



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

*Making government work better*

Official Audit Report – Issued June 16, 2016

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## Massachusetts Educational Financing Authority

For the period July 1, 2012 through June 30, 2014





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Office of the State Auditor  
Suzanne M. Bump

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June 16, 2016

Mr. Thomas M. Graf, Executive Director  
Massachusetts Educational Financing Authority  
160 Federal Street, 4th Floor  
Boston, MA 02110

Dear Mr. Graf:

I am pleased to provide this performance audit of the Massachusetts Educational Financing Authority. This report details the audit objectives, scope, and methodology for the audit period, July 1, 2012 through June 30, 2014. 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 Massachusetts Educational Financing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written in a cursive style.

Suzanne M. Bump  
Auditor of the Commonwealth

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## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>OVERVIEW OF AUDITED ENTITY.....</b>	<b>2</b>
<b>AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY .....</b>	<b>4</b>

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## LIST OF ABBREVIATIONS

APD	State Treasurer's Abandoned Property Division
DRF	Disbursement Request Form
MEFA	Massachusetts Educational Financing Authority
PRF	Purchase Request Form
U.Fund	U.Fund College Investing Plan
U.Plan	U.Plan Prepaid Tuition Program

## **EXECUTIVE SUMMARY**

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Educational Financing Authority (MEFA) for the period July 1, 2012 through June 30, 2014.

This audit was undertaken to review certain activities of MEFA related to its college tuition savings plans, including the U.Plan Prepaid Tuition Program and the U.Fund College Investing Plan. Other college financing programs offered by MEFA, such as undergraduate and graduate loans and education refinancing loans, were not part of this performance audit.

Based on our audit, for the period July 1, 2012 through June 30, 2014, we have concluded that MEFA has established adequate controls and complied with applicable laws, regulations, policies, and procedures for the areas we reviewed that were related to our audit objectives.

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## OVERVIEW OF AUDITED ENTITY

The Massachusetts Educational Financing Authority (MEFA) was created by Chapter 803 of the Acts of 1982, codified as Chapter 15C of the Massachusetts General Laws. MEFA's primary purposes are to help institutions of higher education with financing and refinancing education costs and help individuals with planning and paying for college. To that end, MEFA offers the following financing/savings options: (1) MEFA loans at fixed interest rates with various repayment options for students who are residents or students of colleges in Massachusetts; (2) the MEFA U.Plan Prepaid Tuition Program (U.Plan), a prepaid tuition program that caps college tuition at today's costs at 80 Massachusetts colleges and universities; and (3) the MEFA U.Fund College Investing Plan (U.Fund), the Massachusetts 529 college savings plan,<sup>1</sup> which offers a tax-advantaged method for college savings. According to its website, in addition to financing products, MEFA also offers "training and resources for counselors and higher-education professionals."

In addition, since inception, MEFA has been engaged in loan purchase programs in which participating colleges and universities originate student loans and sell them to MEFA. The programs are funded using proceeds from Educational Loan Revenue Bonds issued by MEFA.

Established in February 1995, the U.Plan is a prepaid tuition program offered at participating colleges and universities in the Commonwealth. Under this plan, participants can lock in future college costs at today's rates by purchasing tuition certificates that represent a percentage of college expenses at current rates and can be redeemed later at the same percentage. For example, if a participant purchased tuition certificates that represented 50% of today's cost of tuition and fees for the University of Massachusetts, they could be redeemed when tuition payments are due and would pay 50% of the cost of tuition and fees at that time. The certificates represent an ownership interest in general obligation college opportunity bonds, which are issued by the Commonwealth with funds deposited with MEFA. The bonds bear interest at a rate equal to the annual increase in the Consumer Price Index<sup>2</sup> plus 2%.

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1. This is a type of plan authorized by Section 529 of the Internal Revenue Service code that provides tax-advantaged savings. Contributions to the plan are not deductible, but they can grow tax free and are not taxed when money is disbursed if it is used for qualified education expenses.
  2. The Consumer Price Index is a measure of the average change over time in the prices paid by consumers for a specific group of goods and services.

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Established in March 1999, the U.Fund is currently administered by Fidelity Investments of Boston. As of June 30, 2013 and June 30, 2014, the net asset values of the U.Fund and U.Plan were as follows:

<b>Description</b>	<b>Fiscal Year 2013</b>	<b>Fiscal Year 2014</b>
<b>Net Asset Value—U.Fund</b>	\$4,181,509,426	\$4,827,647,272
<b>Net Asset Value—U.Plan</b>	\$109,131,945	\$109,241,009

Funding for MEFA's operating costs is derived from net investment earnings, interest on issued loans, management fees, and application fees.

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## AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Educational Financing Authority (MEFA) for the period July 1, 2012 through June 30, 2014.

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 and the conclusion we reached regarding each objective.

Objective	Conclusion
1. Does MEFA verify its earned monthly management fee for U.Fund College Investing Plan (U.Fund) assets under management from its contracted plan administrator?	Yes
2. Does MEFA have adequate controls in place to oversee the annual purchases and disbursements made on behalf of participants in the U.Plan Prepaid Tuition Program (U.Plan)?	Yes
3. Does MEFA properly administer all inactive U.Plan accounts according to its established policies and procedures?	Yes

To achieve our objectives, we gained an understanding of MEFA's internal controls that we deemed significant to our audit objectives and evaluated the design and effectiveness of these controls. In addition, we performed the following procedures:

- We interviewed MEFA's director of College Savings Programs to gain an understanding of MEFA's administration and oversight of its U.Fund and U.Plan. We also interviewed the college savings record administrator regarding the U.Plan to determine MEFA's established policies and procedures for administering accounts during annual enrollment and tuition disbursement periods.
- We examined the daily U.Plan cash-receipt reconciliations performed by MEFA for consistent daily processing. We selected a nonstatistical random sample of 15 cash-receipt reconciliations performed for U.Plan deposits out of a population of 90, traced deposits to new accounts



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established during the annual enrollment periods under audit, and verified amounts to enrollment forms from source documentation.

- We confirmed that Purchase Request Forms (PRFs) were completed as required to initiate new U.Plan accounts. We selected a nonstatistical judgmental sample of 35 out of a population of 757 new accounts established during our audit period and verified the completion of the PRF for each new account we selected for review.
- We confirmed that the U.Plan Disbursement Request Forms (DRFs) processed during our audit period agreed with the original instructions of the accountholders as shown in the corresponding PRFs (either to pay the funds to a designated university or to pay them to the accountholder upon termination of enrollment in the plan). Using a confidence level of 90% and an upper error rate of 4.75%, we selected a statistical sample of 49 out of a population of 7,350 DRFs processed during our audit period. For the items selected in our statistical sample, we recalculated earnings and post-maturity interest, if any, and verified that the distribution amounts shown on the DRFs were accurately calculated based on the initial maturity dates submitted on the corresponding PRFs.
- We interviewed the director of Accounting to gain an understanding of the policies and procedures that MEFA follows in identifying and processing any U.Plan accounts deemed inactive and abandoned.
- We obtained from MEFA a list of the 76 abandoned accounts in our audit period. We selected a nonstatistical judgmental sample of 10 U.Plan accounts that MEFA had deemed abandoned and transferred to the State Treasurer's Abandoned Property Division (APD) during our audit period. We confirmed that each account was correctly classified as inactive based on the original purchase and maturity year and the MEFA requirement that at least 8 years must have elapsed since the account reached maturity. Furthermore, we confirmed that MEFA had sent the required three warning notices for inactivity and that no subsequent action had been taken by the accountholders. We obtained and reviewed the supporting documentation for the transfer of these funds to APD and found no exceptions.
- We reviewed the current contract provided to us by MEFA for Fidelity Investments. We reviewed the monthly fees payable to MEFA as provided in MEFA's monthly recalculation worksheets.
- We selected a nonstatistical judgmental sample of 5 out of 24 monthly fees paid to MEFA during our audit period by the U.Fund administrator and confirmed MEFA's formula for payment recalculations. It appeared that the payments were accurate and in accordance with the terms of the contract.

For all nonstatistical testing performed, we did not project the results of our samples to the various populations.

Information we obtained through MEFA's Savings Transaction Accounting and Recording System, the accounting system containing financial records and the account origination information of U.Plan and

U.Fund participants, was supported by source documentation, and we conducted information-security testing through the use of questionnaires, interviews, and observations to determine the reliability of the data. We determined that the data were sufficiently reliable for the purposes of this report.

At the conclusion of our audit, we gave MEFA a copy of our draft report for review and comment. MEFA responded that it had reviewed our report and did not have any comments.