Department of Legislative Services
Office of Legislative Audits

Maryland 529

Report Dated December 3, 2019

Audit Overview

- Maryland 529 offers two college savings plans, the Maryland Prepaid College Trust (MPCT) and the Maryland College Investment Plan (MCIP).
  - MPCT offers tuition contracts for the future payment of tuition and fees at eligible institutions of higher education. As of June 30, 2018, Maryland 529 was administering 32,900 MPCT tuition contracts and had program investments of $1.2 billion.
  - MCIP was established to allow individuals to invest funds to help pay college costs for designated beneficiaries. As of June 30, 2018, 199,200 beneficiaries had investment savings accounts in MCIP with balances totaling $5.8 billion. A private investment company has been contracted for management of MCIP.
- Primarily as a result of certain audit planning considerations the focus of our audit was on MPCT. Our report included 9 findings, with Finding 5 repeated from our preceding audit report.

Key Findings

- Limited documentation and explanations regarding certain unusual issues and events impacting operations, and whether effective oversight was provided. These events included:
  - Agency discovery of numerous old unopened and unprocessed business documents
  - Certain irregularities attributed to a former employee
- Insufficient procedures related to disbursements from and adjustments to MPCT accounts, and for performing effective and timely reconciliations of all bank accounts.
- Methodology for calculating disbursement amounts for MPCT account holder refunds and rollovers (transfers), in our opinion, often resulted in excessive payments.
- Inadequate monitoring of access to the automated system used to administer MPCT, and a lack of assurance that the system was properly secured against operational and security risks.

529 Conditions & Board Oversight - Finding 1

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

- After the May 2015 resignation and termination of Maryland 529's CEO and CFO, respectively, numerous unprocessed documents, including old unopened and undelivered mail, were discovered within the agency's offices. For example, Maryland 529 personnel found 187 boxes of old business documents, some dating back 10 years or more, for which required action had never been taken. In August 2015 Maryland 529 management advised the Board of $4.3 million in account holder disbursements that had not been recorded or had been incorrectly recorded in Maryland 529's records.

529 Conditions & Board Oversight - Finding 1 (cont.)

- Other documents discovered included:
  - undeposited checks totaling $14,000 dating back to 2007,
  - disbursement checks for amounts of up to $28,000 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, and
  - documentation of overpayments to account holders totaling approximately $200,000.
- Subsequent to discovery of these documents, certain irregularities attributed to a former employee's personal Maryland 529 accounts were identified and referred to the Office of the Attorney General's Criminal Division (CD).
- Detailed listings of documents discovered and records of actions taken, if any, to address these documents were not maintained.

529 Conditions & Board Oversight - Finding 1 (cont.)

- There was no written report of findings and conclusions from any subsequent review or investigation of the discovered documents, nor could Maryland 529 personnel provide any of the discovered documents at the time of our audit.

- There is no documentation that, subsequent to referral of the aforementioned irregularities to the CD, the Board directed Maryland 529 to take specific action, such as a forensic audit, to identify and address process and documentation deficiencies, including those that may have contributed to these conditions.

- We were advised that the Board was kept informed and was actively engaged in addressing these events. However, the overwhelming lack of specific documentation supporting these assertions creates a lack of assurance that Board oversight and action was sufficient to address these significant events.

MPCT Disbursements & Adjustments - Findings 2 & 3

Supervisory reviews of MPCT disbursements and account adjustments were either not documented or not performed. MPCT disbursements and monetary adjustments in fiscal year 2018 totaled $65.9 million and $32.1 million, respectively.

- <u>Finding 2 – Disbursements</u>
  Supervisory reviews of manual calculations supporting MPCT disbursement transactions were not documented and our test of 20 disbursements disclosed certain calculation errors in 3 of the 20. The reliance on manually prepared calculations, which include a number of variables, creates an increased susceptibility to error.
- <u>Finding 3 –Adjustments</u>
  Adjustments to MPCT accounts and account terms were unilaterally processed and were not subject to independent supervisory review and approval. From our test of 13 adjustments, we noted that an employee had erroneously processed an adjustment which effectively resulted in the issuance of a duplicate check for $9,600.

Bank Account Reconciliations - Finding 4

- Maryland 529 did not prepare adequate bank reconciliations for three bank accounts used to administer MPCT activities, and many reconciliations lacked documentation of supervisory review.
    - Reconciliations for the disbursement account were developed primarily from internal records instead of comparing to bank records. As a result, the June 2018 reconciliation did not identify an $8.4 million difference for outstanding checks.
    - Reconciliations for the depository account did not include account balances or compare transfer activity. Deposits during fiscal year 2018 totaled $94.4 million.
    - Reconciliations for the administrative fees account were not performed during fiscal year 2018, with deposits totaling $2.8 million for that year.

Rollover/Refund Payment Methodology - Finding 6

Maryland 529's methodology for calculating disbursements for MPCT account holder refunds and rollovers (transfers 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. The factor contributing to this conclusion was the method used to calculate interest to be paid as part of these transactions.

- For example, when an account holder requested a refund or rollover, as permitted by their tuition contract, interest to be paid was calculated for each year the account was open using the account holder's final balance at the time of refund or rollover rather than the actual balance at the end of each year.

Rollover/Refund Payment Methodology - Finding 6 (cont.)

- The methodology significantly impacted the interest amount for account holders who accumulated their final balance over several years.

- Our review of 17 refunds and rollover disbursements totaling $1,027,278, disclosed that approximately $109,000 more in interest was paid under Maryland 529's method, than would have been paid if the account balance at the end of each year had been used to calculate interest due.

- For example, for one of these 17 accounts, which had been open for 13 years, interest paid totaled $32,110, but would have totaled $17,290 if year end balances had been used. (Refer to Table 2 on audit report page 26)

System Access & Security - Findings 7 & 8

- **Finding 7**
  Maryland 529 did not adequately monitor access granted to users of the automated system used to administer MPCT. Our review of 46 users with access to critical functions, such as the capability to post tuition contract payments, disclosed:
  - 10 users who did not require the access for their job duties;
  - 11 former employees whose access had not been disabled; and
  - 5 employees who required the access granted to them, but this resulted in a control weakness, such as an employee who had access to record account holder collections also processed cash receipts.
- **Finding 8**
  Maryland 529 lacked assurance that the MPCT automated system was sufficiently protected against operational and security risks, as an independent security review was not required from the third party that hosted the MPCT system.

Other Findings

- **Finding 5 – Abandoned Funds**

  Maryland 529 did not determine the disposition of uncashed checks totaling $1.7 million noted in our preceding audit report as being more than 3 years old as of August 2014. Nor did it obtain a formal legal opinion regarding the applicability of the Maryland Abandoned Property Act to Maryland 529 trust account activity.

- **Finding 9 – Cash Receipts**

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

Conclusions

Maryland 529 should:

- conduct a forensic audit of past activity that includes the aforementioned unprocessed business documents and irregularities noted in a former employee's accounts;
- ensure that disbursements from MPCT and adjustments to MPCT accounts are reviewed for propriety by independent supervisory personnel and document these reviews;
- ensure that bank reconciliations are properly performed for all bank accounts;
- obtain a formal legal opinion regarding the applicability of the Maryland Abandoned Property Act to its accounts;
- conduct a formal evaluation of the methodology it uses for calculating refund and rollover payments;
- ensure the propriety of MPCT system user access granted and take the necessary steps to obtain assurance that the system is properly secured against operational and security risks; and
- establish sufficient controls over mail collections.