



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued August 29, 2018

Department of Higher Education

For the period July 1, 2014 through June 30, 2016





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Making government work better

August 29, 2018

Mr. Carlos E. Santiago, Commissioner
Department of Higher Education
1 Ashburton Place, Room 1401
Boston, MA 02108

Dear Mr. Santiago:

I am pleased to provide this performance audit of the Department of Higher Education. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2014 through June 30, 2016. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Department of Higher Education for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMBump".

Suzanne M. Bump
Auditor of the Commonwealth

cc: Chris Gabrieli, Chair, Board of Higher Education

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LIST OF ABBREVIATIONS

BHE	Board of Higher Education
BSU	Bridgewater State University
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DCF	Department of Children and Families
DHE	Department of Higher Education
EOE	Executive Office of Education
ERM	enterprise risk management
ICP	internal control plan
IT	information technology
MMARS	Massachusetts Management Accounting and Reporting System
NIL	no-interest loan
OSA	Office of the State Auditor
OSC	Office of the State Comptroller
OSFA	Office of Student Financial Assistance

EXECUTIVE SUMMARY

The Department of Higher Education (DHE) was established under Section 6 of Chapter 15A of the Massachusetts General Laws to serve as the staff to the 13-member Board of Higher Education (BHE). BHE is responsible for coordinating and defining the mission of the Commonwealth's system of public higher education and its institutions. According to mass.gov, DHE "executes [BHE's] policies and day-to-day operations."

In accordance with Section 12 of Chapter 11 of the General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of DHE for the period July 1, 2014 through June 30, 2016. In this audit, we determined whether DHE had a system in place to measure the effectiveness and success of the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the No Interest Loan (NIL) Program. We also examined certain DHE activities related to the accounting for these programs (this examination included the period July 1, 2012 through June 30, 2016) and completed an internal control plan (ICP) review.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 13	DHE's administration of its Foster Child Grant Program, Foster Child Tuition Waiver and Fee Assistance Program, and NIL Program needs improvement.
Recommendations Page 14	<ol style="list-style-type: none">1. DHE should work with BHE and the Legislature to identify a system for tracking and analyzing data as well as to define key success metrics.2. DHE should work to identify any program changes that need to be made to enhance program success.
Finding 2 Page 16	DHE did not effectively manage certain financial aspects of its student financial assistance programs.
Recommendations Page 18	<ol style="list-style-type: none">1. DHE should develop a formal fund balance reconciliation process comprising DHE's MASSAid system and the Massachusetts Management Accounting and Reporting System to ensure the accuracy of fund balances. This would include developing and implementing monitoring controls to ensure compliance with the requirements of the Office of the State Comptroller (OSC) and the General Laws.2. DHE should make the necessary correcting adjustments to properly reclassify the MASSAid system costs to DHE's department budget or transfer the costs to the Executive Office of Education's information technology budget.

Finding 3 Page <u>20</u>	DHE's latest ICP is not fully compliant with OSC's Internal Control Guide.
Recommendation Page <u>21</u>	DHE should develop a complete and updated ICP based on a current department-wide risk assessment that includes all aspects of its business activities.

OVERVIEW OF AUDITED ENTITY

The Department of Higher Education (DHE) was established under Section 6 of Chapter 15A of the Massachusetts General Laws to serve as the staff to the 13-member Board of Higher Education (BHE). BHE, which was created under Section 1 of Chapter 15A of the General Laws, is responsible for coordinating and defining the mission of the Commonwealth's system of public higher education and its institutions. According to its website,

The mission of the Board of Higher Education is to ensure that Massachusetts residents have the opportunity to benefit from a higher education that enriches their lives and advances their contributions to the civic life, economic development, and social progress of the Commonwealth.

The site also states,

The Board holds [DHE] accountable for achieving its goals and establishing a comprehensive system to measure quality by defining educational achievement and success with the use of standards and measurements.

Pursuant to Section 14A of Chapter 6A of the General Laws, DHE falls within the Executive Office of Education. The administrative head of DHE is the commissioner of Higher Education. The commissioner is appointed by the members of BHE, subject to the approval of the Secretary of Education. In addition to a commissioner, DHE had 66 staff members at the end of fiscal year 2015 and 56 at the end of fiscal year 2016. DHE received state appropriations of \$147,927,686 in fiscal year 2015 and \$143,016,099 in fiscal year 2016.

Under the direction of BHE, DHE is responsible for executing the board's policies for the day-to-day operations of the state's higher education system, such as academic affairs, campus strategic planning, performance measurement, fiscal affairs, the Optional Retirement Program, and the activities of the Office of Student Financial Assistance (OSFA). DHE described these activities in an email to the Office of the State Auditor dated May 21, 2018, quoted below.

Academic Affairs

The Board of Higher Education conducts the review and approval of new academic programs at Massachusetts public colleges and universities, independent institutions chartered after 1943, and out-of-state institutions seeking to offer courses for college credit in Massachusetts.

In addition to academic program reviews, the Board of Higher Education's Academic office designs and implements system-wide initiatives, such as the Commonwealth Honors Program,

Early College, the Police Career Incentive Program and Student Transfer Compacts, in support of the agenda of the Board of Higher Education. In addition, the BHE is responsible for managing the Commonwealth's student complaint system and provides an avenue for the informal resolution of student complaints and concerns regarding institutions of higher education in the Commonwealth.

Campus Strategic Planning

The Board of Higher Education enacts its responsibility to provide overall direction to the state's system of public higher education by establishing statewide goals and regularly measuring and reporting progress toward these goals. Review and approval of campus strategic plans is an important aspect of this role. The Board is guided in this work by the BHE Campus Strategic Planning Committee. Campus strategic plans serve not only as a roadmap for individual campuses, but they are also part of a coherent plan for the higher education system as a whole—at both a regional and statewide level.

Performance Measurement

The Research and Planning staff of the Massachusetts Department of Higher Education (DHE) works with the public institutions of higher education in Massachusetts on data collection and analysis and oversees a comprehensive, statutorily-required performance measurement system on behalf of the state universities and community colleges. The primary function of the office is to provide research, policy analysis and planning recommendations to support decision-making by the DHE, the Massachusetts Board of Higher Education (BHE), state government and the broader community of public higher education stakeholders. In support of this task the second primary function of the office is to ensure the quality, integrity and availability of information from the centralized Higher Education Information Resource System (HEIRS) database. The database currently contains information on: enrollment, demographics, admissions, programs/majors, course records, degree and certificate completion, and financial aid.

Fiscal Affairs

The Fiscal Affairs staff of DHE works with the public higher education campuses to ensure adherence to fiscal guidelines and reporting procedures, and to support efforts to enhance collaborating and efficiency across the system. The staff also liaisons with the [Department of Capital Asset Management and Maintenance] regarding capital planning and improvement projects, and prepares the Department's annual fiscal year budget request.

Optional Retirement Program

The Department of Higher Education is the administrator for the Optional Retirement Program (ORP), a flexible and portable retirement plan for employees at the Commonwealth's public institutions of higher education and the Department of Higher Education. Eligible employees may choose either the ORP or the Massachusetts State Employees' Retirement System (MSERS) for their retirement coverage.

OSFA

OSFA is primarily responsible for the management and oversight of all state funded financial aid programs and advises the Board of Higher Education about financial aid policy matters of concern to the Commonwealth of Massachusetts. In addition to its financial aid responsibilities, OSFA is the principal agency for promoting access to higher education through early awareness initiatives that foster the recognition of college as a viable postsecondary option and the availability of financial aid resources to help students and families meet college costs.

OSFA is also responsible for administering the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the No Interest Loan (NIL) Program, which were the subject of our audit.

Young adults in foster care can face many social and economic challenges that are not faced by other students who attend college. For example, young adults in foster care may not have the parental support necessary to understand how to apply for college or for financial aid, or how to deal with the emotional stress that comes with attending college and maintaining good grades. Further, because some foster children can move from family to family and therefore from school district to school district, they may not be as academically prepared to go to college as their peers. Others may need supports such as year-round housing, specialized healthcare services, and various types of counseling. Nationally, some programs that are established to assist young adults in foster care who want to attend college are designed not only to provide financial assistance but also to provide a more comprehensive support network for these students to better ensure that their needs are fully met. One example of this model in Massachusetts is the Bridgewater State University (BSU) Academic Support for College and Life program, a pilot program in which BSU partnered with a nonprofit organization (the Home for Little Wanderers) and offered not only financial-aid instruction but also support services such as housing, transportation, academic support, and healthcare. A resource representative from the Massachusetts Department of Children and Families (DCF) was available on campus to assist these students as well; however, DCF no longer supports this program. BSU asserted that this program model had proven effective in serving this at-risk population.

The DHE foster care programs that we examined during our audit were designed to provide only financial assistance to people in foster care. The programs are described below.

The Foster Child Grant Program

Recognizing the financial needs of foster children trying to pursue postsecondary education at colleges and universities, the Massachusetts Legislature funded the Foster Child Grant Program in 2001. According to OSFA's website, to be eligible for a Foster Child Grant, a student must meet the following conditions:

- a) *Is a permanent legal resident of Massachusetts.*
- b) *Is a U.S. Citizen or noncitizen eligible under Title IV [of the Higher Education Act of 1965].*
- c) *Was placed in the custody of the Department of Children and Families through a Care and Protection Petition.*
- d) *Is under the age of twenty-five (25) at the start of the academic year.*
- e) *Has signed a voluntary agreement with the Department of Children and Families establishing the terms and conditions for receiving such aid.*
- f) *Is enrolled full-time (twelve credits or its equivalent).*
- g) *Has applied for financial aid, using the standard Free Application For Federal Student Aid (FAFSA).*
- h) *Is in compliance with applicable law regarding Selective Service.*
- i) *Is not in default of any federal or state student loans for attendance at any institution or owe a refund for any previous financial aid received.*
- j) *Is in good standing and meets the institution's requirements for satisfactory academic progress.*

STUDENT AWARD:

The award under this program shall be as follows:

- *maximum of \$6,000 per academic year for eligible students enrolled in public institutions for no more than 5 consecutive years*
- *maximum of \$6,000 per academic year for students enrolled in private non-profit or private for profit institutions for no more than 5 consecutive years. In all cases, funds must be awarded as "last dollar" grants, with eligibility determined after consideration of all other state, federal and institutional scholarship and grant resources. Institutions may not use the Foster Child Grant to supplant other state, federal or institutional aid previously awarded to the student. Wherever possible, institutions are encouraged to use the Foster Child Grant to reduce student education loan debt.*

OSFA's website states that the following types of institution are eligible to participate in the Foster Child Grant Program:

An eligible institution shall mean a public, private, independent, for-profit, or nonprofit institution in the Commonwealth of Massachusetts and the continental United States authorized to offer undergraduate degrees or certificate programs. The institution must be accredited and eligible to participate in [federal programs governed by Title IV of the Higher Education Act of 1965].

Below is a table outlining the number of students and the amounts of disbursements for the Foster Child Grant Program by institution type during fiscal years 2015 and 2016.

Institution Type	Fiscal Year 2015 Number of Students	Fiscal Year 2015 Dollars	Fiscal Year 2016 Number of Students	Fiscal Year 2016 Dollars
Community Colleges	89	\$ 132,867	78	\$ 115,750
State Universities	81	368,794	96	468,938
University of Massachusetts	53	250,729	42	206,600
Private Massachusetts Institutions	43	203,284	39	198,900
Out-of-State Institutions	14	72,000	17	92,518
Total	<u>280</u>	<u>\$ 1,027,674</u>	<u>272</u>	<u>\$ 1,082,706</u>

The Foster Child Tuition Waiver and Fee Assistance Program

According to the website of the state’s Department of Elementary and Secondary Education, children in state custody who are neither adopted nor returned home tend to have significant financial needs and few support systems to meet the challenges of higher education. Therefore, the Commonwealth established the Foster Child Grant Program to reduce the burden of student loans for these students.

According to OSFA’s website,

To be eligible for the [Department of Children and Families] Foster Child Tuition Waiver and Fee Assistance Program, a student must:

- *Have been in the custody of the Commonwealth for at least six months before age 18.*
- *Be a U.S. Citizen or non-citizen eligible under Title IV regulations.*
- *Have applied for financial aid, using the standard Free Application for Federal Student Aid (FAFSA).*
- *Not be in default of any federal or state Student Loans for attendance at any institution or owe a refund for any previous financial aid received.*

- *Be enrolled in an undergraduate degree, certificate or short-term certificate program, or be taking non-credit courses.*
- *Be maintaining satisfactory academic progress in accordance with institutional and federal standards.*
- *Be twenty-four years of age or under at the start of the academic year.*
- *Be a current or former foster child who was placed in the custody of the state through a Care and Protection Petition, or*
- *Be a child whose guardianship was sponsored by the Department of Children and Families through age 18.*
- *Not have been adopted nor returned home. . . .*

Students eligible for the [Department of Children and Families] Foster Child Tuition Waiver and Fee Assistance Program are entitled to a tuition and fee waiver equal to 100% of the resident tuition rate, subject to budgetary appropriation, for eligible state-supported courses offered at the participating public higher education institution.

The website also states that, to be eligible to participate in the Foster Child Tuition Waiver and Fee Assistance Program, an institution must be “within the system of public higher education under section 5 of chapter 15A of the General Laws.” This system consists of 29 higher-education institutions: 15 community colleges, 9 state universities, and 5 University of Massachusetts campuses.

Below is a table outlining the number of students who were awarded the Foster Child Tuition Waiver and Fee Assistance Grant and the amounts disbursed during fiscal years 2015 and 2016.

Institution Type	Fiscal Year 2015 Number of Students	Fiscal Year 2015 Dollars	Fiscal Year 2016 Number of Students	Fiscal Year 2016 Dollars
Community Colleges	272	\$ 444,626	261	\$ 427,416
State Universities	151	989,820	156	1,070,270
University of Massachusetts	98	900,140	91	908,408
Private Massachusetts Institutions	N/A	N/A	N/A	N/A
Out-of-State Institutions	N/A	N/A	N/A	N/A
Total	<u>521</u>	<u>\$ 2,334,586</u>	<u>508</u>	<u>\$ 2,406,094</u>

The NIL Program

According to Section 9 of Chapter 15a of the General Laws, the NIL Program offers interest-free loans to qualifying students attending postsecondary educational institutions in Massachusetts. Initially, the NIL Program was funded by an annual appropriation from the Legislature. Currently, the program issues approximately \$6 million in loans each year and operates entirely on its loan repayments, which are maintained in the NIL Trust Fund.

According to OSFA's website,

To be eligible for a Massachusetts No Interest Loan, a student must:

- *Be a permanent legal resident of Massachusetts for one year prior to the start of the academic year for which the loan is awarded.*
- *Be a U.S. Citizen or non-citizen eligible under Title IV regulations.*
- *Have applied for financial aid, using the standard Free Application for Federal Student Aid (FAFSA).*
- *Be in compliance with Selective Service Registration.*
- *Not be in default of any federal or state Student Loans for attendance at any institution or owe a refund for any previous financial aid received.*
- *Be enrolled full time (at least 12 credits or its equivalent) in a certificate, associate's or bachelor's degree program at an eligible institution.*
- *Not have received a prior bachelor's degree or its equivalent.*
- *Be maintaining satisfactory academic progress in accordance with institutional and federal standards.*
- *Demonstrate financial aid need as determined by the federal methodology need analysis criteria. . . .*

The minimum initial NIL award a student can receive is \$1,000, with a maximum award amount of \$4,000 per academic year. NIL award amounts are determined according to financial need. A NIL eligible student has a lifetime borrowing limit of \$20,000.

Students have 10 years (commencing within six months of graduation or termination of studies) to repay the loans.

According to OSFA's website, to participate in the NIL Program, an institution must be as described below.

A state approved public, private, independent, for profit or non-profit, issuing associate's and/or bachelor's degrees or certificate programs. The institution must be located in Massachusetts, and have signed a Participation Agreement with the DHE's Office of Student Financial Assistance. The institution must also be eligible to participate in federal Title IV programs and fully accredited.

Below is a table outlining the number of students who were awarded NILs and the amounts disbursed during fiscal years 2015 and 2016.

Institution Type	Fiscal Year 2015 Number of Students	Fiscal Year 2015 Dollars	Fiscal Year 2016 Number of Students	Fiscal Year 2016 Dollars
Community Colleges	N/A	N/A	N/A	N/A
State Universities	675	\$1,168,040	798	\$1,252,894
University of Massachusetts	N/A	N/A	N/A	N/A
Private Massachusetts Institutions	1,622	4,607,456	1,618	4,606,107
Out-of-State Institutions	N/A	N/A	N/A	N/A
Total	<u>2,297</u>	<u>\$5,775,496</u>	<u>2,416</u>	<u>\$5,859,001</u>

In addition to the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program, DHE currently offers 7 grant programs, 4 scholarship programs, 21 tuition waiver programs, and 1 fee waiver program. The appendix of this report shows the appropriations/budgets of state-funded financial aid programs for fiscal years 2015 and 2016.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Department of Higher Education (DHE) for the period July 1, 2014 through June 30, 2016. In addition, we reviewed transactions pertaining to the No Interest Loan (NIL) Program for fiscal years 2013 through 2016 to review the allowability of charges to the NIL Program during these periods.

We conducted this performance audit 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.

Below is a list of our audit objectives, indicating each question we intended our audit to answer, the conclusion we reached regarding each objective, and where each objective is discussed in the audit findings.

Objective	Conclusion
1. Does DHE measure the effectiveness and success of the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program?	No; see Finding 1
2. Does DHE adequately administer the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program?	No; see Finding 2

To achieve our objectives, we reviewed applicable authoritative guidance and gained an understanding of the internal controls we deemed relevant to our audit objectives. In evaluating the internal control environment, we found an issue with DHE's internal control plan ([Finding 3](#)).

We also performed the following audit procedures:

- We interviewed DHE officials to obtain an understanding of the department's processes for evaluating the effectiveness of the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program.
- We interviewed the assistant commissioner and key staff members within DHE's Office of Student Financial Assistance to gain an understanding of the systems in place for receiving data

from educational institutions for the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program.

- We reviewed DHE's reports detailing (1) the number of applicants who were awarded funding and (2) the dollar amounts awarded for the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program.

As part of testing the administration of programs, we selected a nonstatistical judgmental sample of 9 of the state's 29 higher-education institutions and performed the following procedures:

- We conducted interviews with each institution's director of financial aid to obtain an understanding of how state-funded financial aid programs are administered at the campus level and of the requirements put in place by DHE for submitting reports detailing activities related to the Foster Child Grant Program, the Foster Child Tuition Waiver and Fee Assistance Program, and the NIL Program.
- We compared the data supplied by DHE from its MASSAid¹ system to the financial information in the Massachusetts Management Accounting and Reporting System (MMARS) for agreement of amounts awarded by the nine selected institutions.
- We reviewed the NIL Program's transactions in MMARS to determine whether all charges were made to educational institutions.

Our sample was judgmentally selected, and therefore we did not project the sample results to the total population. We used a judgmental sample because it was more effective for assessing the significance of various items and for evaluating the relative risks that some of these items might not comply with existing regulations.

To determine whether information used in our audit was sufficiently reliable, we relied on OSA's most recent data reliability assessment of MMARS (April 8, 2014), compared MMARS information to DHE's information in MASSAid, and compared the MASSAid information to data provided by the higher educational institutions. We also tested data for duplicates and verified that payments were made to educational institutions.

1. MASSAid is a Web-based grant and scholarship management system used by DHE's Office of Student Financial Assistance that allows students and educational institutions to review and enter information related to student financial aid.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Department of Higher Education's administration of its Foster Child Grant Program, Foster Child Tuition Waiver and Fee Assistance Program, and No Interest Loan Program needs improvement.

The Department of Higher Education's (DHE's) administration of its Foster Child Grant Program, Foster Child Tuition Waiver and Fee Assistance Program, and No Interest Loan (NIL) Program lacked important elements of proper program administration. Specifically, although DHE effectively managed key elements of these programs such as identifying target populations and establishing procedures and standard forms related to program enrollment, it did not establish program performance measures or routinely analyze program data related to program performance, such as the academic progress, graduation rates, dropout rates, and post-college activities of recipients. Without performing these important administrative activities, DHE lacks the ability to assess the impact of these programs or the extent to which they achieve their goals and desired outcomes and to identify the extent of any problems or barriers to success in the programs so they can be addressed in a timely manner.

Authoritative Guidance

DHE's website states,

The Board [of Higher Education, or BHE], in conjunction with colleges' Boards of Trustees, holds [DHE] accountable for achieving its goals and establishing a comprehensive system to measure quality by defining educational achievement and success with the use of standards and measurements.

Performance measures define success and indicate progress toward meeting a program's goals. The federal government and various state governments have recognized the importance of establishing performance goals and measures for assessing the effectiveness of their programs. Examples of this include the following:

- The federal government enacted the Government Performance Results Act in 1993 to ensure that evaluations of its programs' performance were performed. Federal departments are now required to assess the effectiveness of their programs.

- The Colorado Department of Education has initiated performance measures whereby achievement and educational outcomes of students in foster care, such as four-year high-school completion rates, are reported to its Foster Care Education Program.²
- The state of Washington, in its budget law, requires agencies to measure performance and report measures to its Office of Financial Management. These measures include linking performance measures to results or improvements expected from an investment of resources.
- The state of Georgia has initiated performance measures for state programs. The intent of these metrics is to measure performance and to give agency stakeholders an understanding of how efficiently programs are operated.

We believe these represent best program administration practices that DHE should follow to measure such things as whether program goals are met and to what extent positive outcomes are achieved.

Reasons for Noncompliance

DHE officials told us that although it does establish and assess performance measures for institutions, the legislation that established the Foster Child Grant Program, Foster Child Tuition Waiver and Fee Assistance Program, and NIL Program did not establish metrics or specific data collection requirements that could be used to assess overall program outcomes or the performance of students participating in each of these programs; therefore, it has not established specific policies or procedures for these purposes. These officials added that DHE would have to work with BHE and the state Legislature to determine what the metrics should be. DHE officials further stated that they do not believe they would have sufficient staff or informational resources to effectively perform additional administrative responsibilities.

Recommendations

1. DHE should work with BHE and the Legislature to identify a system for tracking and analyzing data as well as to define key success metrics.
2. DHE should work to identify any program changes that need to be made to enhance program success.

Auditee's Response

The Department welcomes ideas and suggestions on ways that it can continuously improve program administration and effectiveness. The Department also agrees in principle that establishing performance measures to assess the impact of programs is important.

2. The Foster Care Education Program at the Colorado Department of Education was launched in 2012 to support local education agencies and communities in serving students.

To this point, the Department has, consistent with its legislative mandate, established performance measures that are focused on assessing the performance of public higher education institutions, and the performance of the public higher education system as a whole—rather than the performance of individual financial aid accounts. See M.G.L. c. 15A, § 7A. Current performance measures used by the Department include assessing institutional performance on outcomes related to college/university affordability, student access, student success, fiscal efficiency, employment outcomes as well as other areas. The data that the department collects in this regard is made available to campuses annually with the expectation that institutions use the data, in consultation with the Department, for strategic planning purposes as well as budget and program development. The Commissioner also uses the data to annually evaluate Presidential performance. The Department also generates public accountability and assessment reports that demonstrate our commitment to continuous improvement.

The Department is committed to enhancing its existing Performance Measurement System. To that end, and in collaboration with the campuses, the Department is undertaking a comprehensive review and revision of the Performance Measurement System with a charge from the Board of Higher Education (BHE) to improve the accuracy and relevancy of accountability metrics in the areas of student access, success, and academic progression; affordability; learning outcomes and educational quality; efficiency and stewardship of fiscal resources; employment and post-baccalaureate experiences; and achievement and opportunity gaps. These revisions to the Performance Measurement System are intended to be published in January 2019, and will include a summary of institutional, segmental and system performance outcomes.

As Department staff and the audit team staff discussed early in the audit process, establishing metrics for individual programs that show direct causality—e.g., that funding these particular programs result in particular student outcomes—would be challenging, since success is driven by many factors. For example, while providing students with funding for tuition and fees can increase access to higher education opportunities, other factors such as the availability of academic advising, transportation, child care, and peer mentoring also contribute greatly to student success measures, such as graduation rates.

In addition to the statutory mandate and ongoing efforts to evaluate institutional and segmental performance, the Department would like to point out that it routinely engages in data merges with other state and national agencies for the purpose of assessing and improving student performance in several other ways. For example, through interagency data sharing agreements with the Department of Unemployment Assistance, the Department has been able to track our college and university graduates into the workforce and assess their employment success in the Commonwealth.

Finally, the Department recently completed a comprehensive review of its financial aid programs with the assistance of a consultant. The study was initiated by the Department in February 2016, and completed in the Fall of 2017, with findings presented to the Board of Higher Education (BHE) on March 6, 2018. . . . The study produced a set of recommendations for reforming and consolidating state financial aid programs to improve student success outcomes and to help the Commonwealth move forward on the Department's three priority objectives which form the underpinnings of its strategic plan for the public higher education system: 1) making college

more accessible and affordable for all Massachusetts residents; 2) closing gaps in student opportunity and achievement; and 3) improving college completion rates. The BHE charged the Commissioner with developing policy recommendations, including an implementation plan for the redesign of state financial aid programs aligned with the findings of the report. As he prepares that implementation plan, the Commissioner will give careful consideration to the auditor's recommendations on performance measurement as it relates to program administration.

Auditor's Reply

The Office of the State Auditor (OSA) does not dispute that DHE has established performance measures that are focused on assessing the performance of public higher education institutions and the performance of the public higher education system as a whole. However, OSA believes that establishing relevant program-specific performance measures and routinely analyzing program data related to program performance (such as the academic progress, graduation rates, dropout rates, and post-college activities of recipients) would provide meaningful information. This information would not only help DHE effect proper administration of the programs in question, but also provide a higher level of transparency to both the Legislature and the public as to what impact, if any, the expenditure of tax dollars on the programs' activities has on achieving desired outcomes.

Further, we do not dispute that establishing metrics that show direct causality for individual programs would be challenging. However, in OSA's opinion, proper program administration requires that such metrics be established and that the impact of a program, or the extent to which it achieves its goals and desired outcomes, be assessed. The benefit of assessing a program's impact is widely accepted by government entities that have been charged with administering programs such as DHE's that are intended to have a social impact. For example, as noted above, the federal government enacted the Government Performance Results Act in 1993 to ensure that its programs' performance was evaluated.

Based on its response, DHE is taking measures to address our concerns in this area.

2. DHE did not effectively manage certain financial aspects of its student financial assistance programs.

DHE did not effectively manage the financial operations of the Foster Child Grant Program, Foster Child Tuition Waiver and Fee Assistance Program, and NIL Program. The specific problems were as follows:

- DHE did not routinely reconcile the financial information in its records for the Foster Child Grant Program, Foster Child Tuition Waiver and Fee Assistance Program, and NIL Program to the information in the Massachusetts Management Accounting and Reporting System (MMARS), the

official accounting records of the Office of the State Comptroller (OSC). Without a timely, adequate, and effective reconciliation process, there is inadequate assurance that the grant and scholarship balances reported in MMARS are accurate.

- Although the NIL Program is for student-loan activity only, DHE incorrectly charged \$3,028,536 of transactions associated with other state scholarships and grants to the NIL Program for fiscal years 2013 through 2016. It overcharged \$2,429,433 in fiscal year 2013, \$276,691 in fiscal year 2014, and \$969,088 in fiscal year 2015. In fiscal year 2016, it did not charge \$646,676 of transactions that should have been charged to the NIL Program.
- DHE exceeded the \$775,000 annual limit on administration fees that can be allocated to the NIL Program. Specifically, it charged an additional \$1,524,825 to the NIL Trust Fund for fiscal years 2013 through 2016 as follows: \$288,830 in fiscal year 2013, \$303,951 in fiscal year 2014, \$726,278 in fiscal year 2015, and \$205,766 in fiscal year 2016.
- MASSAid is the information system used by the Office of Student Financial Assistance (OSFA) to administer all 35 state-funded financial aid programs and the NIL Program. DHE charged the full annual cost of the MASSAid system to the NIL Trust Fund as follows: \$450,475 in fiscal year 2013, \$440,818 in fiscal year 2014, \$414,000 in fiscal year 2015, and \$395,219 in fiscal year 2016. This money should have been allocated among all programs.

Authoritative Guidance

According to OSC's Internal Control Guide (dated June 2015), all state agencies need to have detective and monitoring controls. These controls include, but are not limited to, regular management and supervisory reviews and reconciliations of accounts to MMARS.

Section 9 of Chapter 15A of the Massachusetts General Laws requires that money received in repayment in DHE's NIL Program be retained in the fund to provide future NILs and administer the program without further appropriations, "provided, however, that not more than \$775,000 of the monies shall be expended annually for the administration of the program."

Reasons for Noncompliance

DHE has not established any policies or procedures that require its staff members to perform periodic reconciliations of its accounting records to MMARS. Further, DHE has not established any monitoring controls to ensure that financial transactions in these programs are accurately recorded and compliant with established rules and regulations.

DHE management told us that they believe that some of these problems were the result of the staff turnover that occurred in the department during the audit period. OSFA uses a customized software solution (MASSAid) for eligibility determinations and disbursements to student recipients at public and

private higher-education institutions throughout the Commonwealth. DHE's Department of Administration and Finance uses MMARS to process expenditures and cash receipts. DHE informed us that MASSAid does not have an interface with MMARS, so reconciling awards to expenditures and refunds requires significant manual processing.

DHE's management also informed us that the additional administrative costs of MASSAid were the primary reason for the NIL Trust Fund overrun. Specifically, the overrun was primarily attributed to the fact that information technology (IT) support costs had been shifted from DHE to a central IT department under the Executive Office of Education (EOE) in an effort to consolidate IT management and support functions across the executive branch.

Recommendations

1. DHE should develop a formal fund balance reconciliation process comprising DHE's MASSAid system and MMARS to ensure the accuracy of the fund balances. This would include developing and implementing monitoring controls to ensure compliance with the requirements of OSC and the General Laws.
2. DHE should make the necessary correcting adjustments to properly reclassify the MASSAid system costs to DHE's department budget or transfer the costs to EOE's IT budget.

Auditee's Response

The Department substantially agrees with this finding; however, the Department has taken several corrective actions both prior to and after the initiation of the audit by instituting detective and preventive controls to mitigate identified risks in connection with the fiscal activities that support the administration of student financial aid programs.

Specifically, in December 2017 the Department promulgated a fiscal reconciliation policy, along with implementation procedures, that now governs the end-to-end workflow of the administration of student financial aid payments and refunds. The scope of the policy includes: the process for establishing and approving annual budget allocations for each respective financial aid program; outlining the interim steps to maintain proper accounting of program balances and projected expenses and refunds; and the reconciliation of accounts at the end of each accounting period. The Department also established a lockbox to facilitate the processing of refunds, ensuring greater accuracy and timeliness of revenue transactions, and segregating key fiscal duties. These changes are incorporated by reference in the Department's revised and updated Internal Control Plan, which also includes monitoring controls.

In early 2017, the Department conducted an internal assessment of its financial aid software contract (MASSAid) and determined that both the software and the Department's internal business processes in managing financial aid and interfacing with the public warranted review to help identify ways to achieve cost efficiencies, improve administration and enhance service

delivery. In December 2017 the Department engaged the services of an outside consulting firm to conduct a comprehensive business process review (BPR) of its financial aid delivery system. The purpose of the BPR was to assess and improve the operational effectiveness of student financial aid administration, including the fiscal activities that support this important function. The BPR has resulted in both process improvements and a collaborative effort with the Executive Office of Education Information Technology unit and the Office of the Comptroller to institute a batch processing protocol that will facilitate system-to-system transaction processing, reducing processing times and minimizing the risk of human error.

Prior to the initiation of the audit—and as early as January and February of 2016—the Department also took several specific corrective actions to address the noted discrepancies involving scholarship charges to the No-Interest Loan account. In 2016, newly hired fiscal staff became aware of certain accounting transactions that required expenditure corrections to align funding sources with the appropriate and corresponding cost objectives. These transactions were limited by the availability of funding in FY2016 since the prior fiscal years were closed out and retroactive adjustments were only permissible for certain transactions. Since then, there have been no such discrepancies at the close of the fiscal year, which is due to newly instituted procedures to conduct monthly account reconciliations.

It bears noting that these expenditures accrued to the benefit of students, and that no student was denied financial aid as a result of accounting errors. While the Department acknowledges its responsibility in the misclassification of certain transactions, these charges represent less than 0.7% of the total financial aid administered over that timeframe.

Finally, in response to the audit finding regarding excess administrative expenditures from the NIL account to support the costs of the MASSAid software system, the Department is pleased to report that the Governor's Fiscal 2019 Budget Recommendation, filed in January 2018, included funding to cover the cost of the Department's state financial aid software system within the budget of the Executive Office of Education's Information Technology line item. The proposed shift in funding is codified in both the House and Senate versions of the budget. This funding will help ensure that NIL spending remains within statutory limits and that program administration costs are reclassified and allocated proportionately.

Auditor's Reply

As noted above, DHE exceeded the legislatively mandated annual limit of \$775,000 on administration fees that it could allocate to the NIL Program, charging an additional \$1,524,825 to the NIL Trust Fund for fiscal years 2013 through 2016. Further, DHE incorrectly charged \$3,028,536 of transactions associated with other state scholarships and grants to the NIL Program for fiscal years 2013 through 2016. Finally, DHE inappropriately charged the full annual cost of the MASSAid system to the NIL Trust Fund. Although these funds may have been spent on items that benefited all students, the money in the trust fund was intended to benefit a specific group of students in need of financial aid, and DHE should make sure that it is used for this purpose.

Based on its response, DHE has taken measures to address our concern in this area.

3. DHE's latest internal control plan is not fully compliant with OSC's Internal Control Guide.

As of our audit period, DHE had not developed an internal control plan (ICP) in accordance with the latest OSC guidelines (issued in 2015). DHE's ICP had not been updated since 2010 and did not consider, or adequately identify, any of the eight components of enterprise risk management (ERM): internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring.

Furthermore, DHE had not conducted an annual organization-wide risk assessment that identified potential risks concerning its financial, operational, and compliance activities or the risk of fraud. Developing a risk assessment is important because it enables management to focus its attention on the most important entity risks and to manage risks within defined tolerance thresholds.

Without an adequately documented system of internal controls, DHE risks not meeting all of its operational objectives economically and efficiently or complying with state laws, regulations, and other authoritative guidance as well as grants and other contractual agreements.

Authoritative Guidance

The OSC Internal Control Guide issued in June 2015 states,

Departments are obligated to revise their ICPs whenever significant changes occur in objectives, risks, management structure, program scope, etc. At the very least, the ICP must be reviewed and updated annually. . . .

Internal control is defined as a process effected by an entity's oversight body, . . . management, and other personnel that provides reasonable assurance the department's objectives will be achieved. Before developing its . . . ICP, a department must determine its mission, strategic goals and objectives, and then formulate a plan to achieve those objectives. The internal control plan is a summary describing how a department expects to meet its various goals and objectives by using mitigating controls to minimize risk. Each department's internal control plan will be unique; however, it must be based on the ERM framework.

In its document *Enterprise Risk Management—Integrated Framework*, or COSO II, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines ERM as follows:

A process, effected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage the risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

To comply with the OSC Internal Control Guide, an ICP must contain information on the eight components of ERM: internal environment, objective setting, event identification, risk assessment, risk response, control activities, information and communication, and monitoring. COSO guidance states that all components of an internal control system must be present and functioning properly and operating together in an integrated manner to be effective.

Finally, OSC's Internal Control Guide requires that ICPs incorporate a risk assessment that includes the likelihood and impact of risks.

Reasons for Noncompliance

DHE's management told us that a lack of adequate administrative resources made it extremely challenging to thoroughly assess its control activities and update its ICP annually and that DHE has had an agency-wide decrease in full-time-equivalent positions, from approximately 79 in fiscal year 2015 to 59 at the end of fiscal year 2017.

Recommendation

DHE should develop a complete and updated ICP based on a current department-wide risk assessment that includes all aspects of its business activities.

Auditee's Response

The Department substantially agrees with this finding. To address this deficiency, the Department consulted with the Office of the Comptroller's Quality Assurance Unit and requested guidance on updating its internal control plan in accordance with the COSO's Enterprise Risk Management framework. The Department conducted two executive level trainings on the ERM framework and ICP development, and all members of the Department's senior management team were engaged in a comprehensive process of goal setting, event identification, risk assessment and risk responses. The current version of the Department's Internal Control Plan has been updated to reflect the Comptroller's guidance on format and structure, and the Department's leadership has committed to a continuous improvement process for updating the plan as priorities evolve and risks change.

Auditor's Reply

The actions taken by DHE to address compliance with OSC's Internal Control Guide should provide DHE with an adequately documented ICP that incorporates a department-wide risk assessment for all aspects of the agency's business activities.

APPENDIX

Department of Higher Education State Funding by Account for Fiscal Years 2015 and 2016

	Fiscal Year 2015	Fiscal Year 2016
State-Funded Direct Financial Aid to Students		
Massachusetts State Scholarship Program		
Community College Cash Grant	\$ 11,516,236	\$ 11,516,236
State College Cash Grant	7,917,241	7,917,240
University of Massachusetts Cash Grant	6,957,777	6,967,777
Gilbert Matching Student Grant	16,100,807	16,500,100
Part-Time Grant	1,277,300	1,200,000
MASSGrant	41,555,411	43,300,000
Paraprofessional Teacher Preparation Grant	501,562	560,000
Early Childhood Educators Scholarship	2,836,703	3,200,000
One Family Inc. Scholarship	400,000	400,000
Christian A. Herter Memorial Scholarship	1,170,186	1,200,000
Public Service Grant	20,000	20,000
Washington Center Program Tuition Waiver	154,000	154,000
Completion Incentive Grant	1,600,000	1,112,981
Reserve for Late Scholarship Awards*	350,000	200,000
Subtotal—Massachusetts State Scholarship Program	\$ 92,357,223	\$ 94,248,334
Foster Child Tuition Waiver and Fee Assistance Program	\$ 3,924,842	\$ 4,274,842
Foster Child Grant Program	1,075,299	1,075,299
High Demand Scholarship Program	1,000,000	1,000,000
Subtotal—State-Funded Direct Financial Aid to Students	\$ 6,000,141	\$ 6,350,141
State-Funded Grants, Programs, and Incentive Funding in Higher Education (excluding direct financial aid to students)		
Community College Campus Funding	\$ 13,172,515	\$ 9,099,596
State University Incentive Grants	8,048,776	5,560,108
Tufts School of Veterinary Medicine Program	5,550,000	5,000,000
STEM Starter Academy	4,750,000	4,750,000
Performance Management Set Aside	3,250,000	2,750,000
Schools of Excellence	1,400,000	1,400,000
Dual Enrollment Grant and Subsidies	750,000	1,000,000
Community College Workforce Grant Advisory Committee	1,450,000	750,000

	Fiscal Year 2015	Fiscal Year 2016
Bridges to College	400,000	250,000
Nursing and Allied Health Education Workforce Development	200,000	200,000
Civic Engagement Program	250,000	0
Subtotal—State-Funded Grants, Programs, and Incentive Funding in Higher Education	<u>\$ 39,221,291</u>	<u>\$ 30,759,704</u>
State-Funded Support for Departmental Administrative Functions		
Department of Higher Education Administrative Expenses, Excluding Office of Student Financial Assistance (OSFA)	\$ 3,249,334	\$ 4,449,334
Department of Higher Education OSFA Administrative Expenses	1,250,533	1,359,422
New England Board of Higher Education	367,500	367,500
Health and Welfare Reserve for Higher Education Personnel	5,481,664	5,481,664
Subtotal—State-Funded Support for Departmental Administrative Functions	<u>\$ 10,349,031</u>	<u>\$ 11,657,920</u>
Total	<u>\$ 147,927,686</u>	<u>\$ 143,016,099</u>

* According to a May 30, 2018 email from DHE to the Office of the State Auditor, “This is not a separate category of financial aid but rather a set aside of funds for late determinations or end of year financial aid payments that otherwise would be attributable to . . . any other program funded from the scholarship line item.”