



DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

May 10, 2016

Warren G. Deschenaux
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator Edward J. Kasemeyer, Chair
Senate Budget and Taxation Committee
Miller Senate Office Building, 3 West Wing
11 Bladen Street
Annapolis, Maryland 21401

Delegate Maggie McIntosh, Chair
House Appropriations Committee
House Office Building, Room 121
6 Bladen Street
Annapolis, Maryland 21401

Dear Senator Kasemeyer and Delegate McIntosh:

The Office of Legislative Audits (OLA) has conducted a review of the actions taken by the Maryland Higher Education Commission (MHEC) to resolve two repeat findings in our October 29, 2013 audit report. This review was conducted in accordance with a requirement specified in the April 2015 *Joint Chairmen's Report* (JCR), page 117. The JCR required that, prior to the release of \$100,000 of its administrative appropriation for fiscal year 2016, MHEC must take corrective action on all unresolved repeat audit findings. The JCR language further provided that OLA submit a report to the budget committees listing each unresolved repeat audit finding along with a determination that each finding was corrected. The OLA report is required to be submitted to allow 45 days for the budget committees to review and release the funds prior to the end of the fiscal year. This is the second consecutive year that a requirement regarding repeat audit findings has been included in the JCR for MHEC. In response to the requirement in the April 2014 JCR, we notified the budget committees on March 12, 2015 that MHEC had resolved two of the four findings.

The October 29, 2013 audit report of MHEC contained four repeat audit findings (findings 2, 3, 4, and 5) that were addressed by six recommendations. In our March 12, 2015 letter, we concluded that the two recommendations related to findings 4 and 5 were resolved and, consequently, the remaining unresolved four recommendations, which relate to findings 2 and 3, were the subject of our current review. In accordance with the April 2015 JCR requirement, MHEC provided a report to OLA, dated November 9, 2015, detailing the corrective actions that it had taken with respect to these unresolved repeat audit findings. We reviewed this report and related documentation, performed limited tests and analyses of the information, and held discussions with MHEC personnel as necessary to assess the implementation status of the related recommendations. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards.

Exhibit 1 is MHEC's November 9, 2015 status report, which indicated that certain corrective actions had been taken to address the unresolved recommendations for the two remaining repeat findings, although, for both findings, the corrective actions were ongoing. Our review determined that MHEC had taken the necessary corrective actions to satisfactorily implement one of the unresolved four recommendations. Three recommendations, relating to the two findings, remain unresolved.

A summary of OLA's assessment of the status of each of the unresolved repeat audit findings is included in the attached Exhibit 2. Exhibit 3 contains OLA's assessments regarding the two repeat findings that had not been resolved. After discussing our review results, MHEC generally agreed with the accuracy of the information presented. We wish to acknowledge the cooperation extended to us by MHEC during this review.

We trust our response satisfactorily addresses the JCR requirement. Please contact me if you need additional information.

Sincerely,



Thomas J. Barnickel III, CPA
Legislative Auditor

cc: Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Joint Audit Committee Members and Staff
Senator Thomas V. Mike Miller, Jr., President of the Senate
Delegate Michael E. Busch, Speaker of the House of Delegates
Governor Lawrence J. Hogan, Jr.
Comptroller Peter V.R. Franchot
Treasurer Nancy K. Kopp
Attorney General Brian E. Frosh
David R. Brinkley, Secretary Department of Budget and Management
Anwer Hasan, Chairman, Maryland Higher Education Commission
James D. Fielder, Jr., Ph.D., Secretary, Maryland Higher Education Commission
Jeffrey F. Cann, Director of Budget and Finance, Maryland Higher Education Commission
Joan Peacock, Manager, Audit Compliance Unit, Department of Budget and Management
Warren G. Deschenaux, Executive Director, Department of Legislative Services
Garret T. Halbach, Policy Analyst, Department of Legislative Services

Exhibit 1 to May 10, 2016 Letter to Joint Chairmen



MHEC
Creating a state of achievement

Larry Hogan
Governor

Boyd K. Rutherford
Lt. Governor

Anwar Hasan
Chairperson

Jennie C. Hunter-Cevera
Acting Secretary

November 9, 2015

RE: MHEC Audit Corrective
Action Plan

Thomas J. Barnickel, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 West Preston Street
Room 1202
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for providing the Maryland Higher Education Commission (MHEC) the opportunity to discuss the Office of Legislative Audits (OLA) audit report issued October 29, 2013, including the subsequent March 12, 2015 OLA follow-up letter.

During the March follow-up process, OLA deemed two of the four repeat findings unresolved. While MHEC has continued to make significant progress in resolving these findings, fiscal constraints limit our ability make consistent progress.

Enclosed (Exhibit I) please find our written responses in regards to the March 12, 2015 follow-up letter sent by OLA to the Budget Committee Chairman. The exhibit details the corrective actions on the unresolved recommendations (recommendations 2a, 2b, 3a, and 3b).

We are currently working with your on-site staff members and look forward a healthy and enriching dialogue.

Sincerely,

Dr. Jennie C. Hunter-Cevera, Ph.D.
Acting Secretary of Higher Education



MHEC
Creating a state of achievement

EXHIBIT I.

MHEC's response to the OLA's follow-up, unresolved issues/findings

OLA Finding 2

MHEC did not independently review financial aid awards and changes to critical information in its automated financial aid system.

Recommendation 2

We recommend that MHEC

- a. review financial aid award determinations, in accordance with its policy, to help ensure the propriety of the awards (repeat);**
- b. ensure employees who do not have the ability to modify such data use MDCAPS output reports to verify that all critical changes recorded are accurate and properly authorized (repeat).**

MHEC Response:

The Commission has taken the following actions:

- A.) Audit Review/Quality Assurance Process-** The Office of Student Financial Assistance (OSFA) has established an internal audit review beginning in March 2015 at four randomly selected institutions. OSFA performed the preliminary audit reviews to standardize the required policies and procedures for the external audit review process scheduled to begin in October 2015. A sample of FY 2014 recipients participating in the Howard P. Rawlings Guaranteed Access (GA) Grant, Educational Assistance (EA) Grant, and Campus-Based Educational Assistance Grant (CBEAG) programs were selected for review at each institution. The full external audit review has begun in October 2015, to be performed annually for a period of three years, and then transitioned to an independent audit performed by independent auditors hired by each institution. It is important to note that this process could not be performed earlier due to lack of staff at MHEC. To perform the review process, OSFA will utilize current staff. The process will require staff to be in and out of the office during the review period from October through April.
- B.) Access Ability-** OSFA is working with its software provider to create a standard report that will identify all critical changes within the MDCAPS system for the purpose of reviewing and monitoring critical changes made to student accounts. This report was

implemented in November 2015. OSFA's Program Managers will review the report monthly to identify changes made to student accounts to ensure the accuracy of each student record. In addition, employees who have the ability to modify critical changes will be prohibited from reviewing MDCAPS critical changes reports.

In December 2013, OSFA designated one Program Manager to perform this task. The Program Manager assigned to perform the quality assurance process is restricted from "awarding" since December 2013 and no longer modifies and/or changes student awards. In addition to the quality assurance process, OSFA also developed a manual award report that identifies students who were manually awarded. This report is reviewed on a monthly basis by the Program Manager.

OSFA was informed by the auditor that under the designated Program Manager's current user permissions, access to create users and adjust awards was not disabled. OSFA was unaware that the Program Manager had this access within the system, nor was the Program Manager aware. However, OSFA can confirm that no awards were made or adjusted by the Program Manager through the manual award report and that no user accounts were created and/or potentially used to alter student awards.

OSFA has corrected this issue, and as of December 2014, the designated Program Manager no longer has access to create or modify a user or to adjust a student's award.

OLA Finding 3

MHEC did not adequately monitor student service obligation fulfillment as a condition for certain financial aid awards.

Recommendation 3

We recommend that MHEC

- a. ensure that service obligation notices and employer verifications are sent and returned in a timely manner (repeat);**
- b. take appropriate follow-up action when service obligations are not being performed, including placing the accounts into repayment status and properly transferring the accounts to the accounting department to initiate collection efforts (repeat);**

MHEC Response:

MHEC has taken the following actions:

- A.) In December 2014, OLA identified a programming error within the MDCAPS system. At that time, the system was not generating service obligations in subsequent years. In other words, the system was generating notifications once per student rather than annually.**

OSFA was unaware that notifications were not generated for students who received them in a prior year. This issue has been corrected by the software provider as of January 2015. OSFA was able to generate service obligation and employer notifications to all students who were affected by the programming error.

OSFA consistently sends out service obligations and employer notifications in a timely matter as required for all applicable students on a weekly basis. However, as noted in our written report, we realized the MDCAPS - SOLAR module responsible for generating the service obligation notices required programming fixes. As a result, we dedicated two OSFA program administrators to perform a weekly audit review of 75 records on over 24,000 records in order to ensure all statuses are accurate. The internal audit review is still being performed as we anticipate having this review process completed by the end of 2015.

This ongoing review has identified over 1,000 individual students who were found to be out of compliance and subsequently sent to repayment. In FY 2015, MHEC collected over \$1.3 million in student obligation payments, a 30% increase over the previous year.

Exhibit 2 to May 10, 2016 Letter to Joint Chairmen

Status of Unresolved Repeat Findings in OLA's October 29, 2013 Audit Report on the Maryland Higher Education Commission (MHEC)

Prior Unresolved Recommendations Pertaining to Repeat Findings	Status Based on OLA Review
Financial Aid	
2. We recommend that MHEC a. review financial aid award determinations, in accordance with its policy, to help ensure the propriety of the awards.	Corrected
b. ensure that employees who do not have the ability to modify such data use output reports from its automated Maryland College Aid Processing System (MD CAPS) to verify that all critical changes recorded are accurate and properly authorized.	Not Resolved
3. We recommend that MHEC a. ensure that service obligation notices and employer verifications are sent and returned in a timely manner.	Not Resolved
b. take appropriate follow-up action when service obligations are not being performed, including placing the accounts into repayment status and properly transferring the accounts to the accounting department to initiate collection efforts.	Not Resolved

Shaded recommendations are more fully described in Exhibit 3.

Exhibit 3 to May 10, 2016 Letter to Joint Chairmen

OLA's Assessments Regarding Repeat Findings That Had Not Been Resolved

Financial Aid

Prior Report Recommendation – Finding 2

We recommend that MHEC

- b. ensure that employees who do not have the ability to modify such data use output reports from its automated Maryland College Aid Processing System (MD CAPS) to verify that all critical changes recorded are accurate and properly authorized (repeat).**

Status: Not Resolved

MHEC has developed an output report that captures critical changes recorded on MD CAPS; however, MHEC has not yet instituted a process for verifying that all critical changes affecting financial aid awards were accurate and properly authorized.

Prior Report Recommendation – Finding 3

We recommend that MHEC

- a. ensure that service obligation notices and employer verifications are sent and returned in a timely manner (repeat); and**
- b. take appropriate follow-up action when service obligations are not being performed, including placing the accounts into repayment status and properly transferring the accounts to the accounting department to initiate collection efforts (repeat).**

Status: Not Resolved

MHEC was not sending or following up on service obligation notices and employer verification notices in a timely manner. Consequently, there was a lack of assurance that each student's service obligation was being met or that appropriate follow-up action was being taken if service obligations were not met, such as requiring repayment of financial aid awarded.

In general, MHEC policy calls for service obligation and employer verification notices to be processed weekly, that students and employers be requested to respond within 21 days, and that two follow-up notices to students or employers be sent at 21-day intervals before placing an account into repayment status. Service obligation notices are generated based on accounts identified by MHEC's Service Obligation Loan Repayment system (SOLR), which is a module of MD CAPS that tracks each recipient's status of service obligations, service obligation notices, and employer verifications. Using SOLR as the source, we examined 8 accounts for recipients who had received scholarship funds totaling approximately \$259,000 and whose status would have required service obligation notices and/or employer verifications to be sent after our

preceding JCR follow-up in March 2015. We noted the following examples of a lack of timely student or employer notification and/or follow-up.

- For 2 students, an initial service obligation notice was not sent until 27 to 43 days after the individuals were placed in service pending status. Since MHEC's policy is to process notices weekly, notices should be sent within 7 days of placing an account in pending status. In addition, follow-up notices for students who failed to respond to their initial notices were not sent timely. For example, one student who failed to respond was not sent a second notice until 92 days after the first notice. The student finally responded 139 days after the first notice. A second student who never responded was sent only one follow-up notice 48 days after the first notice.
- As of April 1, 2016, employer verification notices were not sent for 2 students who responded to their service obligation notices in April and August of 2015, and verification notices for another 4 students were not sent to their employers for periods of 27 to 59 days after receipt of the students' responses. Employer verification notices are to be processed weekly, and consequently should be sent within 7 days of receiving a student's response to his or her service obligation notice.
- MHEC had not followed up with 3 employers who were sent initial employer verification notices even though, as of April 1, 2016, no responses had been received from the employers for 42 to 319 days. For another 2 employers, MHEC did not send the employers follow-up notices even though responses from the employers were not received until 83 and 111 days after the initial verification notices were sent.

In a separate test of 10 other students to whom three service obligation notices had been sent between July 21, 2015 and December 4, 2015, we determined that, although no response had been received from 9 of the students as of April 1, 2016, those accounts had not been placed into repayment status as called for by MHEC's policy. Consequently, the accounts had not been transferred to MHEC's accounting department for repayment. These 9 students had received scholarship funds totaling approximately \$119,000.