education. MPCT is now managed by a private investment company and, as of June 30, 2023, the value of MPCT investments for 31,175 tuition contracts was \$1.3 billion.

Our audit found that Maryland 529 did not have adequate oversight of the conversion of MPCT operations including critical business rules and account data provided to the Third Party Administrator (TPA). Additionally, Maryland 529 did not take sufficient action to address delinquent or expired MPCT accounts, and had not collected fees totaling \$1.6 million collected by the TPA from account holders to be used for Maryland 529 operating expenses.

Furthermore, our audit disclosed a cybersecurity-related finding. However, in accordance with the State Government Article, Section 2-1224(i) of the Annotated Code of Maryland, we have redacted the finding 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 finding falls under the referenced definition. The specifics of the cybersecurity finding were previously communicated to those parties responsible for acting on our recommendations.

Finally, based on our current audit assessment of significance and risk to our audit objectives, our audit included a review to determine the status of seven of the nine findings contained in our preceding audit report. For the non-cybersecurity-related findings, we determined that Maryland 529 satisfactorily addressed these six findings.

STO’s response to this audit is included as an appendix to this report. We have edited STO’s response to remove a vendor name, as allowed by our policy. Consistent with State law, we have redacted the elements of STO’s response related to the cybersecurity audit finding.

We reviewed the response and noted agreement to our findings and related recommendations, and while there are other aspects of STO’s response which will require further clarification, we do not anticipate that these will require the Joint Audit and Evaluation Committee’s attention to resolve.

We wish to acknowledge STO’s willingness to address the audit issues and implement corrective actions.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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Background Information

Agency Responsibilities

Maryland 529 was an independent State agency that provided two separate college savings plans, the Maryland Senator Edward J. Kasemeyer Prepaid College Trust (MPCT), and the Maryland Senator Edward J. Kasemeyer College Investment Plan (MCIP), to help individuals save for future college expenses and to reduce dependence on student loans and other forms of debt. State law authorized Maryland 529 to establish a third plan option, the Maryland Broker-Dealer College Investment Plan, which would allow contributions to an investment account through private investment firms selected by the account holder; however as of May 31, 2023, the plan was not operating as the Maryland 529 Board had not opted to offer this plan.

These plans were administered by the Maryland 529 Board which, by State law, included the Secretary of the Maryland Higher Education Commission, the Secretary of the Maryland Department of Disabilities, the State Superintendent of Schools, the State Treasurer, the State Comptroller, the Chancellor of the University System of Maryland, and five members of the public appointed by the Governor.

Individuals seeking to participate in a college savings plan could execute a prepaid tuition contract through MPCT and/or establish an investment account in the MCIP. Students may use their accounts at nearly any accredited college nationwide.

Transfer of 529 Plans to the Maryland State Treasurer's Office

Chapter 113, Laws of Maryland 2023, abolished the Maryland 529 Board and transferred all Maryland 529 related programs, functions, and operations to the State Treasurer's Office (STO) effective June 1, 2023. Additionally, the law began a phase out of the MPCT, prohibiting any new MPCT account enrollments as of the aforementioned date.

This audit included activities of Maryland 529 through May 31, 2023, including certain conditions that we believe contributed to the issues addressed in the Treasurer's *Decision Memorandum* (refer to page 9 for additional details) and the decision to transfer all Maryland 529 functions and operations to the State Treasurer. Since Maryland 529 is now a unit within STO, this report and all recommendations in this report have been addressed to the STO. Although this report may reference certain activity occurring after May 31, 2023, such as the

issuance of the Treasurer's *Decision Memorandum*, Maryland 529 activities occurring subsequent to that date will be subject to examination in our next audit of STO.

Financial Activity

According to the State's records, Maryland 529's expenditures totaled approximately \$14.7 million during fiscal year 2023 (see Figure 1 on the following page). This amount reflects a significant increase from our preceding report on Maryland 529 due primarily to State contributions to MCIP for Maryland residents totaling \$7.4 million (as noted in Figure 1), and contractual service expenditures totaling \$5.3 million. As of June 30, 2023, 14 of the total 28 positions were vacant. Maryland 529 management advised us that 13 of the vacant positions primarily related to MPCT customer services that were assumed by the MPCT Third Party Administrator (TPA).

Figure 1
Maryland 529 Positions, Expenditures, and Funding Sources

Full Time Equivalent Positions as of June 30, 2023		
	Positions	Percent
Filled	11	39.3%
Frozen	3	10.7%
Vacant*	14	50.0%
Total	28	
Fiscal Year 2023 Expenditures		
	Expenditures	Percent
Salaries, Wages and Fringe Benefits	\$ 1,534,125	10.5%
Technical and Special Fees	47,086	0.3%
Operating Expenses	5,762,413	39.2%
Other Expenses**	7,351,750	50.0%
Total	\$ 14,695,374	
Fiscal Year 2023 Funding Sources		
	Funding	Percent
Non-Budgeted Fund	\$ 14,695,374	100.0%
Total	\$ 14,695,374	

Source: State financial and personnel records

*Maryland 529 management advised the vacant positions primarily related to MPCT customer services that were assumed by the TPA.

**Maryland 529 received funding from the Maryland Higher Education Commissions (MHEC) to administer the Save4College Program that provides matching contributions to eligible accounts in the MCIP.

Maryland Prepaid College Trust (MPCT)

MPCT offered tuition contracts for the future payment of tuition and mandatory fees at any eligible institution of higher education. Contracts, which require scheduled payments, were purchased by individuals on behalf of a designated beneficiary. State law requires that either the account holder or the beneficiary be a resident of Maryland or the District of Columbia at the time that a contract was

purchased. As previously noted, no new contracts were permitted after May 31, 2023, but contracts existing at that time remain.

Maryland 529 did not guarantee that the assets of MPCT will be sufficient to pay the tuition and fees estimated under the contracts. However, in the event that the market value of MPCT's assets is not sufficient to fund its contract obligations, State law provides that State funds may be appropriated to fund the shortfall. State law also specifies that the debts and contract obligations of MPCT are not debts of the State.

Figure 2 provides selected MPCT funding data for fiscal years 2018 through 2023. According to State records, as of June 30, 2023, Maryland 529 was supporting 31,175 MPCT accounts with 27,587 unique beneficiaries.

Figure 2
Select MPCT Financial Information
(expressed in millions)

Fiscal Year	Total Assets	Funded Ratio	Surplus
2023	\$1,293.7	146.4%	\$398.4
2022	\$1,249.7	140.0%	\$355.6
2021	\$1,403.4	161.4%	\$525.4
2020	\$1,215.9	180.9%	\$538.7
2019	\$1,235.1	163.0%	\$470.2
2018	\$1,229.8	155.0%	\$432.5

Source: Audited Financial Statements

Our preceding audit report noted significant management turnover and an overwhelming lack of documentation supporting effective oversight of MPCT by the Maryland 529 Board. We also noted a lack of documentation of the investigative steps taken and conclusions reached regarding numerous recordkeeping and accounting discrepancies that had been identified by STO and Maryland 529 personnel subsequent to the departure of the former Chief Executive Officer and Chief Financial Officer in May 2015. In response to these issues, we recommended that Maryland 529 obtain a forensic audit.

Forensic Audit Report

In response to our prior report recommendation, Maryland 529 contracted with an accounting firm to conduct the forensic audit which issued its report in March 2021. The report concluded that Maryland 529 took certain steps to address issues that led to the findings in our report including updating its automated records and implementing and improving processes, policies, and procedures to mitigate the risk of these issues recurring in the future. However, the firm noted that in many cases, the specific record of the applicable accounts and transactions in question could not be located, and as a result, the firm could not confirm that the related issues had been addressed. While the firm ultimately did not identify any significant deficiencies, this may have been caused, in part, by the lack of available documentation.

The firm also agreed with findings identified by STO and commented upon in our preceding audit report regarding potential irregularities relating to accounts held by a former senior management employee at Maryland 529. As noted in our preceding report, these findings were submitted by Maryland 529's legal counsel to the Office of the Attorney General's Criminal Division in September 2015. At the time of our current audit, Maryland 529 had no information regarding the status of its referral.

MPCT Third Party Administrator (TPA)

In December 2020, Maryland 529 entered into a \$15.7 million contract (including option years) with a TPA to manage MPCT through November 2028. The contract provided for conversion of MPCT data from Maryland 529 records to an automated system maintained by the TPA. The TPA was to conduct day-to-day operations previously performed by Maryland 529 staff, such as determining account holder and beneficiary eligibility, servicing requests for modifications to accounts, making benefit payments, and ensuring the accuracy of account information. The TPA would also provide an account portal for account holders to access current data regarding their accounts. The new automated recordkeeping system went live in November 2021. According to State accounting records, as of June 2023, fees paid to the TPA totaled \$3.6 million.

Board Changes to MPCT

In June 2021, the Maryland 529 Board approved certain MPCT changes, effective November 1, 2021, regarding a rate of return to be used for calculating a

minimum benefit amount for MPCT accounts, as well as for calculating rollover and refund amounts requested by account holders.¹ The purpose of MPCT was to provide a guaranteed payment of college costs within specified limits, not to serve as an investment vehicle for the account holder. However, State law did authorize the Board to provide a “rebate” to account holders if the Trust exceeded a 130 percent funding level.

According to the minutes of its June 25, 2021 meeting, the Board endorsed a rate of 6 percent applied to balances held prior to November 1, 2021 to calculate minimum account benefits and refund and rollover amounts. The 10-year United States Treasury rate would be applied to contributions made after that date. However, ambiguity existed in the Board’s intentions, implementation of the Board’s decision, and certain disclosures made to account holders regarding their account balances. The ensuing actions taken to implement the Board’s decision resulted in significant confusion, uncertainty, and disagreement by MPCT stakeholders.

MPCT Interest Suspension

In April 2022, Maryland 529 management instructed the TPA to suspend the application of earnings to account holders amid escalating questions and concerns regarding the calculation and accuracy of earnings amounts being posted to accounts since the November 2021 effective date. Between April 2022 and April 2023 a series of steps were taken by the Maryland 529 Board and staff, TPA, State Treasurer, outside legal counsel, and certain other contracted vendors to address those questions and concerns. Specifically, these parties examined the Board’s intentions in implementing the aforementioned changes, the actual ensuing calculation and application of earnings to account balances, disclosures made to account holders regarding their account balances, and account funds being made available to account holders. The ongoing concerns ultimately resulted in legislative intervention.

State Treasurer’s Office

The STO’s *Decision Memorandum* issued on July 10, 2023 detailed the progression of events leading to the current conditions of confusion and disagreement among stakeholders, and in particular, concluded that there was a lack of clarity regarding application of the 6 percent rate for purposes of determining minimum account benefits. The *Memorandum* explained that the Board’s intent was to apply the rate prospectively beginning November 1, 2021 to

¹ An MPCT account holder may request a transfer (rollover) of MPCT account funds to the Maryland College investment Plan or to another 529 account (such as in another state) or may request a refund of the account.

all balances in accounts on October 31, 2021, but the rate was instead being applied retroactively to the date of contribution. According to the *Memorandum*, this difference between the intended application and the actual application resulted in substantial dollar value discrepancies for some account holders as to what those account holders understood to be their account balance and what the Board actually intended.

In order to bring these ongoing concerns to resolution, the State Treasurer determined that for account contributions made prior to November 1, 2021, the annual earnings rate will be 6 percent compounded monthly, applied retroactively. For account contributions posted to an account on or after November 1, 2021, the annual earnings rate will be a rate equal to the 10-year Treasury note compounded monthly. These rates will remain in effect until the earlier of July 1, 2024, the date benefits are withdrawn, or the contract termination date. Beginning on a date no later than July 1, 2024 all contributions and all balances in an account will earn no interest for the account holder.

Maryland College Investment Plan (MCIP)

MCIP was established to allow individuals to invest funds to help pay the cost of providing a college education for designated beneficiaries. Maryland 529 executed a contract with a private investment company that is responsible for managing MCIP by processing Plan enrollment applications, investing related payments, and disbursing funds. The current contract will expire in June 2028. Earnings on funds invested in MCIP and the future principal value of individual accounts are not guaranteed. Payments into the investment plan will be accepted provided the aggregate balance of all accounts for a designated beneficiary does not exceed \$500,000. Account holders and designated beneficiaries participating in MCIP are not required to be residents of Maryland or the District of Columbia.

State law provides State income tax benefits for Maryland taxpayers who elect to participate in MCIP based on their contributions. Specifically, the Tax-General Article, Section 10-208 of the Annotated Code of Maryland allows a taxpayer to deduct up to \$2,500 in annual contributions for any tax year, for each qualified beneficiary, for the purpose of calculating his or her Maryland adjusted gross income.

Maryland Achieving a Better Life Experience

Chapter 39, laws of Maryland 2016 established the Maryland Achieving a Better Life Experience (ABLE) program, under Maryland 529's oversight, to allow individuals to invest funds to help individuals with disabilities maintain health,

independence, and quality of life. Assets in an ABLÉ account in Maryland or in any other state may not be considered for determining eligibility for assistance or benefits from local or state means-tested programs. For social security benefits, up to \$100,000 held in an ABLÉ account is not counted toward the \$2,000 asset limit. Annual contributions may not exceed \$17,000² and lifetime contributions may not exceed \$500,000.

Maryland 529 executed a contract, dated September 7, 2017, with a private investment company that is responsible for managing ABLÉ by processing Plan enrollment applications, investing related payments, and disbursing funds. ABLÉ enrollment opened in November 2017, and the current contract will expire in September 2025. Earnings on funds invested in ABLÉ and the future principal value of individual accounts are not guaranteed. Account holders and designated beneficiaries participating in ABLÉ are not required to be residents of Maryland or the District of Columbia.

Financial Statement Audits

Maryland 529 engaged independent certified public accounting firms to audit its annual financial statements for MPCT, MCIP, and ABLÉ (beginning with fiscal year 2018) programs. In the related audit reports for the fiscal years ended 2019, 2020, 2021, 2022, and 2023, the firms stated that the financial statements presented fairly, in all material respects, the financial positions of MPCT, MCIP, and ABLÉ, and the changes in their financial positions and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of seven of the nine findings contained in our preceding audit report dated December 3, 2019. For the non-cybersecurity-related findings, we determined that Maryland 529 satisfactorily addressed these six findings.

² The annual contribution limits are adjusted annually by the Internal Revenue Service (IRS). Annual contribution limit noted here was for calendar year 2023.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	There was an overwhelming lack of specific documentation supporting whether effective oversight was provided by the Maryland 529 Board regarding Maryland 529's Maryland Prepaid College Trust (MPCT) operations during the audit period, particularly in light of the recurring management turnover, discovered unprocessed business documents, and irregularities with a former employee's accounts. In addition, there was a significant lack of documentation supporting investigative steps taken, findings, and conclusions reached.	Not repeated
Finding 2	Maryland 529's procedures did not require that independent supervisory reviews of calculations supporting disbursement transactions be documented, and our testing of a limited number of disbursements disclosed certain errors in the amounts paid.	Not repeated
Finding 3	Adjustments to Maryland 529 MPCT accounts were unilaterally processed and were not subject to independent supervisory review and approval. Such transactions exceeded \$32.1 million for fiscal year 2018.	Not repeated (Not followed up on)
Finding 4	Maryland 529 did not prepare adequate bank reconciliations for three bank accounts used to administer MPCT activities, and certain reconciliations we reviewed lacked documentation of supervisory review.	Not repeated
Finding 5	Maryland 529 did not determine the disposition of uncashed checks from 2014, nor did it take action to determine the applicability of the Maryland Abandoned Property Act to its trust accounts.	Not repeated
Finding 6	(Policy Issue) Maryland 529's methodology for calculating disbursement amounts for MPCT account holder refunds and rollovers (transfers), in our opinion often resulted in excessive payments.	Not repeated
Finding 7	Maryland 529 did not adequately monitor access granted to the automated system used to administer MPCT. We identified improper access for 26 system users, including 11 former employees whose access had not been disabled.	Not repeated
Finding 8	Maryland 529 lacked assurance that the automated system used for administration of MPCT was sufficiently protected against operational and security risks.	Status Redacted ³
Finding 9	Controls were not established to ensure that all mail collections for MPCT were properly accounted for and deposited.	Not repeated (Not followed up on)

³Specific 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

Conversion to Third Party Administrator (TPA)

Finding 1

Maryland 529 did not have adequate oversight of the conversion of Maryland Prepaid College Trust (MPCT) operations, including critical business rules and account data provided to the TPA.

Analysis

Maryland 529 did not have adequate oversight of the conversion of MPCT operations, including critical business rules and account data provided to the TPA.

Failure to Ensure the TPA System Issues Were Corrected

Maryland 529 relied on the TPA to conduct data transfer and system functionality testing, and permitted the system to go live despite discrepancies with the data. Unresolved discrepancies at the time the TPA system went live were documented by the TPA in a Data Reconciliation Remediation Plan (DRRP), which was approved by Maryland 529 in November 2021. The DRRP identified 29 different types of discrepancies applicable to 5,744⁴ accounts. Maryland 529 did not track the status of discrepancies noted on the DRRP, and we were unable to determine if any of the account discrepancies we noted as of June 30, 2023 were also on the November 2021 DRRP or were the result of new activity.

Our review of data extracts from the TPA system of 64,901 accounts (31,175 active, and 33,726 inactive) as of June 30, 2023 disclosed discrepancies that had still not been corrected more than a year after the system start date. For example, we noted the following:

- 1,411 accounts established prior to transition in the new TPA system had no corresponding record in Maryland 529's prior records,
- 5,546 accounts in the new system for which the original contract amount and the account holder's payment schedule (which should be the same) differed by at least \$1,000, and
- 2,107 accounts classified as paid in full even though the total of recorded payments for each of these accounts was less than the recorded contract amount. The 2,107 accounts had contracts totaling \$26.8 million, including 268 accounts with contracts totaling \$10.1 million that were marked paid

⁴ This total may include some duplication since the same account may have multiple error types and be included in the 5,744 more than once.

despite having no payments recorded. We could not readily determine the total difference between payments for the remaining accounts due to the lack of available records.

Failure to Confirm Critical Business Rules

The Maryland 529 Board and staff, in conjunction with the TPA, did not collectively verify, prior to system implementation, that the TPA had established in its system the business rules which would accurately calculate and properly apply the rate of return approved by the Board. According to a senior management employee, Maryland 529 did not adequately review the business rules during the transition, but instead relied on the TPA's expertise. This lack of collective agreement and verification contributed, at least in part, to the ensuing confusion, uncertainty, and disagreement related to the interest earnings and rate of return as previously mentioned on page 9.

Recommendation 1

We recommend that the State Treasurer's Office (STO)

- a. ensure that all discrepancies noted with the conversion of MPCT operations and data to the TPA are satisfactorily resolved, including those noted in this finding;**
- b. ensure that sufficient oversight is exercised over any future system and data conversion activities; and**
- c. ensure business rules established by the TPA are functioning as intended.**

Delinquent and Expired MPCT Accounts

Finding 2

Maryland 529 did not take sufficient action to address delinquent and expired MPCT accounts.

Analysis

Maryland 529 did not take sufficient action to address delinquent and expired MPCT accounts.

Delinquent Accounts

Maryland 529 did not pursue collection of delinquent accounts. Our review of Maryland 529 records identified 1,367 MPCT accounts as of June 2023 with one or more payments that were delinquent for periods ranging from 60 days to over 20 years. Another 350 accounts had no payments made as of June 2023. As of this date, the initial payments had not been made and were delinquent by between

90 days to over 19 years.⁵ Maryland 529 did not send dunning notices to these delinquent account holders and did not assess late fees ranging from \$10 to \$150 per month as provided for in each account holder's contract. In December 2021, Maryland 529 updated the MPCT disclosure statement to notify account holders that dunning notices would be sent at 30, 60, and 90 day intervals but as of June 2023 no notices had been issued.

Expired Accounts

Maryland 529 did not have procedures to routinely identify and address expired MPCT accounts. MPCT accounts expire for purposes of benefit distribution 10 years (plus the number of school years purchased) after the beneficiary is first eligible to use the account benefits.⁶ According to Maryland 529's records, as of July 2023, there were 2,645 active accounts with contributions totaling approximately \$14.1 million, that had exceeded their expiration date by 5 to 20 years.

Based on an opinion received by Maryland 529 from the Office of the Attorney General, funds in expired accounts are not subject to the Maryland Uniform Disposition of Abandoned Property Act (Maryland Abandoned Property Act). Accordingly, associated funds would not be transferred to the Comptroller of Maryland's Unclaimed Property Division. Maryland 529 had not determined the proper disposition for these funds which remained active in its records, which could lead to errors or other potential discrepancies, including misuse of account funds.

Recommendation 2

We recommend that STO develop procedures to

- a. pursue collection of delinquent accounts (including those noted above), send routine delinquency notices, and impose and collect late fees provided for in account holder contracts; and**
- b. identify and address expired accounts, including those noted above.**

⁵ None of these accounts, except one, had reached maturity and as a result generally would not be authorized to receive payment of tuition and fees.

⁶ The termination date could be extended due to active military service or receipt of a waiver approved by the Maryland 529 Board. Upon termination, account holders have certain options, such as receiving a refund of account funds.

Information Systems Security and Control

We determined that Finding 3 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). Consequently, the specifics of the following finding, including the analysis, related recommendation(s), along with STO’s responses, have been redacted from this report copy.

Finding 3 **Redacted cybersecurity-related finding.**

Account Holder Fees

Finding 4 **Maryland 529 did not obtain fees totaling \$1.6 million collected by the MPCT TPA from account holders.**

Analysis

Maryland 529 did not obtain fees for the period November 2021 through June 2023 totaling \$1.6 million collected by the MPCT TPA from account holders to be used to offset MPCT operating expenses. The fees were collected by the TPA along with routine account holder payments, but were not transferred to Maryland 529. Rather, the fees were deposited and held by the TPA in a depository account, which was established to hold MPCT funds required for tuition payments, rollovers, or refunds.

Maryland 529 management advised that it did not require the MPCT TPA to transfer the funds since the fees are properly reflected in Maryland 529’s records and financial statements and were not needed during these years to offset Maryland 529’s operating costs. However, leaving the fees commingled with Trust funds in the TPA’s account deprives Maryland 529 of the related interest earnings and decreases control and accountability over the funds.

Recommendation 4

We recommend that STO obtain all fees collected by the MPCT TPA, including those noted above.

Maryland College Investment Plan (MCIP)

Finding 5

Maryland 529 did not ensure that the MCIP TPA assessed and remitted fees as required.

Analysis

Maryland 529 did not ensure that the MCIP TPA assessed and remitted all required fees. The MCIP TPA was responsible for collecting certain fees from account holders based on a percentage of the account holder's MCIP balance. A portion of these fees was to be retained by the MCIP TPA and a portion was to be remitted to Maryland 529 to offset operating costs. According to Maryland 529's records, during fiscal year 2023, approximately \$4.0 million was remitted to Maryland 529, and \$2.4 million was retained by the MCIP TPA.

Our review disclosed that Maryland 529 did not ensure that the amount assessed and remitted by the MCIP TPA was proper. Specifically, the TPA provided a schedule of fees assessed to Maryland 529, but there was no verification of the reported information (such as a determination of fees due based on managed assets) to ensure the MCIP TPA properly assessed and remitted all the required fees. Our test of five consecutive monthly invoices during calendar year 2023 determined the amount assessed and remitted by the MCIP TPA was proper.

Recommendation 5

We recommend that STO establish procedures to ensure the MCIP TPA assesses and remits all required fees.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of Maryland 529 for the period beginning July 1, 2018 and ending May 31, 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 Maryland 529'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 administering the Maryland College Investment Plan (MCIP) and Maryland Prepaid College Trust (MPCT), procurements and disbursements, and information systems security and control. We also determined the status of seven of the nine findings contained in our preceding audit report.

Maryland 529 engaged independent certified public accounting firms to perform audits of the plans' financial statements for MCIP, MPCT, and the Maryland Achieving a Better Life Experience (ABLE) programs. In the related audit reports for the fiscal years ended 2019, 2020, 2021, 2022 and 2023, the firm stated that these financial statements presented fairly, in all material respects, the financial positions and respective net position of MCIP, MPCT, and ABLE in accordance with accounting principles generally accepted in the United States of America. We have relied on the work of the independent accounting firms to provide audit coverage of certain aspects of Maryland 529's operations (investments of the MCIP and MPCT). Our audit procedures in these areas were generally limited, therefore, to obtaining a sufficient basis for that reliance.

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 1, 2018 and ending May 31, 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 the Maryland 529'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 Maryland 529's prior MPCT system and the automated systems used by Maryland 529's contracted vendors to administer MCIP and MPCT for the purpose of testing certain areas, such as collection and disbursement activity. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

During our audit period, Maryland 529's management was responsible for establishing and maintaining effective internal control. With the transfer of Maryland 529 operations to the Maryland State Treasurer effective June 1, 2023, those functions became the responsibility of the State Treasurer. 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 Maryland 529, 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 Maryland 529'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 the Maryland State Treasurer's Office (STO) 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 a finding in this report falls under that definition. Consequently, for the publicly available audit report all specifics as to the nature of the cybersecurity finding 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 this cybersecurity finding have been communicated to STO and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from STO to our findings and recommendations are 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 STO regarding the results of our review of its response.

APPENDIX



**MARYLAND
STATE
TREASURER**

Dereck E. Davis
State Treasurer

Jonathan D. Martin
Chief Deputy Treasurer

January 27, 2025

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

Enclosed, please find STO responses to certain disclosures in connection with the draft audit report for the Maryland 529 audit of the Office of the State Treasurer (STO) for the period beginning July 1, 2018, and ending May 31, 2023.

If you have any questions, please contact Jonathan Martin, Chief Deputy Treasurer at jmartin@treasurer.state.md.us.

Sincerely,

A handwritten signature in black ink that reads "Dereck E. Davis".

Dereck E. Davis
State Treasurer

Maryland 529

Agency Response Form

Conversion to Third Party Administrator (TPA)

Finding 1

Maryland 529 did not have adequate oversight of the conversion of Maryland Prepaid College Trust (MPCT) operations, including critical business rules and account data provided to the TPA.

We recommend that the State Treasurer's Office (STO)

- a. ensure that all discrepancies noted with the conversion of MPCT operations and data to the TPA are satisfactorily resolved, including those noted in this finding;**
- b. ensure that sufficient oversight is exercised over any future system and data conversion activities; and**
- c. ensure business rules established by the TPA are functioning as intended.**

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	The State Treasurer's Office (STO) took over responsibility for Maryland 529 and its various programs on June 1, 2023, at the direction of the Maryland General Assembly and the Governor. The conversion and outsourcing of the Maryland Prepaid College Trust, including business rules and account data, occurred throughout 2021, and was finalized before STO assumed responsibility of the program. While STO cannot speak to the oversight present at the time of the conversion, the agency implemented multiple policy changes that better protect the relevant interests of account holders going forward. STO first endeavored to address the most pressing account holder issue, which was setting the earnings rate for accounts and ensuring that account holders received access to their funds as soon as possible. By prioritizing accounts with beneficiaries who matriculated in the fall of 2023, STO was able to ensure that those account holders had access to their funds quickly in order to make payments in a timely manner.		
Recommendation a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	STO continues to evaluate account holder data to resolve issues as they are identified. The work is impacted by the quality of the historical data – an issue previously highlighted by OLA.		
Recommendation b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	While the work required to address the recommendations in this finding is ongoing and impacted by data limitations, it has resulted in greater oversight of the State's program manager.		

Maryland 529

Agency Response Form

Recommendation c	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	Following STO oversight, the Office revisited the creation of business rules and best practices and has since implemented additional rules to further strengthen the efficiency of the Maryland Prepaid College Trust program. Additionally, STO established agreements with outside vendors to verify the accuracy of account values and ensure implementation of new business rules for the State's Program Manager to execute.		

Delinquent and Expired MPCT Accounts

Finding 2
Maryland 529 did not take sufficient action to address delinquent and expired MPCT accounts.

We recommend that STO develop procedures to

- pursue collection of delinquent accounts (including those noted above), send routine delinquency notices, and impose and collect late fees provided for in account holder contracts; and
- identify and address expired accounts, including those noted above.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	STO assumed responsibility of Maryland 529 after the audit period but agrees with this finding and will continue to work to research and address account issues including those identified in the audit.		
Recommendation a	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	With the implementation of new business rules, STO plans to address delinquent accounts.		
Recommendation b	Agree	Estimated Completion Date:	Ongoing
Please provide details of corrective action or explain disagreement.	With the implementation of new business rules, STO plans to address expired accounts.		

Maryland 529

Agency Response Form

Information Systems Security and Control

The Office of Legislative Audits (OLA) has determined that Finding 3 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). Although the specifics of the finding, including the analysis, related recommendation(s), along with STO’s responses, have been redacted from this report copy, STO’s responses indicated agreement with the finding and related recommendations.

Finding 3
Redacted cybersecurity-related finding.

Agency Response has been redacted by OLA.

Account Holder Fees

Finding 4
Maryland 529 did not obtain fees totaling \$1.6 million collected by the MPCT TPA from account holders.

We recommend that STO obtain all fees collected by the MPCT TPA, including those noted above.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	Instead of receiving a monthly ACH transfer, the program previously allowed the TPA to keep the money in their custody account to use towards distributions, thus requiring the conversion of assets to cash to be less frequent.		
Recommendation	Agree	Estimated Completion Date:	3/1/2025
Please provide details of corrective action or explain disagreement.	In November 2024, STO implemented a new process requiring the TPA to send an ACH transfer of all due funds directly to the program’s operating account. Additionally, STO is currently pursuing the past amounts due to the program to be received in cash.		

Maryland 529

Agency Response Form

Maryland College Investment Plan (MCIP)

Finding 5

Maryland 529 did not ensure that the MCIP TPA assessed and remitted fees as required.

We recommend that STO establish procedures to ensure the MCIP TPA assesses and remits all required fees.

Agency Response			
Background / Analysis	Factually Accurate		
Please explain any concerns with factual accuracy.	The current administration has implemented steps to ensure that the vendor administering the Maryland College Investment Plan is providing breakdowns of the fees collected on its behalf.		
Recommendation	Agree	Estimated Completion Date:	3/1/2025
Please provide details of corrective action or explain disagreement.	Currently, the vendor sends a monthly breakdown of the MCIP fee by product. In the spreadsheet provided, funds are individually named, and subsequent associated average assets daily fee accrual are identified. The state fee, program fee and other associated fees details are given as well. The cash receipts are then recorded as revenue into MD529's books and reconciled on a monthly basis.		

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