

Audit Report

Maryland 529

December 2019



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DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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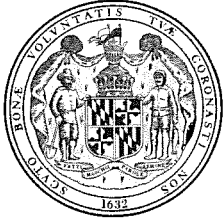
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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

December 3, 2019

Senator Craig J. Zucker, Senate Chair, Joint Audit and Evaluation Committee
Delegate Shelly L. Hettleman, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of Maryland 529 (formerly College Savings Plans of Maryland) for the period beginning November 18, 2014 and ending June 30, 2018. Maryland 529 provides savings plans, administered by the Maryland 529 Board, 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.

The Maryland Senator Edward J. Kasemeyer College Investment Plan (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, 2018, approximately 199,200 beneficiaries had accounts with balances totaling \$5.8 billion. The Maryland Senator Edward J. Kasemeyer Prepaid College Trust (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 directly operated by Maryland 529 and, as of June 30, 2018, the value of MPCT investments for 32,900 tuition contracts was \$1.2 billion.

Our audit found significant management and Board oversight issues at Maryland 529, contributing to numerous MPCT operational and internal control deficiencies and certain unresolved circumstances that existed during the audit period. This report includes a number of recommendations, most notably that Maryland 529 undergo a forensic audit of MPCT activity.

Maryland 529 had significant management turnover during the audit period, beginning in May 2015 when the Board took action to remove its executive management. At that time, volumes of unopened and unprocessed business

documents (at least 187 boxes) were discovered at the Maryland 529 offices, some dating back 10 years.

Scant documentation was retained of these found documents and the related communication between Maryland 529 and its Board. Nevertheless, Maryland 529 notified its Board that the documents included unopened and unprocessed mail and account holder correspondence, unmailed disbursement checks to account holders, and undeposited account holder checks. For example, the Board was advised of the discovery of \$4.3 million in account holder disbursements that had not been recorded or had been incorrectly recorded in Maryland 529 account holder records. The Board was also advised of certain irregularities associated with a former employee's personal Maryland 529 accounts which were referred to the Office of the Attorney General's Criminal Division. A referral to the Criminal Division does not mean that a criminal act has actually occurred or that criminal charges will be filed.

Our audit found that Maryland 529 did not retain listings of or detailed documentation of the documents discovered, did not maintain records of actions taken, if any, to investigate these documents, and there was no formal report of the findings and conclusions reached. In addition, there was no documentation that the Board required any operational corrective actions be taken to resolve conditions that may have contributed to these situations and to address internal control deficiencies. Accordingly, the impact to Maryland 529 financial transactions remains unknown.

In addition to the aforementioned situation, during our audit we questioned the appropriateness of the method used by Maryland 529 to credit MPCT accounts with interest when an account holder requests a refund or rollover of funds into another account, such as to MCIP. Such rollovers and refunds totaled \$54.6 million during the audit period. MPCT account holders generally make contract payments over a period of years to cover beneficiaries' future higher education costs. MPCT benefits, under normal circumstances, are limited to these costs; however, when a refund or rollover is requested, the account holder is entitled to interest earnings using the method specified in the tuition contract. We believe that the method used to calculate interest earnings resulted in excessive payments.

Specifically, interest credited was not based on the account holder's balance (contract payments to date) at the end of each year, but on the account holder's final balance at the time of the rollover or refund. For example, for one account rollover reviewed, the amount of the rollover was determined by Maryland 529 to be \$77,012, which included \$32,110 in interest. We recalculated interest earnings for this rollover based on the estimated account balance at the end of each year,

which resulted in interest earnings of \$17,290. (We also calculated interest earnings of \$22,649 under a different conservative scenario, as detailed in Table 2 in Finding 6.) Furthermore, the maximum future cost of attending a Maryland public university for this beneficiary was \$44,357 at the time of the rollover. Four of five states we contacted that offered prepaid college contracts advised us that rollover and refund payments were generally limited to the value of the college benefits available to the beneficiary at the time of the rollover.

Our audit also disclosed numerous control deficiencies in Maryland 529 MPCT processes. Account holder disbursements for refunds, tuition payments, and rollover payments, as well as critical adjustments to financial account data—all of which were manually calculated—were not subject to a documented independent review.

Maryland 529 also did not prepare adequate bank reconciliations for the disbursement, depository, and administrative fees bank accounts used to administer MPCT activities and we found certain deficiencies, including an unexplained variance for uncashed checks of \$8.4 million as of June 30, 2018. Furthermore, Maryland 529 did not take action to determine the applicability of the Maryland Abandoned Property Act to its trust accounts, as recommended during the preceding audit, and did not monitor access granted to users of its automated systems. We found that numerous employees had improper or unnecessary access to the system used to administer the MPCT. We also noted that Maryland 529 did not ensure that sensitive personally identifiable information for account holders and beneficiaries (for approximately 32,900 accounts) maintained by a third-party service provider was adequately secured, and controls were not adequate to ensure all mail collections were properly accounted for and deposited.

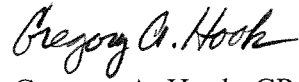
Finally, our audit included a review to determine the status of the two findings contained in our preceding audit report. We determined that Maryland 529 did not satisfactorily address one of these findings; therefore, that finding is repeated in this report.

Maryland 529's response to this audit is included as an appendix to this report. In accordance with State law, we have reviewed the response and, while Maryland 529 agrees with the recommendations in this report, we identified certain instances in which statements in the responses for Findings 1 and 7 conflict with or disagree with the report findings. In each instance, we reviewed and reassessed our audit documentation, and reaffirmed the validity of our finding. In accordance with generally accepted government auditing standards, we have included "auditor comments" within the response to explain our position. Finally,

there are other aspects of the response which will require further clarification, but we do not anticipate that these will require the Committee's attention to resolve.

We wish to acknowledge the cooperation extended to us during the audit by Maryland 529 and the Maryland 529 Board and their willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,

A handwritten signature in black ink, reading "Gregory A. Hook". The signature is written in a cursive, flowing style.

Gregory A. Hook, CPA
Legislative Auditor

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Background Information

Name Change and Agency Responsibilities

Chapter 39, Laws of Maryland 2016, effective July 1, 2016, renamed the College Savings Plans of Maryland to be Maryland 529 and established the Maryland Achieving a Better Life Experience (ABLE) program. Maryland 529 is an independent State agency that currently provides 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. Effective October 1, 2008, State law authorized Maryland 529 to establish a third plan option—the Maryland Broker-Dealer College Investment Plan—which allows contributions to an investment account through private investment firms selected by the account holder; however, as of July 2018, the plan was not operating as the Maryland 529 Board had not opted to offer this plan.

These plans are administered by the Maryland 529 Board which, by State law, includes 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 may 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. According to the State's records, Maryland 529's operating expenditures totaled approximately \$3.7 million during fiscal year 2018.

Maryland Prepaid College Trust

MPCT offers tuition contracts for the future payment of tuition and mandatory fees at any eligible institution of higher education. Contracts, which require scheduled payments, may be purchased by individuals on behalf of a designated beneficiary. MPCT is operated directly by Maryland 529, which processes enrollments, invests funds, and makes disbursements. 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 is purchased.

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

Maryland 529 does 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 Maryland 529's assets is not sufficient to fund its contract obligations, State law provides that State funds may be appropriated to fund the related difference or the Board may adjust future contract payments to meet MPCT's contract obligations. Maryland 529 must repay any related authorized appropriations during each of the two succeeding fiscal years. State law also specifies that the debts and contract obligations of MPCT are not debts of the State.

An actuarial study conducted in October 2018 indicated that MPCT had a surplus of \$432.5 million as of June 30, 2018 and was 155.3 percent funded. The Education Article, Section 18-1906 of the Annotated Code of Maryland provides that the Board may authorize a refund to MPCT account holders should the funded status of MPCT exceed 130 percent and if certain other conditions are met. The Maryland 529 Board has not authorized a refund at this time. The Board attributes the current surplus to strong market performance and lower than projected tuition increases at Maryland's public colleges; however, the Board believes there is a significant likelihood that these trends may not continue at the same levels over the next few years.

Maryland College Investment Plan

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 2024. 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 \$350,000. 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 to maintain health, independence, and quality of life. Assets in an ABLE 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 ABLE account is not counted toward the \$2,000 asset limit. Annual contributions may not exceed \$15,000 and lifetime contributions may not exceed \$350,000.

Maryland 529 executed a contract, dated September 7, 2017, with a private investment company that is responsible for managing ABLE by processing Plan enrollment applications, investing related payments, and disbursing funds. ABLE enrollment opened in November 2017, and the current contract will expire in September 2020. Earnings on funds invested in ABLE and the future principal value of individual accounts are not guaranteed. Account holders and designated beneficiaries participating in ABLE are not required to be residents of Maryland or the District of Columbia.

Financial Information

According to Maryland 529's audited financial statements for the fiscal year ended June 30, 2018, Maryland 529 was administering approximately 32,900 MPCT tuition contracts. The market value of the MPCT's investments (including cash) totaled approximately \$1.2 billion as of June 30, 2018. Maryland 529's financial statements also indicated that Maryland 529 deposited contract application fees and related payments totaling approximately \$47.7 million into MPCT during fiscal year 2018.

As of June 30, 2018, Maryland 529's financial statements indicated that approximately 199,200 beneficiaries had investment savings accounts in MCIP with balances totaling approximately \$5.8 billion.

As of June 30, 2018, Maryland 529's financial statements for the ABLE program indicated that there were 595 ABLE accounts totaling approximately \$2.3 million.

Maryland 529 engages an independent accounting firm to audit its annual financial statements for MPCT, MCIP, and ABLE (beginning with fiscal year 2018) programs. MPCT and MCIP statements are included in Maryland 529's annual reports. In the related audit reports for the fiscal years ended 2015, 2016, 2017 and 2018, the firm stated that the financial statements present fairly, in all material respects, the financial positions of MPCT, MCIP, and ABLE (for 2018 only), 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

Our audit included a review to determine the status of the two findings contained in our preceding audit report dated June 23, 2015. As disclosed in Table 1, we determined that Maryland 529 satisfactorily addressed one of these findings. The remaining finding is repeated in this report.

Table 1
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	The College Savings Plans of Maryland (CSPM) did not determine the disposition of uncashed checks nor did it take action to transfer funds determined to be abandoned to the Comptroller of Maryland as required.	Repeated (Current Finding 5)
Finding 2	CSPM lacked assurance that certain security controls were addressed by the service provider administering the Maryland College Investment Plan.	Not repeated

Findings and Recommendations

Maryland 529 Conditions and Board Oversight

Maryland 529 is administered by the Maryland 529 Board which, by State law, includes 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. We identified certain management-related issues and other unusual events impacting the operation of Maryland 529 as detailed below. Documentation and explanations regarding these issues and events were significantly limited as described in Finding 1.

Management Turnover

In May 2015, the Maryland 529 Board took action to remove the agency's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), who had served in those positions since 1998 and 1997, respectively—essentially since the agency's creation. The CEO subsequently resigned, and the CFO was terminated. Since May 2015, there has been significant turnover in these two positions.

Specifically, from May 2015 through March 2019 four individuals, including a member of the Maryland 529 Board, have served as Maryland 529's CEO or acting CEO; the fourth CEO was appointed in March 2019, and subsequently terminated September 2019. In September 2019, one of these four individuals who had previously served in an acting capacity was again appointed as acting CEO, and has subsequently been officially appointed as CEO.

Similarly, from May 2015 through March 2019, four individuals, including an employee of the Maryland State Treasurer's Office (STO), served as CFO or acting CFO; the fourth and current CFO has served in this position since May 2018. In addition, during these years there were two periods in which the CFO position was vacant, one for four months and one for eight months. We were advised that, during the eight-month vacancy period, an individual who had previously served on the Maryland 529 Board was onsite at Maryland 529 for approximately two months to essentially serve as the CFO. However, this individual was never formally appointed to the position in either an acting or permanent capacity.

Discovery of Unopened and Unprocessed Documents

After the resignation and termination of the CEO and CFO in May 2015, respectively, STO personnel discovered numerous old business documents in the

former CFO's office and in the Maryland 529 mailroom, including unopened and undelivered mail. STO personnel advised us that these old business documents were subsequently provided to Maryland 529 personnel for investigation and resolution. Around the same time, Maryland 529 personnel also found 187 boxes of old business documents, some dating back 10 years or more, stored in the Maryland 529 records room for which required action had never been taken. We were advised that Maryland 529 personnel conducted an investigation of all of these found documents, which lasted approximately three to four months. The aforementioned participation of STO personnel in the discovery of old business documents, as well as the provision of certain STO personnel during the period of management turnover occurred because of the State Treasurer's position on the Maryland 529 Board.

STO and Maryland 529 management personnel presented information to the Maryland 529 Board in May and August of 2015, respectively, as to documents that STO and Maryland 529 personnel had discovered in the aforementioned Maryland 529 locations. The following is a partial list describing documents found either by STO or Maryland 529:

- Documentation of disbursement transactions, totaling approximately \$4.3 million, that had never been recorded in or had been improperly recorded in Maryland 529's records
- Unopened and undelivered mail dating back at least 10 years
- Undeposited checks totaling \$14,000 dating back to October 2007
- Disbursement checks for individual amounts up to \$28,000 prepared but never sent to account holders dating back to August 2008
- Unprocessed refund requests dating back to April 2014
- Unpaid invoices and delinquency notices from collection agencies
- Unresolved correspondence and other transactions, such as change in beneficiary forms
- Incomplete reconciliations of critical records, such as reconciliations of Maryland 529 records to the corresponding bank records
- Documentation of overpayments to account holders totaling approximately \$200,000

Discovery of Unknown Bank Account

The review of these discovered documents also uncovered the existence of a bank account, which we were advised was previously unknown to Maryland 529 personnel and the Board. The account, which reflected a balance of approximately \$15 million as of June 2015, was determined to be used for the deposit of certain administrative fees received from the private investment company responsible for managing the Maryland College Investment Plan

(MCIP). Maryland 529 personnel closed the bank account in June 2015 and transferred the funds to one of Maryland 529's five active bank accounts. Subsequent administrative fees received have been deposited into one of these five accounts.

Former Employee Irregularities

Finally, subsequent to the discovery of these documents, Maryland 529 management personnel identified certain irregularities attributed to a former Maryland 529 employee's personal Maryland 529 accounts. In September 2015, Maryland 529's legal counsel referred these irregularities to the Office of the Attorney General's Criminal Division. A referral to the Criminal Division does not mean that a criminal act has actually occurred or that criminal charges will be filed.

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.

Analysis

There was an overwhelming lack of specific documentation supporting whether effective oversight was provided by the Maryland 529 Board regarding Maryland 529's 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.

In May 2015, STO management and Maryland 529 personnel discovered unprocessed documents which included unopened and unprocessed mail, returned checks, undeposited account holder checks, unmailed checks to account holders, unprocessed account holder correspondence, and other business documents, some dating back at least 10 years. However, STO and Maryland 529 personnel did not retain listings of or detailed documentation of the documents discovered, and Maryland 529 personnel did not maintain records of actions taken, if any, to address the documents. The primary documentation of items found was a bulleted email from STO management personnel to the Board, from May 2015,

and Executive Board minutes from August 2015, in which Maryland 529 personnel provided an oral report to the Board generally describing the documents identified. Finally, there was no written report of the findings and conclusions from any subsequent review or investigation of these documents nor could Maryland 529 personnel provide any of the discovered documents at the time of our audit.

For example, during the August 2015 Board meeting, the Board was advised by Maryland 529 management of the discovery of \$4.3 million in account holder disbursement transactions that had not been recorded or had been incorrectly recorded in Maryland 529's account records. While Maryland 529 personnel could not provide us with a detailed listing of these transactions, during the audit, we located this listing in a former employee's work records. STO and Maryland 529 management personnel advised us that these transactions were investigated and that most had been resolved. However, there was no documentation supporting this assertion and, accordingly, no assurance that these transactions had been appropriately researched and properly resolved, such as through account corrections.

Similarly, Maryland 529 lacked detailed documentation of the undeposited checks received and unmailed disbursement checks reported to the Board and their resolution. In addition, Maryland 529 management advised us that the Board had authorized legal counsel to initiate recovery of overpayments to account holders that were discovered during the investigation totaling approximately \$200,000. However, there was no documentation supporting how these amounts were determined and, as of October 2019, we were advised that not all documents had been found to initiate recovery of the identified \$200,000 in overpayments.

The Board also advised us that it became aware of irregularities relating to the personal Maryland 529 accounts of a former employee and that this situation had been referred by Maryland 529 to the Office of the Attorney General's Criminal Division in September 2015. However, there is a lack of documentation that, after the referral, the Board directed Maryland 529 to take specific action to identify and address agency deficiencies that may have contributed to these conditions, as well as any additional discrepancies.

Maryland 529 and STO management personnel have advised us that the Maryland 529 Board was consistently kept informed and was actively engaged in addressing the aforementioned management turnover at Maryland 529, the irregularities concerning the former employee, and the investigation of unprocessed business documents. However, the overwhelming lack of specific written documentation supporting these assertions creates a lack of assurance that Board oversight and

action was sufficient to resolve the found items specifically and to address the situations in a more global manner.

For example, there is no documentation that the Board required any operational corrective actions be taken to resolve conditions that may have contributed to these situations, and the Board did not require a forensic audit or other comprehensive examination to be conducted or take other actions to help identify and address internal control deficiencies and any other discrepancies or irregularities. A forensic audit is commonly conducted to review an entity's entire finances to determine accuracy and propriety, such as in situations in which there could be a suspicion of impropriety or fraud.

Accordingly, the impact to Maryland 529 operations and financial transactions resulting from this situation is unknown, and we were unable to substantiate that any contributing factors have been addressed. The Maryland 529 Board and management are responsible for ensuring that effective internal controls are in place and functioning as intended.

Recommendation 1

We recommend that the Maryland 529 Board

- a. take a proactive role in providing sufficient oversight of Maryland 529's MPCT operations given the absence of stable agency management;**
- b. take appropriate action to identify and address internal control deficiencies;**
- c. require a forensic audit, to the extent feasible, of Maryland 529 activity covering a period of time that takes into consideration the unprocessed business documents, and the irregularities noted in a former employee's Maryland 529 accounts;**
- d. take appropriate action to address the results of the forensic audit, including consulting with legal counsel regarding the recovery of any overpayments; and**
- e. fully document the steps taken to address these recommendations and the corresponding results.**

Maryland Prepaid College Trust Disbursements and Adjustments

Background

Disbursements from MPCT typically consist of benefit payments made to plan account holders and beneficiaries, or to colleges and universities attended by plan beneficiaries. Specifically, benefit payments are made either to account holders and beneficiaries to reimburse them for tuition and qualified expenses already

paid, or to colleges and universities for tuition and qualified expenses that are currently due. MPCT also processes refund payments to account holders who have requested termination of their tuition contracts. Account holders may also request account funds to be transferred from the MPCT to the MCIP or to another eligible 529 plan; these “rollover” disbursements also result in termination of MPCT tuition contracts.

In addition, individuals who have purchased MPCT contracts may elect to revise the terms of their contracts at any time. For example, an account holder may request to modify the required payment terms from an annual payment plan to a monthly payment plan, or may request to modify the contract to cover future payment of tuition and fees for a two-year period rather than for a four-year period.

Maryland 529 maintains five bank accounts for administering MPCT activities. Disbursement checks are printed in-house from the disbursement account and are manually signed.

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.

Analysis

Maryland 529’s procedures did not require that independent supervisory reviews of manual calculations to support disbursements processed be documented. Although we were advised by Maryland 529 that such reviews were performed for the manual calculations supporting all disbursements, we found no documentation to substantiate that the reviews were conducted and our test disclosed calculation errors in several disbursements tested. According to Maryland 529’s records, during fiscal year 2018, the agency processed disbursements totaling approximately \$65.9 million, consisting of benefit payments, refunds, and rollover payments.

Specifically, our test of 20 disbursements totaling approximately \$1.1 million that were made throughout the audit period disclosed a lack of documentation that any of the supporting calculations had undergone an independent supervisory review. In addition, we noted errors in the calculations supporting 3 of these 20 disbursements, consisting of one refund, one benefit payment, and one rollover payment. Specifically, for 2 disbursements tested, totaling \$32,405, the

disbursements included overpayments totaling \$667 and, for one \$77,526 disbursement, there was an underpayment of \$511.

The reliance on manually prepared calculations, which include a number of variables, creates a situation in which there is an increased susceptibility to error. For example, the error in the rollover payment tested was the result of the use of an incorrect principal amount (account holder payments to date). The benefit payment error resulted from the use of an incorrect tuition rate and, for the erroneous refund amount, the principal payment did not reflect the proper penalty reduction.

Accordingly, it is critical that these manual calculations be independently reviewed and that such reviews be documented. In addition, the authorized check signers should ensure that the independent supervisory reviews were conducted and documented prior to signing the related checks.

Recommendation 2

We recommend that Maryland 529 ensure that independent supervisory reviews of disbursements processed are performed and adequately documented, and that evidence of these independent reviews are reviewed by the authorized signers of disbursement checks.

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.

Analysis

Adjustments to Maryland 529 MPCT accounts and account terms were unilaterally processed and were not subject to independent supervisory review and approval. These include monetary adjustments to accounts, such as to correct an error in an account disbursement, as well as adjustments to contract terms requested by account holders, such as the number of semesters for which tuition will be prepaid under the contract. These changes in contract terms typically require a manual calculation and result in adjustments to critical account information, such as the amount of future account holder payments. However, output reports of adjustments processed were not generated and provided to independent supervisory personnel to review for propriety. According to Maryland 529's records, monetary adjustments for fiscal year 2018 totaled approximately \$32.1 million. A report of the changes in account holder contract terms was not readily available.

- Our test of 13 monetary adjustments posted to accounts during the audit period, totaling approximately \$318,000, confirmed that supervisory approval had not been obtained for any of the 13 adjustments. In addition, for 2 of the 13 adjustments, totaling approximately \$24,000, documentation could not be provided by Maryland 529 to support the validity of the transactions. When we examined these 2 transactions in detail, we noted that, for one item totaling \$9,600, an employee had erroneously reversed a benefit payment transaction and re-issued a check in September 2017 even though the beneficiary had already cashed the initial check in June 2017. Maryland 529 eventually issued a stop payment order in April 2018 for the re-issued check, which had not been cashed. The other transaction reviewed related to the re-issuance of a rollover payment check. The initial check was previously cancelled because of a printing error. We confirmed that the funds for the re-issued check were properly transferred to MCIP.
- Our test of 15 adjustments to contract terms during the audit period confirmed that supervisory approval had not been obtained for any of the adjustments. These 15 adjustments related to changes in payment plan options, tuition plans, and payout years. For 4 of the 15 adjustments tested, the calculations of the revised contract amounts were incorrect, resulting in Maryland 529 collectively undercharging the account holders by approximately \$18,000. For example, one adjustment tested changed a four-year plan to a two-year plan, requiring a change in the corresponding contract amount. However, we noted that the adjustment to the contract amount resulted in undercharging the account holder by approximately \$5,200. Supervisory reviews of adjustments to contract terms are critical to ensure the underlying manual calculations were accurately performed and recorded.

Recommendation 3

We recommend that Maryland 529

- establish procedures to require that independent supervisory personnel verify the propriety of MPCT account adjustments and underlying calculations using available output reports and supporting documentation, and**
- investigate and resolve the aforementioned adjustments resulting in undercharges.**

Bank Account Reconciliations

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.

Analysis

Maryland 529 did not prepare adequate bank reconciliations for three bank accounts used to administer MPCT activities, and many reconciliations we reviewed lacked documentation of supervisory review as required. A properly prepared and reviewed bank reconciliation helps to ensure that transactions are accurately recorded and accounted for, and that only valid transactions have been recorded in the accounting records. Maryland 529 uses five bank accounts for administering MPCT: a disbursement account, a depository account, an administrative fees account, an investment account, and an operating expenses account. We reviewed the reconciliations prepared for the disbursement, depository, and administrative fees accounts for 11 months during the period from May 2015 through June 2018.

Disbursement Account

Our review disclosed that, since at least October 2017, the amounts represented on the reconciliations for the disbursement account as bank outstanding checks were in fact, developed primarily from Maryland 529 records. As a result a true reconciliation was not being performed. The account is used solely to issue disbursements, such as for benefit payments, refunds, and rollovers, with funds periodically transferred, as necessary, from the depository account. As such, the disbursement account is a zero balance account. During the period between July 2016 and June 2018, checks issued from the disbursement account totaled \$130.2 million.

For example, the June 2018 reconciliation reflected outstanding checks, according to the bank, totaling \$1,068,967. Based on our review, however, this amount appears to have been developed primarily from Maryland 529 records, not from the bank's records. In this regard, additional detailed bank records available for reconciliation purposes that agency personnel were not aware of reflected outstanding checks totaling \$9,426,433 as of June 30, 2018.

In addition, according to the bank reconciliation, checks issued for the month according to the bank totaled \$2,547,283; however, the related bank records reflected that checks issued for that month totaled \$2,844,346. Since Maryland 529 sends a listing of issued checks to the bank each day (positive pay), there

should be no difference in checks issued between Maryland 529's records and the bank's records. Maryland 529 was unaware of and could not explain these differences when we brought them to its attention.

Without an investigation and understanding of these discrepancies, the reconciliation does not serve its intended purpose of ensuring that all activity has been properly recorded and accounted for.

Depository Account

Our review disclosed that, since at least October 2017, Maryland 529's reconciliations of the depository account only considered credit (deposit) activity, and did not include comparisons of disbursement activity or of the account balances. Furthermore, our review of the February 2018 reconciliation of deposit activity disclosed a \$2 million reconciling item that Maryland 529 had recorded as wire transfers without adequate investigation. Furthermore, there was no documentation of the purpose and authorization for the transfers. The depository account is used to receive collections for subsequent transfer to other Maryland 529 accounts, primarily the disbursement account, as needed. During fiscal year 2018, deposits into the account totaled \$94.4 million.

Administrative Fees Account

Reconciliations for the administrative fees account were not performed during fiscal year 2018. Maryland 529 management was not aware that the reconciliations had not been performed until we brought this to its attention in July 2018. This account is used to collect fees paid by the private investment company contracted to administer the MCIP. The funds in this account are available for transfer to other Maryland 529 bank accounts as necessary. Fiscal year 2018 deposits into the administrative fees account totaled \$2.8 million.

Supervisory Review of Reconciliations

Of the 22 reconciliations available for our review (11 disbursement account and 11 depository account), 10 lacked documentation of supervisory review. The Comptroller of Maryland's *Internal Control Manual for Use by State Departments and Independent Agencies* requires bank reconciliations to be performed by employees independent of the related disbursement process and to be reviewed by supervisory personnel.

Recommendation 4

We recommend that Maryland 529 prepare adequate reconciliations for its bank accounts. Specifically, we recommend that Maryland 529

- a. ensure that all applicable account activity and the related account balances are properly included in the reconciliations, and that all such activity is adequately supported by appropriate documentation;**
- b. ensure that all reconciling amounts, including the discrepancies noted above, have been fully investigated and resolved; and**
- c. ensure that all reconciliations are reviewed and approved by independent supervisory personnel, and that these reviews are adequately documented.**

Abandoned Funds

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.

Analysis

Maryland 529 did not determine the proper disposition of uncashed checks from 2014 and whether any of the funds should be considered abandoned and, as required by State law, transferred to the Comptroller of Maryland. These uncashed checks were MPCT disbursements to account holders and beneficiaries, and to the colleges and universities the plan beneficiaries attended. The Maryland Uniform Disposition of Abandoned Property Act (Maryland Abandoned Property Act) requires funds that are abandoned to be transferred to the Comptroller of Maryland for safekeeping until claimed by the owner. Outstanding checks are presumed to be abandoned if they have not been claimed by the owner within three years. According to Maryland 529's records, disbursements from the MPCT disbursement account during fiscal year 2018 totaled approximately \$65.9 million.

In our preceding audit report, we noted that, as of August 2014, there were 448 uncashed checks totaling approximately \$1.7 million that were more than three years old, and that Maryland 529 had not determined which of these checks should be classified as abandoned and transferred to the Comptroller. Our report also noted that Maryland 529 had expressed concerns about certain legal and tax implications associated with transferring such funds from MPCT to the Comptroller given the unique nature of 529 accounts for which account holder funds are held in trust for a designated beneficiary. Accordingly, we

recommended that Maryland 529 transfer funds determined to be abandoned to the Comptroller unless formal legal advice was obtained which authorized Maryland 529 to retain the funds.

Maryland 529's response to the prior finding stated that it had made significant progress and that it had reduced the number of outstanding checks from 448 to 235 (reducing the value of outstanding checks from \$1.7 million to \$313,089). In spite of that response, during the current audit, Maryland 529 personnel could not provide documentation of the disposition of the \$1.7 million in outstanding checks prior to closing the associated bank account in November 2014. Accordingly, determining the proper disposition of these funds has been greatly complicated and may no longer be possible. Furthermore, Maryland 529 has not obtained a formal legal opinion regarding the applicability of the Maryland Abandoned Property Act to Maryland 529 trust account activity.

During fiscal year 2018, Maryland 529 implemented a practice to cancel all outstanding checks after 90 days and credit the funds back to the associated accounts. According to informal advice obtained from Maryland 529's legal counsel, therefore, Maryland 529 does not have any uncashed checks that meet the criteria for presumption of abandonment under the Maryland Abandoned Property Act. Maryland 529's records indicated that, as of June 30, 2018, uncashed checks totaled approximately \$1.1 million, all of which were less than three years old and, therefore, bear no relation to the aforementioned \$1.7 million. Furthermore, as described in Finding 4, total uncashed checks according to Maryland 529's records did not agree to the bank records.

Recommendation 5

We recommend that Maryland 529 obtain a formal legal opinion regarding the applicability of the Maryland Abandoned Property Act to its accounts, and establish processes to implement the Act consistent with that opinion (repeat).

Rollover and Refund Payment Methodology

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.

Analysis

Maryland 529's methodology for calculating the amounts of disbursements for MPCT account holder refunds and rollovers to other 529 accounts, in our opinion, often resulted in excessive payments. Although the methodology used was consistent with current MPCT tuition contract language, we questioned the reasonableness of this methodology and the resulting payments.¹ At any time, a MPCT account holder may request a transfer of MPCT account funds to a MCIP account, to another 529 account (such as in another state), or to an ABLE account, or may request a refund of the account. According to Maryland 529's records, during our audit period, rollovers and refunds totaled approximately \$35.3 million and \$19.3 million, respectively.

MPCT account holders make agreed-upon payments, in accordance with the tuition contract, for which the account holders' beneficiaries receive future payment of tuition and fees. While Maryland 529 collectively invests funds received from account holders for contract payments, the individual accounts are not credited with interest earnings. When a rollover or refund is requested, Maryland 529's determination of the amount to be transferred or refunded to the account holder will include interest earnings as specified in the tuition contract.

Interest Calculation Methodology

The MPCT tuition contract language specifying the methodology for calculating account holder refunds or rollover disbursements includes a provision for interest earnings that appears excessive. In this regard, we identified two factors in the methodology used that we believe contribute to these excessive interest payments:

- Factor 1: Maryland 529 did not calculate interest earnings based on the account holder's balance at the end of each year for which the account was open; rather, Maryland 529 calculated interest earnings for each year

¹ Under the Trust, generally the disbursement amount is determined as the total account holder contract payments to date, less administrative expenses, plus a calculated interest earnings amount. The interest earnings are based on the "Trust Return," which is the rate of return since Trust inception, as of the most recent quarter prior to the disbursement payment. The tuition contract also provides for reducing the interest earnings amount by a specified penalty percentage, in certain circumstances, based on the age of the account and whether payment is for a refund or rollover.

based on the account holder's final balance at the time of the refund or rollover.

- Factor 2: Maryland 529 did not use the actual interest rate earned on MPCT investments to calculate the account holder's interest earnings for each year; rather, Maryland 529 used the most recent rate of return on MPCT investments since the Trust's inception (hereinafter referred to as the "since inception" rate) to calculate interest earnings for all years.

It is the application of these two factors that results in what we deem to be excessively high interest earnings on account holder funds being disbursed for refunds and rollovers. One possible alternative method, which we believe would result in a more reasonable return, would be to calculate interest for each year of an account's existence based on the amount of funds in the account during that year and that year's rate of return.

To demonstrate the extent of excessively high interest earnings, we recalculated the interest earnings for 5 rollovers and 12 refund disbursements made by Maryland 529 during our audit period, totaling \$1,027,278, which included \$325,372 in interest payments. For purposes of this demonstration and simplicity of illustration, although we believe it is desirable, we did not vary the interest rate of return in our recalculation, only the fund balances. Our comparison showed that, for all 5 rollovers and for 9 refunds, Maryland 529's methodology of calculating interest using the account holder's final balance at the time of the refund or rollover, collectively resulted in \$109,591 more being transferred or paid than would have been if interest had been calculated based on the estimated account balances at the end of each year in accordance with the tuition contract. For the remaining 3 refunds, we noted either no difference or the difference was not significant.

Maryland 529 Interest Calculation Illustration

We selected one of the aforementioned five rollovers for illustrative purposes and presented two alternative methodologies, which we considered more reasonable, for comparative purposes (See Table 2). This account was opened in 2005 and was rolled over to MCIP in May 2018. After taking into consideration administrative expenses as provided for in the tuition contract, in its initial year, \$3,454 was deposited into the account and periodic payments were made for 13 years until the account balance reached \$44,902 at the time of the rollover. Under the Maryland 529 methodology for calculating interest, the account was considered to have a balance of \$44,902 during each of its 13 years of existence, without regard to the actual account balance at the end of each year. Interest computed and paid by Maryland 529 for this account totaled \$32,110 (Current

Method). We determined, however, that if interest had been calculated using the estimated account balance at the end of each year, the interest calculation would have totaled \$17,290 (Scenario A).

Consistent with its methodology, Maryland 529 used a “since inception” rate of 5.5 percent for calculating each year’s interest, which was the current rate at the time of the rollover. We determined that, if interest had been calculated using each year’s MPCT annual rate of return on the estimated year-end balances in accordance with the tuition contract, the interest calculation would have totaled \$22,649 (Scenario B).

In total, the amount of the rollover paid by Maryland 529 for this account was \$77,012 (\$44,902 account balance and \$32,110 interest).

Table 2
Schedule of Interest Earnings For 2018 Rollover Example
Comparing Different Interest Calculation Methodologies

Year	Fiscal Year	Cumulative Account Balance	Three Interest Earning Calculations		
			Current Method: Maryland 529 Actual Calculation ¹	Scenario A: Office of Legislative Audits Calculation using "Since Inception" Rate ²	Scenario B: Office of Legislative Audits Calculation using Actual Annual Rate of Return ³
1	2006	\$ 3,454	\$ 2,470	\$ 190	\$ 276
2	2007	6,908	2,470	380	1,071
3	2008	10,362	2,470	570	(601)
4	2009	13,816	2,470	760	(2,818)
5	2010	17,270	2,470	950	2,418
6	2011	20,724	2,470	1,140	4,352
7	2012	24,178	2,470	1,330	387
8	2013	27,632	2,470	1,520	2,957
9	2014	31,086	2,470	1,710	5,751
10	2015	34,540	2,470	1,900	836
11	2016	37,994	2,470	2,090	(266)
12	2017	41,448	2,470	2,280	5,098
13	2018	44,902	2,470	2,470	3,188
Total			\$ 32,110	\$ 17,290	\$ 22,649

Source: Maryland 529 records and audited financial statements

Tickmark Key:

- ¹ Under Maryland 529's current methodology, interest earnings for each year were calculated by Maryland 529 based on the final account balance at the time of rollover (\$44,902) using a "since inception" rate of 5.5 percent.
- ² Under Scenario A, interest was calculated annually based on the estimated account balance for each fiscal year-end using simple interest at a "since inception" rate of 5.5 percent.
- ³ Under Scenario B, interest was calculated annually based on the estimated account balance for each fiscal year-end using simple interest at the MPCT annual rate of return for that year as stated in the annual financial statements.

Rollover and Refund Methodology Used in Other States

We determined that there are currently nine other states that offer prepaid college contracts. We contacted five of those states to compare their rollover and refund methodologies to Maryland 529's methodology. We were informed by officials in four states that they generally limited rollover and refund payments to the current value of the college benefits available to the account beneficiary at the time of the account holder's request for rollover or refund. We applied this methodology to the MPCT account rollover to MCIP made in May 2018 that was illustrated in Table 2. Using the maximum value of Maryland State university and college benefits at the time of the rollover, we determined that the rollover payment would have been \$44,357 rather than the \$77,012 (\$44,902 account balance and \$32,110 interest) payment made as determined by Maryland 529's current methodology.

The fifth state contacted advised that it used a pre-defined market index, which, for the period from April to June of 2018, was 2.16 percent. We did not attempt to calculate interest for this account using a market index.

Recommendation 6

Since the purpose of MPCT is to contract for a guaranteed payment of State university or college costs for a specified beneficiary, and not as an investment vehicle, we recommend that the Maryland 529 Board

- a. conduct a documented evaluation of the methodology it uses for calculating refund and rollover payments, including consideration of methodologies used by other states, to ensure that rollover and refund payments are not excessive; and**
- b. ensure that future tuition contracts clearly reflect any changes Maryland 529 considers necessary as a result of this evaluation.**

System Access and Security

Background

Maryland 529 contracted with third-party service providers to operate and maintain the automated systems used to administer MCIP, and to host the system for MPCT. The private investment company responsible for administering MCIP served as its service provider; a separate hosting provider was used for MPCT. These systems help carry out various critical functions relating to both programs, such as processing and maintaining enrollment and contract data, processing and investing payments from account holders, and disbursing funds, including printing checks for MPCT. In addition, Maryland 529 also contracted with a company to help provide certain system support services for MPCT.

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.

Analysis

Maryland 529 did not adequately monitor access granted to users of the automated system which administers MPCT. Periodic reviews were not performed to ensure that system access was granted only as appropriate, and our review disclosed that several Maryland 529 employees had access which was either unnecessary for them to perform their job duties or it created a weakness in internal controls because the access allowed the employee to perform incompatible functions. As of August 2018, there were 206 active system users, according to Maryland 529's records, including personnel from the aforementioned company providing system support. According to Maryland 529 records during fiscal year 2018, cash receipts and disbursements totaling \$47.7 million and \$65.9 million respectively, were processed on the system.

Specifically, our review of 46 users with access to critical functions, such as the capability to post tuition contract payments, disclosed 26 users with improper access. Specifically, 10 employees had critical system access that was not required for them to perform their duties. In addition, access for 11 former employees had not been disabled even though the employees terminated employment one month to three years earlier. Finally, 5 employees had system access that, although required for their job duties, gave these employees the capability to perform incompatible functions. For example, an employee who processed cash receipts was granted the capability to unilaterally record account holder collections in the respective MPCT accounts.

Furthermore, Maryland 529 could not readily explain why there were 206 active system users as of August 2018 even though it had only 21 employees at that time, and we were advised that only approximately 20 employees of the company used for system support required this access. Based on the results of our review of the aforementioned 46 system users that identified 11 former employees with critical access, many of these 206 system users may be former employees. Although not all of the access associated with these 206 users permitted access to critical system functions, it is incumbent upon Maryland 529 to ensure that system access is granted only as required.

The State of Maryland *Information Technology Security Manual* requires agencies to monitor the controls over their information systems, including periodic reviews of access for propriety.

Recommendation 7

We recommend that Maryland 529

- a. perform an immediate documented review for propriety of user access to its MPCT automated system, and perform periodic reviews thereafter, as called for by the aforementioned *Information Technology Security Manual*;**
- b. take any necessary corrective action as a result of these reviews, including removing unnecessary user access and restricting access capabilities for critical functions to those individuals who require such capabilities to perform their assigned job duties and in a manner that ensures proper segregation of duties; and**
- c. immediately remove access from former employees upon termination, including the 11 noted in our finding.**

Finding 8

Maryland 529 lacked assurance that the automated system used for administration of MPCT was sufficiently protected against operational and security risks.

Analysis

Maryland 529 lacked assurance that the automated system used to administer MPCT was properly secured against operational and security risks. The system is used to process and maintain all critical account information, including personally identifiable information (PII), such as names, social security numbers, and dates of birth for account holders and beneficiaries. According to the fiscal year 2018 annual report, there were approximately 32,900 MPCT accounts.

The third party providing hosting services for the MPCT system is responsible for physical security controls, environmental controls, internet connectivity, and disaster recovery services. Maryland 529's contract with the service provider for MPCT did not require an independent security assurance review be obtained. Accordingly, Maryland 529 had not obtained a System and Organization Controls (SOC) 2 Type 2 review or any other similar independent security assurances review. This type of review is appropriate to ensure that

- network segments are separated by firewalls

- documented policies and procedures exist and have been implemented for business continuity and/or disaster recovery
- data is backed up, stored offsite in an appropriate facility, and that such backup and storage procedures are tested regularly

As a result of these conditions, significant operational and security risks could exist and remain undetected, resulting in increased vulnerability of systems and data to compromise or loss. The American Institute of Certified Public Accountants has issued guidance concerning examinations of service organizations. This guidance provides that customers may obtain from service organizations (such as the aforementioned service provider) an independent review of controls for which the resultant independent auditor's report is referred to as a SOC report. There are several types of SOC reports, with varying scope and levels of review and auditor testing. One type of report, referred to as a SOC 2 Type 2 report, includes the results of the auditor's review of controls placed in operation and tests of operating effectiveness for the period under review and could include an evaluation of system security, availability, confidentiality, and privacy.

Considering the nature and sensitivity of information processed and maintained by this system, we believe a SOC 2 Type 2 report, or equivalent security assurance review, is required for this service provider.

Recommendation 8

We recommend that Maryland 529

- seek to amend the existing agreement and ensure that future agreements with this service provider include provisions requiring the provider to regularly obtain SOC 2 Type 2 reviews or equivalent security assurance reviews pertaining to its system operations, and**
- obtain and review copies of the resulting reports from the service provider to ensure that the related independent reviews adequately address critical security concerns over the provider's system and that the service provider implements all critical report recommendations.**

Cash Receipts

Finding 9

Controls were not established to ensure that all mail collections for MPCT were properly accounted for and deposited.

Analysis

Maryland 529 lacked sufficient controls over cash receipts received through the mail for MPCT, resulting in a lack of assurance that all such collections were properly accounted for and deposited. According to Maryland 529's records, during fiscal year 2018 its collections for MPCT totaled approximately \$47.7 million, of which \$13.0 million was received through the mail. The remainder was received by other means, such as through a lockbox account or by wire transfer.

- Employees who initially received checks through the mail did not restrictively endorse them immediately upon receipt. Instead, the checks were restrictively endorsed when the deposit was prepared later in the day or on the next business day, after the checks had been handled by a second employee.
- Maryland 529 did not verify that all collections were deposited. Although collections were recorded in a check log when initially received, the log was not subsequently used to verify that all recorded collections were deposited. Furthermore, the log was stored on a shared computer drive, which was accessible to, and could be adjusted by all Maryland 529 employees.

As a result of these conditions, errors or other discrepancies could occur without detection. The Comptroller of Maryland's *Accounting Procedures Manual* requires the establishment of sufficient internal controls over collections, including immediate endorsing of checks and independent verification of collections to deposit.

Recommendation 9

We recommend that Maryland 529

- a. ensure that all checks are restrictively endorsed immediately upon receipt; and**
- b. ensure that the initial record of all collections received and recorded in the shared computer drive is secured, and provided directly to an employee independent of the cash receipts function for agreement to deposit documentation from the bank.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of Maryland 529 for the period beginning November 18, 2014 and ending June 30, 2018. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine 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 Maryland Prepaid College Trust (MPCT) cash receipts, MPCT plan administration, information systems security and control, accounts receivable, and disbursements. We also determined the status of the findings included in our preceding audit report.

Maryland 529 engages an independent accounting firm to audit its annual financial statements for MPCT, Maryland College Investment Plan (MCIP), and the Maryland Achieving a Better Life Experience (ABLE) [beginning with fiscal year 2018] programs. In the related audit reports for the fiscal years ended 2015, 2016, 2017, and 2018 the firm stated that the financial statements present fairly, in all material respects, the financial positions of MPCT, MCIP, and ABLE (for 2018 only), 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. We have relied on the work of the independent accounting firm to provide audit coverage of the investments of the MPCT. Our audit procedures for investments were generally limited, therefore, to obtaining a sufficient basis for that reliance.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of Maryland 529's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of

the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). These extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during this audit. We also extracted data from Maryland 529's financial system for the purpose of testing certain areas, such as disbursements and accounts receivable transactions. 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 audits objectives. The reliability of data used in this report for background or informational purposes was not assessed.

Maryland 529's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved.

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

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

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect 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. A less significant finding was communicated to Maryland 529 that did not warrant inclusion in this report.

Maryland 529's response to our findings and recommendations is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise Maryland 529 regarding the results of our review of its response.

APPENDIX

Maryland529

formerly College Savings Plans of Maryland

November 22, 2019

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

Dear Mr. Hook:

Attached please find our responses, prepared by the appropriate Executive Department staff to the draft audit report dated November 2019 for Maryland 529. The responses are in the same order as presented in the draft report.

The Maryland 529 is fiscally sound, fully funded, and we remain committed to providing excellent service for college savers in Maryland. Since November, 2018, when OLA completed its fieldwork and discussed its initial findings with the agency, all areas of concern have been addressed. We acknowledge the findings and take responsibility and we continue to improve internal controls to ensure calculations are completed timely, accurately, and with the more robust documentation recommended by the auditors.

We thank the OLA team for their extensive time-consuming work and believe that it has and will continue to result in an even stronger and better Maryland 529 program. If you or your staff has any questions concerning the responses, please do not hesitate to contact me.

Sincerely,



Erin Layton
Executive Director

encl.

cc: The Honorable Nancy K. Kopp, Treasurer and Chair, Maryland 529 Board
Bernadette T. Benik, Chief Deputy Treasurer, Office of the State Treasurer

Maryland 529

Agency Response Form

Maryland 529 Conditions and Board Oversight

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.

We recommend that the Maryland 529 Board

- a. take a proactive role in providing sufficient oversight of Maryland 529's MPCT operations given the absence of stable agency management;
- b. take appropriate action to identify and address internal control deficiencies;
- c. require a forensic audit, to the extent feasible, of Maryland 529 activity covering a period of time that takes into consideration the unprocessed business documents, and the irregularities noted in a former employee's Maryland 529 accounts;
- d. take appropriate action to address the results of the forensic audit, including consulting with legal counsel regarding the recovery of any overpayments; and
- e. fully document the steps taken to address these recommendations and the corresponding results.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	Estimated Completion Date:	Continuous
Please provide details of corrective action or explain disagreement.	MD 529 agrees with the auditors' recommendations and is in compliance with almost all of them already; the remaining are in the process of completion. In the absence of accessible specific documentation from 2015, an audit of MPCT is appropriate and the Board has initiated procurement of one. However, the Board disagrees that it was not proactive in providing oversight of Maryland 529 MPCT. In fact, it has taken significant action both to address the specific issues of 2015 and to strengthen management and Board oversight in general. The Board also both ensured that there was no time in which MD 529 was without a fully-empowered Executive Director to oversee its operations and provided access to resources to strengthen the staff and fill in temporary gaps in positions. The steps taken testify to serious Board		

Maryland 529

Agency Response Form

	<p>dedication to MD 529 programs, participants and staff. The MPCT Trust is well invested and fully funded, our students can count on going to college with reduced or no debt, and families have a safe investment for their future.</p> <p>To respond to and clarify the 2015 transition and the actions taken it is useful to review the events:</p> <p>Before implementing the difficult decision to change long-standing management in May 2015, the Board prospectively put together a strong transition leadership team led by the Comptroller's appointee to the Board and including the CFO and CIO of the State Treasurer's Office, and the long-serving MD 529 Accounting Manager.</p> <p>As soon as the team took office, three separate sets of material were unexpectedly discovered:</p> <ol style="list-style-type: none">1) Working papers and materials relating to account issues were discovered in the CFO's office, including a document, referred to by the OLA that indicated work-in-progress on reconciliation of a \$4.3 million book-to-bank disparity within the \$900 million MCPT Trust and, also, materials related to a number of MPCT accounts issues that had accumulated unresolved pending proper reconciliation.2) In the agency's records room, management then found the 187 State Archive boxes which OLA also notes; MD 529 staff had prepared these for transmittal to or retrieved them from State Archives. These boxes contained account files going back over several years; they had presumably been retrieved from Archives in order to reconcile the account issues. Because the MD 529 files are in boxes labeled by the date of transmittal, the agency must retrieve an entire box sent on a specific date in order to review one account file in that box. This does not mean that the entire set of files in a box require processing of any sort or that the material had not already been processed. <p>Separately and unrelated to the first two discoveries, a search of the agency mailroom revealed a number of USPO mail bins containing, as OLA notes, unopened or undeliverable returned mail, nearly all of which was marketing materials, old Annual Reports, etc., The few envelopes containing documents relating to individual accounts were retained for action and the rest discarded.</p> <p>Upon these discoveries, the Board immediately authorized the acting Executive Director and staff to work overtime to examine the files in the archive boxes, compare them to files in the automated records system and the \$4.3 reconciliation document in the CFO's office, in order to resolve differences as completely and expeditiously as possible. The Board also authorized the acting Executive Director to recruit additional contractual staff as needed; two accountants were brought in to assist 529 staff. This total project became known as the "archive box project".</p>
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	<p>Over the ensuing four months, this augmented staff, directed by the agency's Accounting Manager, examined the archived files and compared documents in the archive boxes to entries in the agency's automated account records. The acting Executive Director and staff reported that the vast majority of records matched those in the system, but that there were a number of disparities reflecting, as OLA notes, transactions that were entered with an error into the automated system or that had been incompletely entered. These disparities were further investigated. At the end of the project, the acting Executive Director reported to both the Board and the agency's external auditor about the process and that all of the records in question had been investigated and differences resolved. There remained a small group of accounts with disparities. Approximately 40 accounts, amounting to about \$200,000 in overpayments met the Board's policy thresholds for potential recovery.</p> <p>During the course of this project the Board received verbal progress reports from the acting Executive Director and discussed with the Assistant Attorney General the appropriate disposition of the remaining disparities. The Board and acting Executive Director, with advice of the Assistant Attorney General, also undertook a review of relevant Board policies, such as calculation of refunds, roll-overs, etc. Based on this, the Board directed the Assistant Attorney General to initiate recovery of the remaining \$200,000, provided appropriate supporting documentation could be found via further archive searches, to assure that the recovery would be fully defensible. As OLA notes, to date the required documents have not been found, but they will be included in the proposed audit of accounts the Board agreed to commission.</p> <p>Thus the Board proactively oversaw, empowered and augmented the staff; it received and discussed progress reports, updated policies regarding payments and payment recovery, determined a recovery process and continued to perform its other responsibilities. It anticipated the findings of the project being completed by September 2015 in order to present them to the agency's independent external auditing firm for its annual audit review and test of control. That presentation was made by the acting Executive Director and reviewed by the auditors, and a clean audit was delivered to the Board and included in the 2015 Annual Report. The auditors noted no significant control issues and found that the disparities and differences were not of material significance to the Plan's Trust. Prior and subsequent independent external audits over the years also found no significant issues and the Board placed its confidence in them.</p> <p>The Board, in retrospect, agrees that it should have secured the project paperwork, and required and retained formal detailed written reports and updates in 2015 to document the work undertaken. Unfortunately, since 2015 Maryland 529, as the OLA notes, experienced further staff transitions and office and file reorganizations that have further complicated location of remaining notes and paperwork from the project. Despite the fact that the Board did receive and discuss progress reports from the acting Executive</p>
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	Director, had confidence that the augmented staff competently pursued the project, and were reassured by the external auditor's review and clean audit, the lack of obtainable documentation accessible at this point is clearly a serious omission. This is one of the reasons the Board agrees and supports the audit of accounts as OLA recommends and is presently in the process of procuring this audit.
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Auditor's Comment:

Maryland 529 agrees with the recommendations, but disagrees that the Maryland 529 Board was not proactive in providing oversight of Maryland 529 MPCT. The response states that the Trust is well invested and fully funded, and that, before implementing the May 2015 change in management, the Board put together a strong transition leadership team.

The audit report does not dispute the financial position of MPCT and, in fact, notes that MPCT had a \$432.5 million surplus as of June 30, 2018. However, while a transition leadership team may have been established, as stated in the report, during the period between May 2015 and March 2019, four different individuals served as CEO or acting CEO, and four different individuals served as CFO or acting CFO. In addition, there were two periods, one for four months and one for eight months, without an appointed CFO or acting CFO.

Regarding the discovery of unopened and unprocessed business documents noted in the audit report, the response states that the 187 boxes found in the records room were presumably retrieved from State Archives in an effort to reconcile the account issues from other found documents and were not necessarily unprocessed. Maryland 529 did not provide documentation that this occurred and, as explained in the audit report, Maryland 529 personnel represented to the Board in August 2015 that its records had not been updated for the documents in these boxes.

The response further states that, upon the discovery of these unopened and unprocessed business documents, the Board authorized staff overtime and the recruitment of contractual staff to examine and investigate these documents. The response indicates that the Board received verbal progress reports from the acting Executive Director, and that it directed certain related actions to be taken. The response references certain specific results of the investigation and states that, upon completion of the investigation process, the acting Executive Director reported to the Board that all records in question had been investigated and differences resolved.

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As stated in our report, there was an overwhelming lack of specific documentation supporting whether effective oversight was provided by the Board during the audit period, particularly in light of the recurring management turnover and discovered unprocessed business documents, and there was little to no documentation of the investigative steps taken, findings, and conclusions reached regarding the discovered documents. Consequently, it was and still is not possible to confirm the assertions made by Maryland 529 regarding Board oversight and the investigative process and results.

Nevertheless, the response states that the Board agrees that it should have secured the related paperwork, and required and retained formal detailed written reports and updates to document the work undertaken.

	<p>In further response to the findings and recommendation (A), regarding its oversight responsibilities in general beyond the specific issue of the 2015 project, the Board has taken and is taking many specific steps to enhance both Agency management and Board oversight. For example, in 2016 the Board approved a new management structure, including moving the investment-related functions from the CFO to a newly-created CIO position so that the CFO could focus on budget and finance, including accounting. In 2016 the Board recruited the first separate CIO, who, after serving as acting Executive Director in 2018, is now the permanent MD 529 Executive Director. With the Board's support the present CFO joined MD 529 in May, 2018 following significant staff turnovers in 2017. She met with OLA auditors soon after when they began this audit, and subsequently has restructured the accounting review procedures, brought on new advanced accounting staff and directed reviews and corrections going back to 2017. She has managed compliance with the OLA accounting recommendations. At the same time, the Board initiated and oversaw moving the automated accounts record-keeping into the State's cloud-based environment in coordination with DoIT and, recently, created an agency internal audit and compliance function. The next priority issue is to move from the legacy record-keeping system to a modern system with reduced dependence on manually prepared calculations.</p> <p>In addition to these actions to strengthen and stabilize agency management and operations, the Board has strengthened its own oversight capacity — while acknowledging that it is a policy-making, not a management body. Restructured Board committees and procedures have enhanced and focused responsibilities. Audit and governance-related responsibilities have been concentrated in a new Audit & Governance Committee to focus on a continuing basis on overseeing Agency audits, responses, and on-going compliance with recommendations.</p>
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	The Board is dedicated to strong, appropriate Board oversight. The enhanced staff and stable leadership is prepared to continue to build the MD 529 programs, and with improved accounting procedures, new tools and the benefit of the proposed audit, will be ready to move our MCPT confidently to the next stage.		
Recommendation 1b	Agree	Estimated Completion Date:	Dec 2020
Please provide details of corrective action or explain disagreement.	<p>As noted above, the Board reasonably and appropriately relies on annual audits by external auditors to identify and address internal control issues. The newly restructured Audit & Governance Committee will be responsible for overseeing audits, audit recommendations and compliance, as well as other reviews of internal controls.</p> <p>In line with the OLA recommendation, the Board is commissioning an audit of accounts for the MPCT plan. One component of this audit will be review of MD 529 internal controls, including policies, procedures and workflows, identification of any current control deficiencies or gaps, and recommendations for corrections. MD 529 will consider recommendations and implement appropriate corrections; the Board's Audit & Governance Committee will oversee the report and compliance.</p>		
Recommendation 1c	Agree	Estimated Completion Date:	Dec 2020
Please provide details of corrective action or explain disagreement.	<p>The agency, through the Department of Budget and Management, issued a Task Order RFP (TORFP) under DBM's master contract for auditors on October 2, 2019 with no responses. MD 529 is now issuing an RFP which would solicit from a larger pool of accounting firms than in the DBM master contract. MD 529 will procure an audit that will cover accounts throughout the history of MD 529, and include, but not be limited to the period of time that OLA recommends and the irregularities noted in the former employee's account.</p> <p>The audit is intended to include three components : 1) A review of MPCT Program and the record-keeping database, including accuracy of data and transactions of different types, and tests to assure that procedures are consistent and in compliance with MPCT Disclosure documents; 2) Development of an up-to-date Procedures Manual including benefits processing, based on documenting current procedures, creating current workflow process diagrams, identifying risk areas and providing recommendations for improvement; and 3) Development of an up-to-date Procedures Manual for operational areas of MD 529 accounting including payroll, invoice processing, budget, etc. This component will also include workflow analysis, charting and documentation, and appropriate recommendations which will be reviewed and incorporated as appropriate.</p>		
Recommendation 1d	Agree	Estimated Completion Date:	Dec 2020
Please provide details of corrective action or explain disagreement.	MD 529 is developing a detailed plan for correcting any errors or discrepancies that are discovered during and through the independent audit. The plan, which will be implemented concurrently with the audit, includes consulting with the Assistant Attorney General regarding legal issues and accounting disparities, including appropriate action with respect to any potential overpayments.		
Recommendation 1e	Agree	Estimated Completion Date:	Dec 2020

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Please provide details of corrective action or explain disagreement.	In order to assure that appropriate action is taken to address findings and recommendations of the audit, the plan in (D) includes requirements for appropriately documenting and retaining documentation of steps taken throughout the process and their results, including both management actions and Board discussion, decisions and actions.
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Maryland 529

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Maryland Prepaid College Trust Disbursements and Adjustments

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.

We recommend that Maryland 529 ensure that independent supervisory reviews of disbursements processed are performed and adequately documented, and that evidence of these independent reviews are reviewed by the authorized signers of disbursement checks.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	Estimated Completion Date:	Sep 2018
Please provide details of corrective action or explain disagreement.	Since September 2018, Maryland 529 has implemented procedures to ensure disbursements are reviewed by independent Advanced Accountants within the Agency, that the reviews are adequately documented, and that authorized signers are ensuring the proper review has occurred prior to signing the disbursement checks.		

Maryland 529

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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.

We recommend that Maryland 529

- a. establish procedures to require that independent supervisory personnel verify the propriety of MPCT account adjustments and underlying calculations using available output reports and supporting documentation, and
- b. investigate and resolve the aforementioned adjustments resulting in undercharges.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	Estimated Completion Date:	Sep 2018
Please provide details of corrective action or explain disagreement.	All account adjustment transactions since July 2018 have been reviewed. Until September 2019, the reconciliation accountant reviewed monthly the MPCT account adjustments and underlying calculations using available output reports and supporting documentation. Subsequently, in September 2019 the Benefits Manager began reviewing these same transactions on a daily basis.		
Recommendation 3b	Agree	Estimated Completion Date:	December 2020
Please provide details of corrective action or explain disagreement.	The four accounts noted by OLA were reviewed and any necessary corrective actions will be taken during the course of the independent auditor review.		

Maryland 529

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Bank Account Reconciliations

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.

We recommend that Maryland 529 prepare adequate reconciliations for its bank accounts. Specifically, we recommend that Maryland 529

- a. ensure that all applicable account activity and the related account balances are properly included in the reconciliations, and that all such activity is adequately supported by appropriate documentation;
- b. ensure that all reconciling amounts, including the discrepancies noted above, have been fully investigated and resolved; and
- c. ensure that all reconciliations are reviewed and approved by independent supervisory personnel, and that these reviews are adequately documented.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	July 2018
Please provide details of corrective action or explain disagreement.	<p>All applicable activities for the accounts noted by OLA (including the depository, checking, treasury, ABLE and Investment accounts) in the internal record keeping and financial systems were reconciled to the bank records for FY 2018 prior to the year-end close.</p> <p>All applicable account activity for the disbursement account and its transactions from the internal record keeping system were reconciled on a monthly basis to the bank statement, beginning July 1, 2017 for FY 2018, and included the outstanding check balance. The determination of the outstanding check balance was based on checks issued from the record keeping system, cleared checks at the bank, and internally cancelled and voided checks.</p> <p>During August 2018, it was brought to our attention about the availability of a bank report that captured the outstanding check balances. At that time, the report available from the bank showed \$9.4M in outstanding checks while the balance as per our internal reconciliation</p>		

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	<p>showed \$1.07M. The discrepancies were researched and resolved between September 2018 and April 2019. The majority of the differences were checks that were voided or cancelled internally and had not been mailed out; however, voided checks had not been cancelled with the bank.</p> <p>Starting April 2019, the reconciliation process for the disbursement account has been modified to reconcile the account transactions not only to the Bank Statements but also to the bank report that captures the outstanding check balances. Additionally, within the monthly reconciliation, a process has been established to cancel all outstanding checks over 90 days on a monthly basis.</p>		
Recommendation 4b	Agree	Estimated Completion Date:	April 2019
Please provide details of corrective action or explain disagreement.	<p>All reconciliations have been completed, discrepancies identified and resolved. Monthly reconciliations are being completed, reviewed and signed off for all 5 bank accounts. Reconciliations of all bank accounts for FY 2018 were completed prior to the close of FY 2018. However, as noted above, the review and reconciliation of the \$9.4M outstanding checks was completed by April 2019.</p>		
Recommendation 4c	Agree	Estimated Completion Date:	July 2018
Please provide details of corrective action or explain disagreement.	<p>Starting FY 2019, all monthly reconciliations are reviewed and signed off by the Director of Finance. The reconciliations have been documented and saved. All reconciliations were prepared, reviewed and corrected for errors for FY 2018 prior to the close.</p>		

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Abandoned Funds

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.

We recommend that Maryland 529 obtain a formal legal opinion regarding the applicability of the Maryland Abandoned Property Act to its accounts, and establish processes to implement the Act consistent with that opinion (repeat).

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 5	Agree	Estimated Completion Date:	April 2020
Please provide details of corrective action or explain disagreement.	The agency did receive advice from the Assistant Attorneys General on the issue of the applicability of the Maryland Abandoned Property Act to Maryland 529 trust account activity. Maryland 529 will seek legislative clarification with respect to the handling of MD 529 accounts. If legislative clarification is not provided, the agency will seek a formal legal opinion regarding the applicability of the Maryland Abandoned Property Act to its accounts.		

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Rollover and Refund Payment Methodology

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.

Since the purpose of MPCT is to contract for a guaranteed payment of State university or college costs for a specified beneficiary, and not as an investment vehicle, we recommend that the Maryland 529 Board

- a. conduct a documented evaluation of the methodology it uses for calculating refund and rollover payments, including consideration of methodologies used by other states, to ensure that rollover and refund payments are not excessive; and
- b. ensure that future tuition contracts clearly reflect any changes Maryland 529 considers necessary as a result of this evaluation.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 6a	Agree	Estimated Completion Date:	Jan 2021
Please provide details of corrective action or explain disagreement.	MD 529 will document and review the current practice, consult with other prepaid plans to understand their methods and calculations, and then determine the appropriateness of the current method being used.		
Recommendation 6b	Agree	Estimated Completion Date:	Completed
Please provide details of corrective action or explain disagreement.	As a matter of process, MD529 always ensures that the disclosure statement reflects any changes or updates to the Plan.		

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System Access and Security

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.

We recommend that Maryland 529

- a. perform an immediate documented review for propriety of user access to its MPCT automated system, and perform periodic reviews thereafter, as called for by the aforementioned *Information Technology Security Manual*;
- b. take any necessary corrective action as a result of these reviews, including removing unnecessary user access and restricting access capabilities for critical functions to those individuals who require such capabilities to perform their assigned job duties and in a manner that ensures proper segregation of duties; and
- c. immediately remove access from former employees upon termination, including the 11 noted in our finding.

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 7a	Agree	Estimated Completion Date:	
Please provide details of corrective action or explain disagreement.	<p>At the time these issues were brought to the attention of MD529 staff, they were immediately investigated and MD529 determined that of the 206 users noted by OLA, 18% were MD529 employees and 82% were users employed by the Program Manager of the College Investment Plan.</p> <p>None of the users employed by the Program Manager had improper access at the time of investigation. Access of MD529 staff was reviewed and appropriate access has been confirmed based on specific job functions. It should also be noted that MD529 staff can only access the internal record keeping system while physically in the office; no remote access is possible to complete account holder processing or transactions or to view account holder information; however, MD529 agrees that the access should have been removed immediately.</p>		

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	As called for by the aforementioned <i>Information Technology Security Manual</i> , MD529 will review and document access on a periodic basis going forward.		
Recommendation 7b	Agree	Estimated Completion Date:	Sept 2019
Please provide details of corrective action or explain disagreement.	At the time these issues were brought to the attention of MD529 staff, they were immediately investigated. MD529 has taken the applicable corrective action as a result of these reviews, including removing unnecessary user access and restricting access capabilities for critical functions to those individuals who require such capabilities to perform their assigned job duties. MD529 continues to look for additional application support to assist with further segregation of access (to the extent possible).		
Recommendation 7c	Agree	Estimated Completion Date:	Dec 2019
Please provide details of corrective action or explain disagreement.	<p>OLA notes that 206 people had access to the record keeping system and that is accurate. Of the 206, approximately 82% (167 users) of those users were employed by the Program Manager of the College Investment Plan who was using the same system and provided system support to MD529. The remaining 18% (37 users) were MD529 employees or additional support staff of MD529.</p> <p>The Program Manager for the College Investment Plan had been utilizing the same record keeping software since its inception in 2001 while also providing system support to MD529. Of the 167 employees noted in the OLA list, 57 of those were already expired and disabled users. The remaining users were verified and confirmed to be active and have proper access. The Program Manager has only ever provisioned its users of the record keeping system with “view only” access to MPCT account holder information. As such, these users did not ever have the ability to make changes to the data for an MPCT account holder. This practice remains in place today.</p> <p>OLA notes that 11 terminated MD529 employees maintained access and MD529 has been working with DoIT to remove that access. A checklist has been established to ensure that terminated MD529 employees immediately have system access removed.</p>		

Auditor’s Comment:

Maryland 529 agrees with the recommendation but states that system access was expired and disabled for 57 of the users employed by its system support services provider (the Program Manager for the MCIP). The response also states that its support services provider employee access is limited to “view only” with respect to

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MPCT account holder information. However, documentation we obtained during the audit contradicts Maryland 529's claim, and shows that all 206 system users had active (not disabled) access and that at least 18 support services provider employees could modify account holder activity based on our test.

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Finding 8

Maryland 529 lacked assurance that the automated system used for administration of MPCT was sufficiently protected against operational and security risks.

We recommend that Maryland 529

- a. seek to amend the existing agreement and ensure that future agreements with this service provider include provisions requiring the provider to regularly obtain SOC 2 Type 2 reviews or equivalent security assurance reviews pertaining to its system operations, and**
- b. obtain and review copies of the resulting reports from the service provider to ensure that the related independent reviews adequately address critical security concerns over the provider's system and that the service provider implements all critical report recommendations.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 8a	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	The contract with the noted vendor was terminated in February of 2019 and there will be no future agreements with this vendor. The services from this vendor were migrated to a cloud platform managed by the Maryland Department of Information Technology ("DoIT"). DoIT requires the cloud platform provider to complete a SOC 2 Type 2 regularly. If MD529 contracts with another record keeping provider, we will ensure a SOC 2 Type 2 audit is required within the contract.		
Recommendation 8b	Agree	Estimated Completion Date:	February 2019
Please provide details of corrective action or explain disagreement.	Since the contract was terminated in February of 2019 and was transferred to DoIT, they will obtain and review the SOC 2 Type 2 report. Additionally, MD529 will request the annual external auditor to review the reports.		

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Cash Receipts

Finding 9

Controls were not established to ensure that all mail collections for MPCT were properly accounted for and deposited.

We recommend that Maryland 529

- a. ensure that all checks are restrictively endorsed immediately upon receipt; and**
- b. ensure that the initial record of all collections received and recorded in the shared computer drive is secured, and provided directly to an employee independent of the cash receipts function for agreement to deposit documentation.**

Agency Response			
Analysis			
Please provide additional comments as deemed necessary.			
Recommendation 9a	Agree	Estimated Completion Date:	August 2018
Please provide details of corrective action or explain disagreement.	Beginning August 2018, a process was established to restrictively endorse all checks immediately upon receipt.		
Recommendation 9b	Agree	Estimated Completion Date:	August 2018
Please provide details of corrective action or explain disagreement.	<p>Beginning August 2018, a process was established to ensure that a record of collections received was recorded and reviewed by three independent employees. The first employee creates an electronic log that is saved on shared drive in a secured folder. That person prints a copy of that log to give to independent reviewers. The printed log is used by each of the reviewers to verify against the checks deposited in the bank. The printed log is signed by the each of the independent reviewers. The printed and signed copies of the log is then scanned and filed on shared drive in a secured folder.</p> <p>In November 2019, MD529 added an additional step whereby by 2 copies of the log are printed by the first person and each reviewer receives their own copy to complete the review.</p>		

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