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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Honorable Peter Franchot
Comptroller of Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland (the State), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The State's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain Economic Development Loan Programs; the Maryland Lottery and Gaming Control Agency; the Maryland Transportation Authority; the Economic Development Insurance Programs; certain foundations included in the higher education component units; the Maryland Technology Development Corporation; and the Investment Trust Fund. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the State, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs 2014-001, 2014-003, 2014-004, 2014-005, 2014-006, 2014-008, 2014-009, 2014-010, 2014-011, 2014-012, 2014-013, 2014-015, that we consider to be significant deficiencies.

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hunt Valley, Maryland
March 8, 2015

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

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STATE OF MARYLAND

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

1. SINGLE AUDIT REPORTING ENTITY

The State of Maryland (State) includes expenditures in its Schedule of Expenditures of Federal Awards (SEFA) for all Federal programs administered by the funds, agencies, boards and commissions, including component units, included in the State's reporting entity used for its basic financial statements, including the component unit higher education funds—the University System of Maryland, the Baltimore City Community College, Morgan State University, and St. Mary's College of Maryland. However, the Schedule of Expenditures of Federal Awards excludes the Maryland Water Quality Financing Administration, an administration of the Maryland Department of the Environment; the Maryland Transportation Authority, an enterprise fund of the State; the Maryland Technology Development Corporation, a component unit of the State; and the Maryland Health Insurance program, part of the general fund of the State. Separate single audits are conducted for these entities.

2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards has been presented on the accrual basis of accounting. Expenditures are recorded, accordingly, when incurred rather than when paid.

The expenditures for Federal awards under the American Recovery and Reinvestment Act of 2009 (the Recovery Act) are separately identified on the accompanying Schedule of Expenditures of Federal Awards with the letters ARRA.

The non-cash expenditures of approximately \$18,964,000, reported under CFDA No. 10.550, Food Donation, represent the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service Commodity Price List in effect as of July 1, 2013. These food commodities were received by the Maryland Department of Education from the U.S. Department of Agriculture for the year ended June 30, 2014.

The non-cash expenditures of approximately \$6,663,000 relating to the Emergency Food Assistance Program reported under CFDA No. 10.569, Emergency Food Assistance Program (Food Commodities), represent the value of food commodity distributions calculated using the U.S. Department of Agriculture, Food and Nutrition Service Commodity Price List in effect as of July 1, 2013. The food commodities were received by the Maryland Department of Human Resources from the U.S. Department of Agriculture for the year ended June 30, 2014.

Expenditures of approximately \$1,151,553,000 reported under CFDA No. 10.551, Supplemental Nutrition Assistance Program (SNAP), represent the fair market value of food stamps distributed for participants' food-stamp purchases during the year ended June 30, 2014.

STATE OF MARYLAND

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

2. BASIS OF ACCOUNTING (continued)

The non-cash expenditures of approximately \$94,000 for CFDA No. 39.003, Donation of Federal Surplus Property Program, represents the average fair market value percentage, per the General Services Administration (GSA) of 25 percent of the Federal government original acquisition cost (OAC) of the Federal property transferred to recipients by the State during the year ended June 30, 2014.

3. CATEGORIZATION OF EXPENDITURES

The accompanying Schedule of Expenditures of Federal Awards reflects Federal expenditures for all individual grants that were active during the year. The categorization of expenditures by program included in the accompanying Schedule of Expenditures of Federal Awards is based on the Catalog of Federal Domestic Assistance (CFDA). Changes in the categorization of expenditures occur based on revisions to the CFDA, which are issued in June and December of each year. In accordance with the State's policy, the accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2014, reflects CFDA changes issued through June 2014.

4. STATE NONMONETARY FEDERAL FINANCIAL ASSISTANCE

The State distributes Federal surplus food to the institutions (schools, hospitals, and prisons) and to the needy. The total inventory balance of Federal surplus food on hand as of June 30, 2014, was \$0 for CFDA No. 10.550, Food Donation Program and approximately \$1,190,000 for CFDA No. 10.569, Emergency Food Assistance Program (Food Commodities), and they are not considered current year Federal expenditures. The surplus food was valued using the U.S. Department of Agriculture, Food and Nutrition Service Commodity Price List in effect as of July 1, 2013.

When surplus property is transferred to recipients, it is valued at 25 percent of its OAC, which represents an estimated fair market value of the property transferred. There was no donated Federal surplus property on hand as of June 30, 2014, for CFDA No. 39.003, Donation of Federal Surplus Property Program.

5. OTHER AUDIT FINDINGS

Other audit reports exist that have also identified findings and questioned costs affecting the State's various Federal programs during the year ended June 30, 2014. Because those issues have been previously reported to the affected Federal agencies, the issues identified in other audit reports have not been repeated in the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2014.

STATE OF MARYLAND

**Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

5. OTHER AUDIT FINDINGS (continued)

The State believes that none of the matters questioned will have a significant impact on the Schedule of Expenditures of Federal Awards.

6. UNEMPLOYMENT INSURANCE

In accordance with the Department of Labor, Office of Inspector General instructions, the State recorded State Regular Unemployment Compensation (UC) benefits under CFDA No. 17.225, on the accompanying Schedule of Expenditures of Federal Awards. The individual State and Federal portions are as follows:

State Regular UC benefits	\$ 783,480,895
Federal UC benefits	194,123,240
Federal UC administrative costs	83,229,343
Total Benefits	<u>\$ 1,060,833,478</u>

7. FEDERAL MORTGAGE PLANS

The State operates several programs that purchase Federally guaranteed loans, primarily mortgages, from the originators. As the State has no responsibility for determining eligibility or compliance, these guarantees are not considered Federal financial assistance for purposes of the single audit.

8. LOAN PROGRAMS

St. Mary's College of Maryland

St. Mary's College of Maryland (the College) administers the Federal Perkins Loan Program: Federal Capital Contributions (CFDA No. 84.038) (the Program). The College received no Federal funds under the Program for the year ended June 30, 2014. The new loans made in the year ended June 30, 2014, relating to this program are considered current-year Federal expenditures, whereas the outstanding loan balances are not. The Schedule of Expenditures of Federal Awards includes \$58,000 for loans issued during the year ended June 30, 2014.

STATE OF MARYLAND

Notes to the Schedule of Expenditures of Federal Awards Year Ended June 30, 2014

8. LOAN PROGRAMS (continued)

During the year ended June 30, 2014, the College processed the following amount of new loans under the Federal Family Education Loan Program (CFDA No. 84.032), which includes the Stafford Loan and PLUS Loan. Since this program is administered by outside financial institutions, new loans made during the year ended June 30, 2014, relating to this program are considered current-year Federal expenditures, whereas the outstanding loan balances are not. The new loans made during the year ended June 30, 2014, are reported in the Schedule of Expenditures of Federal Awards.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Loan Expenditures For the Year Ended June 30, 2014</u>
84.032	Stafford Loan Program	\$ 5,385,281
84.032	PLUS Loans	4,571,736
Total		<u>\$ 9,957,017</u>

Baltimore City Community College

Baltimore City Community College (the College) administers the Federal Perkins Loan Program: Federal Capital Contributions (CFDA No. 84.038) and Nursing Student Loans (CFDA No. 93.364). The outstanding loan balances as of June 30, 2014, were \$0 for both. There were no new loans made in the year ended June 30, 2014. The College completed a Federal Perkins Loan Liquidation during the year ended June 30, 2014. The outstanding balances are considered current-year Federal expenditures. These amounts are reported in the Schedule of Expenditures of Federal Awards.

Morgan State University

Morgan State University (the University) administers the Federal Perkins Loan Program: Federal Capital Contributions (CFDA NO. 84.038). The outstanding loan balances of \$3,143,707, as of June 30, 2013, the loan expenditures of \$114,539, for the year ended June 30, 2014, and the year 2014 administrative cost allowance of \$5,727, are considered current-year Federal expenditures. These amounts are reported in summary in the Schedule of Expenditures of Federal Awards.

During the year ended June 30, 2014, the University processed \$58,462,259 of new loans under the Federal Direct Student Loan Program (CFDA No. 84.268). Since this program is administered by outside financial institutions, the new loans made in the year ended June 30, 2014, relating to this program are considered current-year Federal expenditures, whereas the outstanding loan balances are not. The new loans made in the year ended June 30, 2014, are reported in the Schedule of Expenditures of Federal Awards.

STATE OF MARYLAND

**Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

8. LOAN PROGRAMS (continued)

University System of Maryland

During the year ended June 30, 2014, University System of Maryland (the System) processed the following amount of new loans under the Direct Loan Program, which includes the Federal Stafford and Plus Loan program. Since these loan programs are administered by the Federal government, new loans made in the year ended June 30, 2014, are reported in the Schedule of Expenditures of Federal Awards, whereas the outstanding loan balances are not.

<u>CFDA Number</u>	<u>Program Name</u>	<u>Loan Expenditures For the Year Ended June 30, 2014</u>
84.268	Federal Direct Student Loans	<u>\$ 820,718,689</u>

The System also administers loans under the Economic Adjustment Assistance Program (CFDA No. 11.307). Under this program, the System uses revolving loan funds to enhance economic activity. The Revolving Loan Fund (RLF) assists business development and expansion. Below is the detail to support the calculation of Total Federal Awards expended as included in the Schedule of Expenditures of Federal Awards:

Economic Development Administration (EDA) Award Number(s)	<u>014903420- 01490342001</u>	<u>014903271</u>	<u>011903134</u>
1. Balance of RLF loans outstanding at the end of the fiscal year, <i>plus</i>	\$ 3,965,795	\$ 1,420,895	\$ 1,011,585
2. Cash and investment balance in the RLF at the end of the fiscal year, <i>plus</i>	192,120	479,318	98,457
3. Administrative expenses paid out of RLF income during the fiscal year, <i>plus</i>	90,555	-	-
4. The unpaid principal of all loans written off during the fiscal year, <i>and then multiply this sum (1+2+3+4) by</i>	-	-	-
5. The Federal share of the RLF	<u>75%</u>	<u>75%</u>	<u>57.47%</u>
6. Total Federal Awards Expended	<u>\$ 3,186,352</u>	<u>\$ 1,425,160</u>	<u>\$ 637,955</u>

STATE OF MARYLAND

**Notes to the Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014**

8. LOAN PROGRAMS (continued)

The System administers the following Federal Student Financial Assistance Programs:

<u>CFDA Number</u>	<u>Outstanding Balance as of June 30 , 2013</u>	<u>Loan Expenditures For the Year Ended June 30, 2014</u>
84.038 Perkins Loan Programs	\$ 59,501,925	\$ 8,520,540
93.264 Nurse Faculty Loan Program- ARRA	2,887	-
93.264 Nurse Faculty Loan Program	102,999	-
93.364 Federal Nursing Loan – Undergraduate	1,020,098	-
93.364 Federal Nursing Loan – Graduate	209,944	19,832
93.342 Health Professional Loan – Dental	5,159,891	1,001,300
93.342 Health Professional Loan – Medical	-	-
93.342 Health Professional Loan – Pharmacy	1,210,148	240,000
93.342 Health Professional Loan - Primary Care	3,657,512	-
Total	<u>\$ 70,865,404</u>	<u>\$ 9,781,672</u>

The outstanding loan balances as of June 30, 2013, and loan expenditures for the year ended June 30, 2014, are considered current-year Federal expenditures. These amounts are reported on the Schedule of Expenditures of Federal Awards.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF MARYLAND

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I – Summary of Independent Public Accountants’ Results

Financial Statements

Type of Independent Public Accountant’s report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of Independent Public Accountant’s report issued on compliance for major programs	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None reported
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

STATE OF MARYLAND

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I – Summary of Independent Public Accountants’ Results (continued)

Identification of Major Programs

Major Program	CFDA No.	Federal Expenditures
SNAP Cluster	10.551/10.561	\$ 1,216,518,080
Child Nutrition Cluster	10.553/10.555/10.556/10.559	214,096,670
Special Supplemental Nutrition Program - WIC	10.557	94,599,504
Section 8 Project-Based Cluster	14.195/14.856	193,691,997
Unemployment Insurance	17.225	1,060,833,478
Federal Transit Cluster - ARRA	20.500/20.507/20.525	359,644
Federal Transit Cluster	20.500/20.507/20.525	196,835,228
Title I Grants to Local Educational Agencies (LEAs)	84.010	196,449,443
IDEA Part B Cluster	84.027/84.173	190,081,656
Rehabilitation Services - Vocational Rehabilitation		
Grants to States	84.126	42,450,691
Improving Teacher Quality State Grants	84.367	30,498,408
SFSF - Race-to-the-Top Incentive Grants - ARRA	84.395	77,350,412
State Planning and Establishment Grants for the Affordable		
Care Act (ACA)'s Exchanges	93.525	74,059,856
Child Care and Development Fund Cluster	93.575/93.596	76,791,703
Social Services Block Grant (SSBG)	93.667	52,421,685
Medicaid Cluster	93.775/93.777/93.778	4,854,323,174
HIV Care Formula Grants	93.917	33,573,882
Student Financial Assistance Cluster	84.007/84.033/84.037/ 84.038/84.063/84.268/ 84.379/84.408/93.264/ 93.342/93.364/93.408/ 93.925	1,141,503,085
Public Assistance Grants	97.036	7,905,832
Research and Development Cluster (R&D)	Various	620,498,190
Passenger Facility Charges	Unknown	84,410,738
Total		\$ 10,459,253,356

STATE OF MARYLAND

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2014**

Section I – Summary of Independent Public Accountant’s Results (continued)

The Passenger Facility Charge relates to collections by the Maryland Aviation Administration in accordance with Section 158.67 of 14 Code of Federal Regulations Part 158, “Passenger Facility Charge” and is not technically considered to be Federal Financial Assistance as defined by OMB Circular A-133, but have been included in the scope of this single audit.

Dollar threshold used to distinguish between type A and type B programs: \$30,000,000

Auditee qualified as low-risk Auditee? No

Section II Financial Statement Findings

None

Section III Federal Awards Findings and Questioned Costs

See findings 2014-001 through 2014-015

Section IV Summary Schedule of Prior Year Findings

See findings 2013-001 through 2013-015

See findings 2012-002, 2012-009, 2012-011,
and 2012-012

See finding 2011-008

See finding 2010-010

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

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STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding No.	Funding Department	Title of Finding
2014-001*	U.S. Department of Health and Human Services (HHS)	Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act
2014-002	U.S. Department of Health and Human Services (HHS)	Compliance and Internal Control Deficiency over Subrecipient Monitoring
2014-003*	U.S. Department of Health and Human Services	Compliance and Internal Control Deficiency over Level of Effort – <i>Maintenance of Effort</i>
2014-004*	U.S. Department of Agriculture (USDA)	Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act
2014-005*	U.S. Department of Education	Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act
2014-006*	U.S. Department of Education	Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act
2014-007	U.S. Department of Education	Compliance and Internal Control Deficiency over Eligibility
2014-008*	U.S. Department of Education	Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act
2014-009*	U.S. Department of Education	Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act
2014-010*	Federal Transit Administration (FTA)	Compliance and Internal Control Deficiency over Procurement and Suspension and Debarment
2014-011*	U.S. Department of Education	Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting
2014-012*	U.S. Department of Education	Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting
2014-013*	U.S. Department of Education	Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting
2014-014	U.S. Department of Education	Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting
2014-015*	U.S. Department of Health and Human Services (HHS)	Compliance and Internal Control Deficiency over Activities Allowed or Unallowed and Allowable Costs/Cost Principles

* Significant deficiency control finding

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014 - 001

Maryland Health Benefit Exchange (MHBE)

CFDA No. 93.525 - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland Health Benefit Exchange (MHBE), we noted that MHBE did not report subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) for subawards subject to the Transparency Act. MHBE incurred \$15,060,699 in subaward expenditures during the year ended June 30, 2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 001 (continued)

Criteria: (continued)

For grants and cooperative agreements, the effective date is October 1, 2010 for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MHBE did not ensure the proper reports were submitted through the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

Effect:

MHBE is not in compliance with the Subaward Reporting under the Transparency Act requirement for the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges.

Questioned Costs:

None.

Recommendation:

We recommend that MHBE implement procedures to ensure subawards subject to the Transparency Act are properly and timely reported through FSRS.

Auditee Response and Corrective Action Plan:

MBHE concurs with the finding.

MHBE will take the following corrective actions by the end of fiscal year 2015:

1) Register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS).

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 001 (continued)

Auditee Response and Corrective Action Plan: (continued)

2) Create procedures for the purpose of reporting each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred. The Procurement Officer has the responsibility to report into the FSRS.

3) MHBE's Procurement Officer will report compliance with Federal Funding Accountability and Transparency reporting requirements to MHBE's Compliance Committee on a quarterly basis.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014 - 002

Maryland Health Benefit Exchange (MHBE)

CFDA No. 93.525 - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency over Subrecipient Monitoring

Condition:

During our testing of Subrecipient Monitoring at the Maryland Health Benefit Exchange (MHBE), we noted that MHBE did not have evidence that applicants for subawards provided a Dun and Bradstreet Data Universal Number System (DUNS) number as part of its subaward application or before award. We also noted that at the time of the subaward, MHBE did not identify to the subrecipients the Federal award information (i.e., CFDA title and number; award name and number; and name of the Federal awarding agency) and applicable requirements. Prior to the second year of the award, MHBE notified recipients of the Federal award information via email.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB Circular A-133 and 31 USC 7502(f)(2)(B):

A pass-through entity is responsible for:

Determining Subrecipient Eligibility – In addition to any programmatic eligibility criteria under E., “Eligibility for Subrecipients,” determining whether an applicant for a subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award (2 CFR section 25.110 and Appendix A to 2 CFR part 25).

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 002 (continued)

Criteria: (continued)

Award Identification – At the time of the subaward, identifying to the subrecipient the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and name of Federal awarding agency) and applicable compliance requirements.

Cause:

MHBE was not aware of the Federal requirements to obtain a DUNS number before award and to identify to the subrecipient the CFDA title and number, award name and number, and name of the Federal agency.

Effect:

MHBE is not in compliance with the Subrecipient Monitoring requirement for the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges.

Questioned Costs:

None.

Recommendation:

We recommend that MHBE establish internal controls to ensure that the DUNS number is included as part of subaward applications and MHBE should identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is research and development, and name of Federal agency in the grant agreements.

Auditee Response and Corrective Action Plan:

MHBE concurs with the finding.

MHBE will take the following corrective actions by the end of fiscal year 2015:

- 1) Include a request for each subrecipient's DUNS number in subaward applications.
- 2) Inform each subrecipient of the CFDA title and number, award name and number, award year, if the award is research and development, and name of the Federal agency.
- 3) Create an internal control mechanism to ensure each subrecipient provides its DUNS number on its subaward application and is informed of the CFDA title and number, award name and number, award year, if the award is research and development, and name of Federal agency in the grant agreement.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 002 (continued)

Auditee Response and Corrective Action Plan: (continued)

4) MHBE's Procurement Officer will report compliance with this corrective action to MHBE's Compliance Committee on a quarterly basis, as necessary.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 003

Department of Health and Mental Hygiene (DHMH)

CFDA No. 93.917–HIV Care Formula Grants (Ryan White HIV / AIDS Program Part B)

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency over Level of Effort – *Maintenance of Effort*

Condition:

During our testing of Level of Effort – *Maintenance of Effort* (MOE) at the Department of Health and Mental Hygiene (DHMH), we noted that DHMH did not maintain sufficient documentation to support the expenditure amounts included in the MOE report submitted to the Federal agency. During our review of expenditure reports that DHMH provided to support the MOE requirement, we noted that the actual expenditure amounts were greater than the amounts reported and there was no documented methodology to support the amounts reported versus the actual expenditures.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control – Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Ryan White HIV / AIDS Treatment Extension Act of 2009 (42 USC 300ff-27(b)(7)(E)) requires that the State will maintain HIV-related activities at a level that is equal to not less than the level of such expenditures by the State for the 1-year period preceding the fiscal year for which the State is applying for Part B funds.

Per the Ryan White HIV / AIDS Program Part B Manual, Section VII, Chapter 7:

Funds that States may use to demonstrate compliance with MOE requirements are those that have, at a minimum, an identifiable line item in State budgets and expenditure reports from State agencies.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 – 003 (continued)

Criteria: *(continued)*

Per the Ryan White HIV / AIDS Program Part B Manual, Section VII, Chapter 7: *(continued)*

To demonstrate compliance with MOE provisions, States and Territories must maintain adequate systems for consistently tracking and reporting on HIV-related expenditure data from year-to-year. The system must define the methodology used, be written and auditable, and must ensure that Federal funds do not supplant State spending but instead expand and enrich HIV-related activities.

The State/Territory must provide documentation proving that the overall level of HIV-related expenditures has been maintained year-to-year for the previous two complete fiscal years (based on the grantee's fiscal year).

Cause:

DHMH did not maintain sufficient documentation to support the methodology used in the MOE computation as the actual expenditures incurred are not reported on the MOE calculation.

Effect:

SBC cannot conclude that DHMH met the level of effort – maintenance of effort requirement due to inadequate documentation support.

Questioned Costs:

Unknown.

Recommendation:

We recommend that DHMH apply a consistent methodology to calculate and compile HIV-related expenditures from State-funded agencies and that DHMH maintain supporting documentation from the general ledger to support the amounts used in the maintenance of effort computation. We also recommend that the methodology utilized by the program be documented and obtain approval from the Federal agency.

Auditee Response and Corrective Action Plan:

DHMH concurs with the finding. DHMH proposes to establish a new Program Cost Account (PCA) in fiscal year 2016 for recording MOE expenditures. A dedicated PCA would facilitate the reporting of MOE expenditures in future Federal grant applications and provide documentation by enabling MOE-designated expenditures to be directly traceable in Financial Management Information System. DHMH will submit this plan for approval, including a description of the methodology used, to the Health Resources and Services Administration.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014 - 004

Maryland State Department of Education (MSDE)

Child Nutrition Cluster

CFDA 10.553 School Breakfast Program (SBP)

CFDA 10.555 National School Lunch Program (NSLP)

CFDA 10.556 Special Milk Program for Children (SMP)

CFDA 10.559 Summer Food Service Program for Children (SFSP)

U.S. Department of Agriculture (USDA)

Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland State Department of Education (MSDE), we noted that for 30 out of 40 selected subawards subject to the Transparency Act, MSDE did not report subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) in a timely manner. Additionally, 1 of the subawards was not reported in the FSRS. MSDE incurred \$204,734,902 in subaward expenditures during the year ended June 30, 2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 004 (continued)

Criteria: (continued)

For grants and cooperative agreements, the effective date is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MSDE did not have proper controls in place to ensure that all subawards subject to the Transparency Act were reported in the FSRS on a timely basis.

Effect:

MSDE is not in compliance with the Subaward Reporting under the Transparency Act requirement for the Child Nutrition Cluster program.

Questioned Costs:

None.

Recommendation:

We recommend that MSDE establish procedures to ensure that all subawards subject to the Transparency Act are reported in the FSRS on a timely basis.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 004 (continued)

Auditee Response and Corrective Action Plan:

MSDE reviewed and revised its Federal Funding Accountability and Transparency Act (FFATA) reporting procedures during May, 2014 to provide compliance with FFATA reporting requirements and during June, 2014 the revised procedures were disseminated throughout the Agency for implementation. Training was also provided at this time regarding the revised procedures. The revised procedures provide specific timeframes when data needs to be provided by the Divisions to the Local Financial and Reporting Office which is responsible for inputting data to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). At the time of the audit, Fiscal Year 2014 was almost at its conclusion and the noted exceptions had occurred. All exceptions have been investigated and information has been input to the FSRS. The Division responsible for managing this CFDA will continue to adhere to MSDE's revised FFATA reporting procedures.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014 - 005

Maryland State Department of Education (MSDE)

CFDA No. 84.010 – Title I Grants to Local Educational Agencies

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland State Department of Education (MSDE), we selected 13 subawards subject to the Transparency Act and noted that for all 13 of the selections MSDE did not report subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) in a timely manner. MSDE incurred \$194,408,564 in subaward expenditures during the year ended June 30, 2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 005 (continued)

Criteria: (continued)

For grants and cooperative agreements, the effective date is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MSDE did not have proper controls in place to ensure that all subawards subject to the Transparency Act were reported in the FSRS on a timely basis.

Effect:

MSDE is not in compliance with the Subaward Reporting under the Transparency Act requirement for the Title I Grants to Local Educational Agencies program.

Questioned Costs:

None.

Recommendation:

We recommend that MSDE establish procedures to ensure that all subawards subject to the Transparency Act are reported in the FSRS on a timely basis.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 005 (continued)

Auditee Response and Corrective Action Plan:

MSDE reviewed and revised its Federal Funding Accountability and Transparency Act (FFATA) reporting procedures during May, 2014 to provide compliance with FFATA reporting requirements and during June, 2014 the revised procedures were disseminated throughout the Agency for implementation. Training was also provided at this time regarding the revised procedures. The revised procedures provide specific timeframes when data needs to be provided by the Divisions to the Local Financial and Reporting Office which is responsible for inputting data to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). At the time of the audit, Fiscal Year 2014 was almost at its conclusion and the noted exceptions had occurred. All exceptions have been investigated and information has been input to the FSRS. The Division responsible for managing this CFDA will continue to adhere to MSDE's revised FFATA reporting procedures.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 006

Maryland State Department of Education (MSDE)

Special Education Cluster (IDEA)

CFDA 84.027 Special Education – Grants to States (IDEA, Part B)

CFDA 84.173 Special Education – Preschool Grants (IDEA Preschool)

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland State Department of Education (MSDE), we selected 40 subawards subject to the Transparency Act and noted that for 17 of the subawards, MSDE did not report subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). Additionally, 14 of the subawards were not filed in a timely manner. MSDE incurred \$182,627,434 in subaward expenditures during the year ended June 30, 2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 006 (continued)

Criteria: (continued)

For grants and cooperative agreements, the effective date is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MSDE did not have proper controls in place to ensure that all subawards subject to the Transparency Act were reported in the FSRS on a timely basis.

Effect:

MSDE is not in compliance with the Subaward Reporting under the Transparency Act requirement for the Special Education Cluster (IDEA).

Questioned Costs:

None.

Recommendation:

We recommend that MSDE establish procedures to ensure that all subawards subject to the Transparency Act are reported in the FSRS on a timely basis.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 006 (continued)

Auditee Response and Corrective Action Plan:

MSDE reviewed and revised its Federal Funding Accountability and Transparency Act (FFATA) reporting procedures during May, 2014 to provide compliance with FFATA reporting requirements and during June, 2014 the revised procedures were disseminated throughout the Agency for implementation. Training was also provided at this time regarding the revised procedures. The revised procedures provide specific timeframes when data needs to be provided by the Divisions to the Local Financial and Reporting Office which is responsible for inputting data to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). At the time of the audit, Fiscal Year 2014 was almost at its conclusion and the noted exceptions had occurred. All exceptions have been investigated and information has been input to the FSRS. The Division responsible for managing this CFDA will continue to adhere to MSDE's revised FFATA reporting procedures.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 007

Maryland State Department of Education (MSDE)

CFDA 84.126 – Rehabilitation Services – Vocational Rehabilitation Grants to States

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Eligibility

Condition:

During our testing of Eligibility at the Maryland State Department of Education (MSDE), we selected 40 files to review for eligibility determination. For two of the participant files selected, we noted that the eligibility determination was not made within 60 days after the individual submitted an application for the services.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Section 102(a)(6) of Title I of the Rehabilitation Act of 1973, as amended (29 USC 722(a)(6)) requires that the State Vocational Rehabilitation (VR) Agency must determine whether an individual is eligible for VR services within a reasonable period of time, not to exceed 60 days, after the individual has submitted an application for the services unless:

- a. Exceptional and unforeseen circumstances beyond the control of the State VR agency preclude making an eligibility determination within 60 days and the State agency and the individual agree to a specific extension of time; or
- b. The State VR Agency is exploring an individual's abilities, capabilities, and capacity to perform in work situations through trial work experiences in order to determine the eligibility of the individual or the existence of clear and convincing evidence that the individual is incapable of benefiting in terms of an employment outcome from VR services.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 007 (continued)

Cause:

MSDE did not have proper controls in place to ensure that all eligibility determinations were made timely.

Effect:

MSDE is not in compliance with the Eligibility requirement for the Rehabilitation Services – Vocational Rehabilitation Grants to States program.

Questioned Costs:

None.

Recommendation:

We recommend that MSDE improve internal controls to ensure that all eligibility determinations are made timely.

Auditee Response and Corrective Action Plan:

The Division of Rehabilitation Services (DORS) has satisfactory controls regarding compliance to the 60 day eligibility determination requirement. In this regard, all counselors are required to complete a client's eligibility determination within 60 days of the date when the client submitted an application. Furthermore, supervisors are required to follow up on the counselors' adherence to this requirement. The two cited exceptions occurred as a result of unforeseen and extraordinary personnel situations. DORS will continue to look at the eligibility determination in accordance with 29 USC 722(a)(6) and as needed provide either individual or district training to address any future instances where the 60 day eligibility requirement is not met.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014 - 008

Maryland State Department of Education (MSDE)

CFDA 84.367 – Improving Teacher Quality State Grants

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland State Department of Education (MSDE), we selected 11 subawards subject to the Transparency Act and noted that for all 11 of the selections MSDE did not report subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) in a timely manner. MSDE incurred \$28,573,383 in subaward expenditures during the year ended June 30, 2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 008 (continued)

Criteria: (continued)

For grants and cooperative agreements, the effective date is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MSDE did not have proper controls in place to ensure that all subawards subject to the Transparency Act were reported in the FSRS on a timely basis.

Effect:

MSDE is not in compliance with the Subaward Reporting under the Transparency Act requirement for the Improving Teacher Quality State Grants program.

Questioned Costs:

None.

Recommendation:

We recommend that MSDE establish procedures to ensure that all subawards subject to the Transparency Act are reported in the FSRS on a timely basis.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 008 (continued)

Auditee Response and Corrective Action Plan:

MSDE reviewed and revised its Federal Funding Accountability and Transparency Act (FFATA) reporting procedures during May, 2014 to provide compliance with FFATA reporting requirements and during June, 2014 the revised procedures were disseminated throughout the Agency for implementation. Training was also provided at this time regarding the revised procedures. The revised procedures provide specific timeframes when data needs to be provided by the Divisions to the Local Financial and Reporting Office which is responsible for inputting data to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). At the time of the audit, Fiscal Year 2014 was almost at its conclusion and the noted exceptions had occurred. All exceptions have been investigated and information has been input to the FSRS. The Division responsible for managing this CFDA will continue to adhere to MSDE's revised FFATA reporting procedures.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 009

Maryland State Department of Education (MSDE)

Child Care and Development Fund Cluster (CCDF)

CFDA 93.575 Child Care and Development Block Grant

CFDA 93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland State Department of Education (MSDE), we noted that for 1 out of 7 selected subawards subject to the Transparency Act, MSDE reported the subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) at the incorrect amount. MSDE incurred \$50,187,760 in subaward expenditures during the year ended June 30, 2014.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 009 (continued)

Criteria: (continued)

For grants and cooperative agreements, the effective date is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MSDE made a typographical error to include the incorrect amount for one subaward.

Effect:

MSDE is not in compliance with the Subaward Reporting under the Transparency Act requirement for the Child Care and Development Fund Cluster.

Questioned Costs:

None.

Recommendation:

We recommend that MSDE establish procedures to ensure that all subawards subject to the Transparency Act are reported in the FSRS accurately.

Auditee Response and Corrective Action Plan:

MSDE agrees that the amount for one of the tested subawards was incorrectly reported to the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS). This reporting error was caused by a typographical error on a form used to input data into the FSRS. Procedures have been developed so that in the future data on the input form will be independently verified by another employee before the data is entered in the FSRS.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014 - 010

Maryland Department of Transportation (MDOT)

Federal Transit Cluster

CFDA 20.500 Federal Transit – Capital Investment Grants

CFDA 20.507 Federal Transit – Formula Grants (Urbanized Area Formula Program)

CFDA 20.525 State of Good Repair Grants

Federal Transit Administration (FTA)

Compliance and Internal Control Deficiency over Procurement and Suspension and Debarment

Condition:

During our testing of Procurement and Suspension and Debarment at the Maryland Transit Administration (MTA), MTA was not able to locate contract files for two of the 14 procurements selected. Additionally, there was no evidence that MTA performed a verification check for covered transactions by checking the Excluded Parties List System (EPLS) for one of the 14 vendors.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The code of Maryland regulations (COMAR 21.05.01.07) “Procurement Record” requires that a procurement file on each procurement for contracts in excess of \$25,000, shall include: a) a record of solicitation of inquiries; b) a listing of every bidder or offeror solicited; c) all bids or offers received; d) all internal and external correspondence regarding the procurement; e) written documentation from the procurement officer describing efforts to confirm the information in the affidavits submitted by the successful bidder or offeror, including, at a minimum, verification that the business has not been suspended or debarred by the State or Federal government; and f) the final contract.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014 - 010 (continued)

Cause:

MTA had inadequate controls in place over document retention.

Effect:

MTA is not in compliance with the Procurement and Suspension and Debarment requirements for the Federal Transit Cluster.

Questioned Costs:

Unknown.

Recommendation:

We recommend that MTA establish internal controls to ensure they maintain adequate documentation to support that the Federal and State laws and procedures were followed for procurement.

Auditee Response and Corrective Action Plan:

To ensure the required procurement documentation is complete, MTA distributed a new checklist to all procurement officers during the second quarter of fiscal year 2015. MTA procurement officers will review all contract files and sign off on the checklist. In addition, the Director of Procurement, or a designee, will conduct periodic reviews to ensure these procedures are being followed. Based on the auditor's recommendation, the checklist has been modified to include a checkbox to indicate a verification of the vendor's status. MTA will ensure a contractor's good standing by reviewing the Excluded Parties List System for Federally funded contracts and reviewing the Board of Public Works debarment list for State funded contracts.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-011

University System of Maryland – Bowie State University (BSU)

Student Financial Assistance Cluster

CFDA No. 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA No. 84.032	Federal Family Education Loans (FFEL)
CFDA No. 84.033	Federal Work- Study Program (FWS)
CFDA No. 84.037	Perkins Loan Cancellations
CFDA No. 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA No. 84.063	Federal Pell Grant Program (Pell)
CFDA No. 84.268	Federal Direct Student Loans (Direct Loan)

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

During our testing of student enrollment reporting, we reviewed the enrollment status of 40 students. We noted that for eight of the students selected, BSU did not submit the students' updated status to the National Student Loan Data System (NSLDS) within 60 days; and for two of the students selected, the enrollment status per the institution's PeopleSoft system did not match the enrollment status per NSLDS.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-011 (continued)

Criteria: (continued)

Per OMB A-133: (continued)

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

BSU did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in student's enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment is not properly determined.

Questioned Costs:

None.

Recommendation:

We recommend that BSU establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-011 (continued)

Auditee Response and Corrective Action Plan:

The University agrees with this finding. The following procedures will be implemented by April 30, 2015:

1. The Financial Aid Coordinator will reconcile discrepancies between Enrollment and Financial Aid on a monthly basis to identify all students that should be updated at NSLDS. The reconciliation will be reviewed and signed off monthly by the Director of Financial Aid.
 - a. Students that complete an official withdraw form will be reported to NSLDS at the end of each month.
 - b. Students that unofficially withdraw (stop outs or no shows) will be reported to NSLDS at the conclusion of the late registration period each semester.
2. The Financial Aid Coordinator will ensure that all changes to student enrollment status are reported to NSLDS within the required time frame.
3. The Financial Aid Coordinator will maintain an updated list of all students reported to NSLDS.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-012

University System of Maryland – University of Maryland, Baltimore County (UMBC)

Student Financial Assistance Cluster

- CFDA No. 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG)**
- CFDA No. 84.032 Federal Family Education Loans (FFEL)**
- CFDA No. 84.033 Federal Work- Study Program (FWS)**
- CFDA No. 84.037 Perkins Loan Cancellations**
- CFDA No. 84.038 Federal Perkins Loan (FPL) – Federal Capital Contributions**
- CFDA No. 84.063 Federal Pell Grant Program (Pell)**
- CFDA No. 84.268 Federal Direct Student Loans (Direct Loan)**

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

During our testing of student enrollment reporting, we noted that for 24 out of 40 students selected, UMBC did not submit the students' updated status to the National Student Loan Data System (NSLDS) within 60 days.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-012 (continued)

Criteria: *(continued)*

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

UMBC did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in students' enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment were not properly determined.

Questioned Costs:

None.

Recommendation:

We recommend that UMBC establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-012 (continued)

Auditee Response and Corrective Action Plan:

UMBC has established and implemented procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database. Specifically, previously we had utilized a report generated from a data warehouse reporting application that had program limitations resulting in untimely reporting of some student enrollment records. However, in Fall 2014 UMBC began utilizing a more accurate PeopleSoft (PS) report to update required enrollment information via our third party service. The new report output has been reviewed by management for data quality and verified as accurate.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-013

Baltimore City Community College (BCCC)

Student Financial Assistance Cluster

- CFDA No. 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG)**
- CFDA No. 84.032 Federal Family Education Loans (FFEL)**
- CFDA No. 84.033 Federal Work- Study Program (FWS)**
- CFDA No. 84.037 Perkins Loan Cancellations**
- CFDA No. 84.038 Federal Perkins Loan (FPL) – Federal Capital Contributions**
- CFDA No. 84.063 Federal Pell Grant Program (Pell)**
- CFDA No. 84.268 Federal Direct Student Loans (Direct Loan)**

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

During our testing of student enrollment reporting, we reviewed the enrollment status of forty students. We noted that for six of the students selected, BCCC did not submit the students' updated status to the National Student Loan Data System (NSLDS) within 60 days; for sixteen of the students selected, the enrollment status per the institution's PeopleSoft system did not match the enrollment status per NSLDS; and for three of the students selected, support that the enrollment status was submitted to NSLDS was unable to be obtained.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-013 (continued)

Criteria: (continued)

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

BCCC did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in students' enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment is not properly determined.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-013 (continued)

Questioned Costs:

None.

Recommendation:

We recommend that BCCC establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

Auditee Response and Corrective Action Plan:

BCCC has corrected the program reporting enrollment data to the Clearinghouse that will enable the College to report student enrollment status changes in a timely manner.

BCCC's Information Technology (IT) staff identified a programming error that caused the 20% freeze date to be selected as the date for reporting a student's current enrollment status. The error was corrected during the programming overhaul that was required by the Department of Education (ED) in their February 27, 2014, version of the NSLDS Enrollment Reporting File Layout and guidance. IT programming staff corrected the data element selection to ensure that the student's capture data is selected from the correct field. The programming changes were completed during October, 2014 after the auditor's review.

Additionally, on the 10th of every month, the College reports student status changes to the Clearinghouse to ensure that timely information is updated to the NSLDS database. Our records show that the three students who were not recorded on the NSLDS database were actually included on the College's report to the Clearinghouse. The College is currently evaluating its existing processes to develop a method to ensure or at least identify student information that is reported to the Clearinghouse, yet does not appear in the NSLDS database. We believe that the programming change coupled with the monthly reporting will eliminate the risk of reporting in excess of 60 days after the student's enrollment status change date. These controls will ensure that enrollment status changes are updated and accurately reported in a timely manner and reported to the Clearinghouse.

Finally, the College does not currently process student loans; however, the enrollment status and effective dates have been corrected in our Student Information Management System's (SIMS) program to ensure that the NSLDS can properly determine repayment date, grace period and deferment.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-014

Morgan State University (MSU)

Student Financial Assistance Cluster

CFDA No. 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA No. 84.032	Federal Family Education Loans (FFEL)
CFDA No. 84.033	Federal Work- Study Program (FWS)
CFDA No. 84.037	Perkins Loan Cancellations
CFDA No. 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA No. 84.063	Federal Pell Grant Program (Pell)
CFDA No. 84.268	Federal Direct Student Loans (Direct Loan)

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

During our testing of student enrollment reporting, we noted that for 24 out of 40 students selected, MSU did not submit the students' updated status to the National Student Loan Data System (NSLDS) within 60 days.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-014 (continued)

Criteria: *(continued)*

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

MSU did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in students' enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment were not properly determined.

Questioned Costs:

None.

Recommendation:

We recommend that MSU establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-014 (continued)

Auditee Response and Corrective Action Plan:

The University has consistently reported student enrollment status information to NSLDS via the National Student Clearinghouse (NSC) on a monthly basis. However, NSC did not report the data to NSLDS for the summer months in 2014. The Federal reporting guidelines now require NSC to remit enrollment information to NSLDS for the summer months as well. Accordingly, the isolated period of a break in service has been eliminated and this finding will not recur. However, as of January 2015, the University has implemented an additional review to help ensure that NSC relays enrollment data to NSLDS in a timely fashion.

Auditor Conclusion:

Based on the above, the finding remains as stated.

STATE OF MARYLAND

Schedule of Current Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2014-015

Morgan State University (MSU)

Research and Development Cluster

CFDA No. 93.307 Minority Health and Health Disparities Research (HHS107)

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency over Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Condition:

During our testing of Activities Allowed or Unallowed and Allowable Costs/Cost Principles at Morgan State University (MSU), we reviewed the indirect cost allocation for the HHS107 grant. We noted that direct costs for consortium/contractual were improperly included in the indirect cost pool above the \$25,000 maximum allowed by the grant agreement.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Notice of Award from HHS for Grant #2R24MD002803-06 REVISED issued August 20, 2013, includes Federal Direct Costs and Federal Facilities and Administrative (F&A) Costs. The grant operates under a modified indirect cost rate of 48.5% of the F&A Costs base, which included salaries and wages, fringe benefits, personnel costs, and supplies. The F&A Costs base do not include consortium/contractual costs over \$25,000.

Cause:

MSU did not have functioning controls in place to ensure that consortium/contractual direct costs over \$25,000 were not included in the direct cost pool from which indirect costs are calculated and charged to the grant.

Effect:

MSU overstated expenditures to the grant and overcharged the awarding agency.

STATE OF MARYLAND

**Schedule of Current Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2014-015 (continued)

Questioned Costs:

\$156,507

Recommendation:

We recommend that MSU establish procedures to ensure that indirect cost allocation is calculated and charged correctly.

Auditee Response and Corrective Action Plan:

The University agrees that the internal control surrounding indirect cost (IDC) calculation needs to be enhanced. Currently, the financial accounting system does not provide the necessary automated control to help ensure that IDC is applied for the first \$25,000 of the sub-award expenditures only. The manual process is prone to error and is conducted in a shadow system. The University will work with the vendor to explore the possibility of modifying the system's capabilities to automate that calculation. In addition, as a result of the audit, the University has implemented a rigorous manual process to independently verify the accuracy of all IDC calculations.

The majority of the questioned costs was removed in the shadow system and was not charged to the sponsor; however, the financial accounting system was not adjusted accordingly. Specifically, only \$53,402 was overcharged to the sponsor for the given fiscal year, but has now been reversed in the current year to yield no overcharge overall (this is an active multi-year award). An adjusting journal entry has been executed to bring the invoice and draw down data to match the financial accounting system. Therefore, all expenditures are now allowable and in compliance with governing regulations.

Auditor Conclusion:

Based on the above, the finding remains as stated.

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SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 001

Maryland Health Benefit Exchange (MHBE)

CFDA No. 93.525 - State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency over Reporting

Condition:

During our testing of Reporting at the Maryland Health Benefit Exchange (MHBE), we noted that one of the four Quarterly Progress Reports selected for testing could not be located by MHBE.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control – Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per the Cooperative Agreement for the State of Maryland to Support Establishment of State-Operated Health Insurance Exchanges, MHBE is required to submit Quarterly Progress Reports to the HHS Grants Management Specialist and to the Center for Consumer Information and Insurance Oversight (CCIIO) Project Officer. Quarterly Progress Reports are due within 30 days after the end of the quarter.

Cause:

MHBE submits quarterly progress reports to HHS via Centers for Medicare and Medicaid Services' (CMS) Online Data Collection System (OLDC) and did not maintain a copy of one of the reports selected for testing.

Effect:

We were not able to test if MHBE is in compliance with the reporting requirements for the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges. MHBE has a significant deficiency in internal control over the compliance requirements for reporting.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 001 (continued)

Questioned Costs:

None.

Recommendation:

We recommend that MHBE maintain records of all required reports with supporting documentation and evidence of review and approval.

Auditee Response and Corrective Action Plan:

With regard to the specific report missing during the FY 2013 audit, MHBE submitted the progress report to HHS for the quarter ended December 31, 2012, via the CMS Online Data Collection System (OLDC), however, the report was unable to be retrieved. MHBE will resubmit the report in question to HHS by April 4, 2014, and will retain a copy for its records. Additionally, copies of all future progress reports submitted to HHS will be retained.

Auditee Update – October 2014:

The MHBE has re-submitted the missing December 2012 grant report to the Centers for Medicare and Medicaid Services – Center for Consumer Information and Insurance Oversight (CMS CCIIO) and has a policy in place to ensure that the reports are submitted timely and are retained for audit purposes as evidence of review and approval.

Auditor Conclusion:

Based on testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 002

Department of Health and Mental Hygiene (DHMH)

Medicaid Cluster

CFDA No. 93.775, 93.777, 93.778

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency over Special Tests and Provisions – Automatic Data Processing (ADP) Risk Analysis and System Security Review

Condition:

DHMH is required to conduct periodic risk analysis of new and existing ADP systems on a biennial basis. The ADP risk analysis was last completed during fiscal year 2010. During the audit, we noted that the ADP risk analysis was not completed during fiscal year 2012 nor 2013. It needed to be completed in fiscal year 2012 in order to fall within the biennial requirement.

Criteria:

OMB Circular A-133 states that “State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analysis whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR Section 95.621).”

Cause:

DHMH did not have proper monitoring controls in place to ensure adherence with the timing requirement set forth by the Federal agency.

Effect:

DHMH did not complete the ADP risk analysis on a biennial basis.

Questioned Costs:

None.

Recommendation:

We recommend that DHMH strengthen its existing controls over monitoring the timeliness of the ADP risk analysis to ensure the Federal timing requirement is met.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 002 (continued)

Auditee Response and Corrective Action Plan:

While the contract to perform the Risk Assessment was awarded in June 2013, it was completed in September 2013.

To ensure future Risk Assessments are completed timely, the Administration will contract directly for the performance of the required biennial risk assessments, rather than include the review as part of the overall DHMH Risk Assessment.

Auditee Update – October 2014:

As previously stated, the Risk Assessment in question was completed in September 2013.

The Administration contracted with a company specializing in IT security assessments for government systems. The assessment included reviews of the Medicaid Management Information System (MMIS II) and the Electronic Data Interchange Translator Processing System (EDITPS). Areas reviewed included: Security Test and Evaluation; Risk Assessments; Penetration Testing; Disaster Recovery and Gap Analysis. The security testing was based on the *Recommended Security Controls for Federal Information Systems and Organizations*.

To ensure the risk assessment is completed timely, the Administration no longer relies on the overall assessment performed for the entire Department, and includes specific provisions in its budget for performance of the biennial assessment.

The Risk Assessment for the next two-year period was completed in September 2014.

Auditor Conclusion:

Based on testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 003

Maryland State Department of Education (MSDE)

CFDA No. 10.558 – Child and Adult Care Food Program

U.S. Department of Agriculture

Compliance and Internal Control Deficiency over Reporting

Condition:

During our discussion with management on reporting requirements, it was noted that the Federal Funding Accountability and Transparency Act (FFATA) required under 1512(c)(4) of the American Recovery and Reinvestment Act (ARRA) had not been met as the client had not submitted the report for this program.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control – Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

2 CFR Part 170 Appendix A I.a.1. entities must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds for a subaward to an entity. Further, I.a.2.ii. states that subaward information must be reported no later than the end of the month following the month in which the obligation was made.

Cause:

Management understood that the Child and Adult Care Food Program is a needs based/reimbursement program and was not subject to FFATA reporting.

Effect:

MSDE is not in compliance with FFATA reporting requirements for the Child and Adult Care Food Program.

Questioned Costs:

None.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 003 (continued)

Recommendation:

This CFDA is subject to FFATA reporting requirements and consequently the auditors recommend that MSDE develop procedures that would allow for the successful and timely submission of the FFATA.

Auditee Response and Corrective Action Plan:

MSDE will review its existing controls and procedures regarding FFATA reporting requirements. These controls and procedures will be updated to ensure that the Agency is in compliance with FFATA regulations. The updated controls and procedures will be implemented across the Agency by May 30, 2014.

Auditee Update – January 2015:

MSDE's FFATA reporting procedures have been updated and were communicated throughout the Agency on June 10, 2014. Program Managers for this CFDA have received and are complying with the revised reporting procedures. In this regard, the revised procedures requires the Program Office to provide data by the 15th of each month to the Local Financial Reporting Office (LFRO) for any grant issued in the prior month which meets FFATA reporting criteria. The LFRO subsequently enters this data by the last day of each month into the FFATA Sub Award Reporting System thereby meeting FFATA reporting requirements. The Program Office has provided reports to the LFRO for the months during the period July 2013 through December 2014. It is completing its retroactive review of grants for the period October 2010 through June 2013 and will provide the results of this review to the LFRO by March 31, 2015.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 004

Maryland State Department of Education (MSDE)

CFDA No. 84.048 – Career and Technical Education - Basic State Grants

U.S. Department of Education

Compliance and Internal Control Deficiency over Reporting

Condition:

During our discussion with management on reporting requirements, it was noted that the Federal Funding Accountability and Transparency Act (FFATA) required under 1512(c)(4) of the American Recovery and Reinvestment Act (ARRA) had not been met as the report had not been submitted within the required time frame.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control – Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

2 CFR Part 170 Appendix A I.a.1. entities must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds for a subaward to an entity. Further, I.a.2.ii. states that subaward information must be reported no later than the end of the month following the month in which the obligation was made.

Cause:

The FFATA report was not submitted due to an oversight by management. Upon notification, management filed the report in October 2013.

Effect:

MSDE is not in compliance with FFATA reporting requirements for the Career and Technical Education - Basic State Grants and Twenty-First Century Community Learning Centers programs.

Questioned Costs:

None.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 – 004 (continued)

Recommendation:

The auditors recommend that MSDE develop procedures that would allow for the successful and timely submission of the FFATA.

Auditee Response and Corrective Action Plan:

MSDE will review its existing controls and procedures regarding FFATA reporting requirements. These controls and procedures will be updated to ensure that the Agency is in compliance with FFATA regulations. The updated controls and procedures will be implemented across the Agency by May 30, 2014.

Auditee Update – January 2015:

MSDE's FFATA reporting procedures have been updated and were communicated throughout the Agency on June 10, 2014. Program Managers for these CFDA's have received and are complying with the revised reporting procedures. In this regard, the revised procedures requires the Program Office to provide data by the 15th of each month to the Local Financial Reporting Office (LFRO) for any grant issued in the prior month which meets FFATA reporting criteria. The LFRO subsequently enters this data by the last day of each month into the FFATA Sub Award Reporting System thereby meeting FFATA reporting requirements. The 21st Century Program Office has completed its retroactive review of grants issued since October 1, 2010, and has provided the results of this review to the LFRO. Similarly, the Career and Technical Education Program Office has commenced its retroactive review of grants issued since October 1, 2010, and expects to complete this review by March 31, 2015.

Correspondence dated July 7, 2014, from the United States Department of Education (USDE) stated that based on MSDE's reported corrective action it considers this Finding resolved and closed.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 005

Maryland State Department of Education (MSDE)

CFDA No. 84.048 – Career and Technical Education - Basic State Grants

U.S. Department of Education

Compliance and Internal Control Deficiency over Reporting

Condition:

During testing of the Federal Funding Accountability and Transparency Act (FFATA), it was determined that three non-school subrecipients' grant awards were not reported on the FFATA. The award amounts totaled \$178,966.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control – Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

2 CFR Part 170 Appendix A I.a.1. entities must report each action that obligates \$25,000 or more in Federal funds that does not include Recovery funds for a subaward to an entity. Further, I.a.2.ii. states that subaward information must be reported no later than the end of the month following the month in which the obligation was made.

Cause:

Only information related to schools and not for all sub-recipients was reported.

Effect:

MSDE is not in compliance with FFATA reporting requirements for Career and Technical Education - Basic State Grants.

Questioned Costs:

None.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 – 005 (continued)

Recommendation:

The auditors recommend that MSDE review their procedures for compiling the FFATA to ensure that all information necessary is captured.

Auditee Response and Corrective Action Plan:

MSDE will review its existing control and procedures regarding FFATA reporting requirements. These controls and procedures will be updated to ensure that the Agency is in compliance with FFATA regulations. The updated control and procedures will be implemented across the Agency by May 30, 2014.

Auditee Update – January 2015:

MSDE's FFATA reporting procedures have been updated and were communicated throughout the Agency on June 10, 2014. Program Managers for this CFDA have received and are complying with the revised reporting procedures. In this regard, the revised procedures requires the Program Office to provide data by the 15th of each month to the Local Financial Reporting Office (LFRO) for any grant issued in the prior month which meets FFATA reporting criteria. The LFRO subsequently enters this data by the last day of each month into the FFATA Sub Award Reporting System thereby meeting FFATA reporting requirements. The Program Office still needs to complete its retroactive review of grants issued since October 1, 2010, and provide the results of this review to the LFRO by March 31, 2015.

Correspondence dated July 7, 2014, from the United States Department of Education (USDE) stated that based on MSDE's reported corrective action it considers this Finding resolved and closed.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 006

Maryland State Department of Education (MSDE)

CFDA No. 84.395 – State Fiscal Stabilization Fund - Race to the Top - ARRA

U.S. Department of Education (ED)

Compliance and Internal Control Deficiency over Reporting

Condition:

During testing of American Recovery and Reinvestment Act (ARRA) 1512 reports, the auditors noted that sub-grant award amounts were not properly reported for 2 out of 2 1512 reports selected for testing.

Criteria:

American Recovery and Reinvestment Act Section 1512 (c)(4) states that each recipient shall submit to the Federal agency, detailed information on any subcontracts or subgrants award by the recipient to include the data elements required to comply with the Federal Funding Accountability and Transparency Act of 2006 (Public Law 109-282).

Cause:

MSDE did not enter the correct amounts awarded to subgrantees in the 1512 reports.

Effect:

MSDE is not in compliance with the reporting requirements under OMB A-133 for the Race to the Top program.

Questioned Costs:

None.

Recommendation:

MSDE should implement a review procedure to ensure that the information captured in the 1512 reports is accurate.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 – 006 (continued)

Auditee Response and Corrective Action Plan:

PART L of the OMB A-133 Compliance Supplement refers to all reporting requirements associated with Race to the Top. The ARRA 1512 reports are one reporting requirement. This specific finding involves three prior fiscal year grants. The total award amount for each grant was subsequently decreased and the revised award amount was not correctly reported on subsequent ARRA 1512 reports. For all three grants, the expenditure amounts were reported correctly. The corrections have been made internally and will be made with federalreporting.gov pending further guidance from ED, as the ARRA 1512 reporting requirement has ended.

Auditee Update – January 2015:

This Finding was for three grant awards (out of several hundred) where the amount awarded was reduced and not recorded in subsequent ARRA 1512 reports. Expenditures reported for these grants were accurate in all ARRA 1512 reports. On March 19, 2014, MSDE input revised data for the three grants into the FederalReporting.gov database resulting in the related ARRA 1512 reports being corrected. Furthermore, correspondence dated August 25, 2014, from USDE, while not indicating that the ARRA 1512 reports had been corrected, stated that MSDE's corrective action response was accepted and considered the Finding resolved. All reports were corrected as of the end of the ARRA 1512 reporting requirement.

Auditor Conclusion:

Based on testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 007

Maryland Department of Transportation (MDOT)

Federal Transit Cluster

CFDA 20.500 Federal Transit – Capital Investment Grants

CFDA 20.507 Federal Transit – Formula Grants (Urbanized Area Formula Program)

CFDA 20.525 State of Good Repair Grants

Federal Transit Administration (FTA)

Compliance and Internal Control Deficiency over Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Condition:

During our testing of Activities Allowed or Unallowed and Allowable Costs/Cost Principles at the Maryland Transit Administration (MTA), we reviewed the transaction details of 40 expenditures and noted one exception. We noted that an expenditure that was subsequently refunded to MTA had been charged to FTA for reimbursement.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

OMB Circular A-87 (2 CFR part 225) requires that costs must be net of all applicable credits to be allowable under Federal awards.

Per OMB A-87:

Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transaction are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 007 (continued)

Criteria (continued)

To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.

Cause:

The reclassification process did not uncover the fact that the transaction had been reversed. Looking at the original journal entry in the accounting system will not inform the user that the entry has been reversed.

Effect:

MTA is not in compliance with the Allowable Cost requirements for the Federal Transit Cluster.

Questioned Costs:

\$140,428

Recommendation:

We recommend that MTA incorporate identifying reversed journal entries into their reclassification process. We also recommend that MTA credit the refunded expenditure of \$140,428, to the Federal award either as a cost reduction or cash refund, as appropriate.

Auditee Response and Corrective Action Plan:

Washington Metropolitan Area Transit Authority (WMATA) issued a check to Maryland Transit Administration (MTA) on November 2, 2010, pursuant to the Memorandum of Agreement regarding the Takoma-Langley Transit Center along the borders of Prince George's and Montgomery Counties.

The Accounting Department recorded the refund of expenditures, but was later reversed since the refund was already recorded. However, on April 23, 2013, Capital Programming made a journal entry to transfer the expenditures to another grant.

Upon discovery of this error, MTA immediately credited the refunded expenditure and replaced it with eligible expenses for the project that were previously paid out of state funds. Additionally, MTA revised the journal entry process and created an additional step that checks WebFocus reports for prior refunds or journal entries to the grant. MTA also instituted an additional level of management oversight and review to the journal entry process to identify reversed journal entries.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 007 (continued)

Auditee Update – October 2014:

We concur. We accepted the recommendations as stated in the findings. As noted in the corrective action plan, processes continue to be in place to correctly identify changes in the accounting records such as reclassification entries, adjustments and reversals prior to requesting funds allowable under the Federal Transit Cluster. This review, in addition to, reviewing such transactions through Web Focus Reports and an additional level of review at the supervisory level should prevent future occurrences. We have also trained and taken on an additional grant analyst to add another level of preparation and review.

Auditor Conclusion:

Based on testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 008

State of Maryland – Department of Aging

Aging Cluster

CFDA 93.044 Special Programs for the Aging – Title III, Part B – Grants for Supportive Services and Senior Centers

CFDA 93.045 Special Programs for the Aging – Title III, Part C – Nutrition Services

CFDA 93.053 Nutrition Services Incentive Program

U.S. Department of Health and Human Services (HHS)

Compliance and Internal Control Deficiency Over Reporting – Subaward Reporting Under the Transparency Act

Condition:

During our testing of Subaward Reporting under the Transparency Act at the Maryland Department of Aging (MDOA), we noted that MDOA does not report subaward data in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) for subawards subject to the Transparency Act.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215.27) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The Federal Funding Accountability and Transparency Act (Pub. L. No. 109-282) (Transparency Act), as amended by Section 6202(a) of the Government Funding Transparency Act of 2008 (Pub. L. No. 111-252), implementing requirements in 2 CFR part 170, and the Federal Acquisition Regulation (FAR), require recipient reporting of each first-tier subaward or subaward amendment that results in an obligation of \$25,000 or more in Federal funds by the end of the month following the month in which the reportable action occurred.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 008 (continued)

Criteria: *(continued)*

For grants and cooperative agreements, the effective date is October 1, 2010, for all discretionary and mandatory awards equal to or exceeding \$25,000 made with a new Federal Assistance Identification Number (FAIN) on or after that date. The FAIN is the unique award number assigned to a particular grant or cooperative agreement by the Federal awarding agency (as opposed to the CFDA number, which pertains to a program generally). As it appears on the prime award document (e.g., pre-printed form, letter, or electronically generated format), this number also may be termed “award number”, “grant number”, or be indicated by some other terminology, but its purpose is to identify that particular award. The FAIN may include both letters and numbers. The Federal Government does not specify any requirements for numbering of subawards.

Grant and cooperative agreement recipients and contractors are required to register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and report subaward data through FSRS.

Cause:

MDOA is not registered in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and does not report subaward data through FSRS.

Effect:

MDOA is not in compliance with the Subaward Reporting under the Transparency Act requirement for the Aging Cluster.

Questioned Costs:

None.

Recommendation:

We recommend that MDOA register in the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and implement procedures to report subawards subject to the Transparency Act through FSRS.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 008 (continued)

Auditee Response and Corrective Action Plan:

As recommended, MDOA has registered with the Federal Funding Accountability and Transparency Act Subaward Reporting System (FSRS) and has been granted access to the online reporting system. For the initial reporting, MDOA will create a listing of all federal awards received and identify those grants that require subaward reporting under the Transparency Act. Once the grants awards have been identified, MDOA will review the subaward allocations to ensure that the subaward meets the minimum required reporting threshold of \$25,000. Those subawards that do not and will not meet this minimum threshold need not be reported. Once the subawards have been verified to have met the minimum threshold, MDOA will log into the FSRS reporting tool and create the "Awardee Worklist" to capture all identified grant awards that require reporting. Once the initial reporting has been completed, and in accordance with FFATA regulations and guidelines, MDOA will update this listing as needed and report subawards through the FSRS system no later than the last day of the month following the obligation of funding to the subawardees.

Auditee Update – October 2014:

As previously indicated, MDOA has complied with the recommendations made and has taken the necessary steps to remedy this finding and become compliant. MDOA has strengthened its procedures and the initial reporting has been completed, in accordance with FFATA regulations and guidelines. MDOA procedures update this listing as needed and report sub awards through the FSRS system no later than the last day of the month following the obligation of funding to the subawardees.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 009

University System of Maryland – University of Maryland Eastern Shore (UMES)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

Three out of forty students tested were reported in the database incorrectly and two out of forty were reported late. One of the students' withdrawal date was incorrectly reported and two of the students withdrew from the school but were incorrectly reported as full-time. It took UMES more than 60 days to update two of the students' status within NSLDS.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (*OMB No. 1845-0035*). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 009 (continued)

Criteria: *(continued)*

Per OMB A-133: (continued)

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loans for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

UMES did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in the student's enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment is not properly determined.

Questioned Costs:

None.

Recommendation:

We recommend that UMES establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 009 (continued)

Auditee Response and Corrective Action Plan:

University of Maryland Eastern Shore accepts the finding related to student enrollment reporting. Although the number of enrollment reporting transmittals was increased from three to four times a semester to report status changes within a 30 day time period, we have found that PeopleSoft has no delivered functionality to deal with terminal status changes such as in the case of student withdrawals where once the student is withdrawn, a student's account would be recalculated and the academic program/plan inactivated. Since the Records Office does not have the capability to recalculate, there can be a lag time between recalculation and inactivating the program/plan. In some instances, this resulted in students appearing to be active without a change in their enrollment status. To this respect, PeopleSoft is supposed to be rolling out a fix to allow tuition to be recalculated once a withdrawal has been processed. This would allow the program/plan to be updated immediately and with consistent dates. In the interim, UMES will refine their business practices by doing the following: In addition to using system reports, a manual database of student withdrawals will be maintained for review prior to and in between reporting periods to ensure the program/plan of students who withdraw are inactivated with the same effective date of the withdrawal (student career term). Once enrollment reports are processed by National Student Clearinghouse (NSC), records of withdrawn students will be reviewed to ensure the correct status has been reported. We will also investigate the use of a custom automated process for all terminal status changes which would process the term withdrawal, run tuition calculation and update the academic program/plan to ensure all processes are completed consistently and in a timely fashion.

Auditee Update – October 2014:

As stated in the initial response, PeopleSoft did include a fix in Bundle 32 that was applied to our system in production on February 27, 2014. The fix automatically performs tuition calculation once an administrative user in the Records Office posts a term withdrawal. Immediately following the post, a student's program/plan is inactivated with the same effective date of the term withdrawal. In addition, UMES implemented the use of a manual (Excel) database to record term withdrawals and to review the reporting status of withdrawn students before submission to NCS and after the report is processed at NCS. Having the tuition calculation functionality for the Records Office when posting term withdrawals has reduced the lag time between posting term withdrawals, tuition calculation and inactivating program/plans. It has also reduced the need for any customization at this time. We will continue to monitor the process and status of withdrawn students to determine if modifications are need in the future.

Auditor's Conclusion:

Based on follow-up testing performed during 2014, the finding is a repeat finding, as the corrective action plan was not in place for all of fiscal year 2014. It started in the Spring 2014 semester. We selected a sample of files from that period and noted the corrective action plan was put in place.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 010

University System of Maryland – Towson University (TU)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

During our testing of student enrollment reporting, we reviewed the enrollment status of forty students. We noted thirty-nine out of forty students selected were incorrectly classified and reported in the NSLDS database; and we noted one out of forty of the students' records cannot be found in the Clearinghouse database. Eighteen of the students withdrew from TU but were incorrectly reported as attending full-time. Twenty-one of the students' withdrawal dates were incorrectly reported to the Clearinghouse. We also noted thirty-seven out of forty students' status was reported to the Clearinghouse after the sixty-day requirement. This did not meet the enrollment reporting compliance requirement.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 010 (continued)

Criteria: *(continued)*

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (*OMB No. 1845-0035*). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loans for Students (SLS), or PLUS loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

TU incorrectly treated withdraw (“W”) as attending class, therefore, did not report student status changes related to withdraws.

Effect:

The change in the student’s enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment is not properly determined.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 010 (continued)

Questioned Costs:

None.

Recommendation:

We recommend that TU establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

Auditee Response and Corrective Action Plan:

Towson University accepts the finding related to student enrollment reporting. TU reports enrollment to the National Student Clearinghouse (NSC) within the dates required; each report is sent within 30 to 60 days from the start of the term or from any preceding report. Through the Fall 2013 term, our reports have been based on Towson's definition of enrollment which includes units for progress; therefore grades of W (Withdraw) have counted toward the student's academic load. It has come to our attention that for federal financial aid purposes, we are required to exclude courses with grades of W in our reports to NSC which in turn provides our data to the National Student Loan Data System.

Beginning Spring 2014, TU will exclude W grades from all reports to the National Student Clearinghouse by modifying a delivered report in our PeopleSoft Student Information System. This will ensure that students with federal financial aid will be reported to NSLDS in the manner required.

Auditee Update – October 2014:

Beginning with the Spring 2014 term, when reporting enrollment to NSC, TU has excluded W grades from all calculations of current enrollment level. Based on this change, students who have withdrawn from all their classes will now be reported to NSC as withdrawn, and NSC will forward this withdraw data to NSLDS to meet the Department of Education's enrollment reporting requirements.

Auditor's Conclusion:

Based on follow-up testing performed during 2014, the finding is a repeat finding, as the corrective action plan was not in place for all of fiscal year 2014. It started in the Spring 2014 semester. We selected a sample of files from that period and noted the corrective action plan was put in place.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 011

University System of Maryland – Towson University (TU)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Return of Title IV Funds

Condition:

During our testing of Return of Title IV funds, we reviewed the refund calculations for forty students. For twenty-two of the students selected from the 2013 spring semester, the Return of Title IV calculation performed by TU Financial Aid Office was inaccurate resulting in less refund to the Department of Education.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 011 (continued)

Criteria: (continued)

Per 34 CFR Section 668.22:

In part, that an institution is required to have a fair and equitable refund policy. Per 34 CFR Section 668.22, when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student has unofficially withdrawn. The unearned portion of Title IV funds must be returned to the Department of Education within 45 calendar days of the date the student officially withdraws. Any unearned funds must be returned to the Title IV program and no additional disbursements may be made to the student for the payment period. If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c) (1) (i) or (c) (1) (ii) of this section, the mid-point of the payment period (or period of enrollment), is applicable.

Cause:

TU did not subtract the spring break out of the calculation for the semester days, which is required per Federal Guidelines, since the student did not attend school more than 5 consecutive days.

Effect:

This resulted in the incorrect amount being returned to the Department of Education.

Questioned Costs:

The questioned cost associated with the twenty-two exceptions was \$6,676.

Recommendation:

We recommend that TU update the formula of the Return of Title IV calculation in PeopleSoft. TU should also ensure that refunds are made for changes that result from the updating of the formula.

Auditee Response and Corrective Action Plan:

The Financial Aid Office has revised the procedures that we will follow when performing Title IV Return of Funds calculations on federal aid recipients. We now manually reduce the number of 'Total Days' and the number of 'Completed Days' to exclude breaks of more than 5 consecutive days. For fall terms, we only have to reduce the 'Total Days' because the fall break occurs after students have already completed 60% of the term, and we only have to perform these calculations on students who completely withdraw before the 60% point. For our spring terms, we will always reduce the 'Total Days' and will also reduce the 'Completed Days' when students completely withdraw after spring break has begun.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 011 (continued)

Auditee Update – October 2014:

Starting with Fall 2013 term, when calculating Return of Title IV (R2T4) adjustments, the Financial Aid Office now corrects PeopleSoft responses for the days in the term and the days completed to adjust for breaks in the term.

In addition, we reviewed and correct the Spring 2013 R2T4 calculations errors identified by the auditors, reduced student aid by the revised additional amounts, and returned additional unearned federal aid funds to the U.S. Department of Education.

The following was returned to the Department of Education:

Additional Pell Grant funds	\$ 76
Additional Federal Loan Funds	\$5,140
Total Additional Funds Returned	\$5,216

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 012

Morgan State University (MSU)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency Over Special Tests and Provisions - Student Enrollment Reporting

Condition:

Fifteen out of forty students tested were not reported in the database and nine out of forty were reported late. Fifteen of the students could not be found in NSLDS. It took MSU more than 60 days to update nine of the students' status within NSLDS.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (*OMB No. 1845-0035*). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 012 (continued)

Criteria: *(continued)*

Per OMB A-133: (continued)

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall — (1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loans for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

MSU did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in the student's enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment is not properly determined.

Questioned Costs:

None.

Recommendation:

We recommend that MSU establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 012 (continued)

Auditee Response and Corrective Action Plan:

This recommendation has been implemented. With the arrival of the new Registrar, as of October 2013, the Office of Records and Registration has established and implemented procedures to correct the identified reporting deficiencies. Since that time, the University has been reporting the enrollment status of its students to the National Student Clearinghouse (NSC) in an accurate and timely manner. After the University submits the report, management receives notification from NSC that the transmission was successful. Therefore, changes in the students' enrollment are now properly reported to the National Student Loan Data System database via NSC.

Auditee Update- October 2014:

As reported last fiscal year, this recommendation has been fully implemented. The Office of Records and Registration has established and implemented procedures to correct the identified reporting deficiencies. The University has been reporting the enrollment status of its students to the National Student Clearinghouse (NSC) in an accurate and timely manner. Therefore, changes in the students' enrollment are now properly reported to the National Student Loan Data System database.

Auditor Conclusion:

Based on testing performed during 2014, the finding is a repeat finding. See finding 2014-014.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 013

Saint Mary's College of Maryland (St. Mary's)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

Thirty-four out of forty students tested were reported in the database incorrectly. Thirty-three of the students' status change date was incorrectly reported and one of the students withdrew from St. Mary's but was incorrectly reported as full-time.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate controls that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via National Student Loan Data System (NSLDS) (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 013 (continued)

Criteria: *(continued)*

Per OMB A-133: (continued)

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site.

Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall—(1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loans for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

St. Mary's did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid.

Effect:

The change in the student's enrollment is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment is not properly determined.

Questioned Costs:

None.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 013 (continued)

Recommendation:

We recommend that St. Mary's establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

Auditee Response and Corrective Action Plan:

The College agrees with this recommendation and has taken appropriate action to ensure that accurate data is reported to NSLDS in a timely manner. The College will adjust its procedures to include a supervisory review of data submitted to NSLDS to ensure that changes made to a student's enrollment status and dates are accurate.

Auditee Update- October 2014:

Previously the College used to report the commencement date as the date of departure from the College. Moving forward, the College will now use the last date of classes as the departure date from the College. For students who receive federal financial aid, the change will eliminate using two reporting dates on our system (i.e. the date the student completes their degree work and the commencement date as the departure date). Therefore, using the last date of classes will match the Clearing-House reporting system which retrieves the last date of the semester as the graduation date. The Clearing-House graduation date is also used to determine when a student goes into repayment of loans. The change will improve reporting at both the College and the Clearing-House.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is a repeat finding.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 014

Saint Mary's College of Maryland (St. Mary's)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency over Special Tests and Provisions - Return of Title IV Funds

Condition:

During our testing of Return of Title IV funds, we reviewed the refund calculations for eleven students. One out of the eleven students' Title IV refunds was reported to the Department of Education late. St. Mary's did not report the refund within 45 days, which is required per Federal Guidelines. It took St. Mary's 54 days to process the Return of Title IV calculation.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per 34 CFR Section 668.22:

In part, that an institution is required to have a fair and equitable refund policy. Per 34 CFR Section 668.22, when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student has unofficially withdrawn.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 014 (continued)

Criteria: *(continued)*

Per 34 CFR Section 668.22: (continued)

The unearned portion of Title IV funds must be returned to the Department of Education within 45 calendar days of the date the student officially withdraws.

Any unearned funds must be returned to the Title IV program and no additional disbursements may be made to the student for the payment period. If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c) (1) (i) or (c) (1) (ii) of this section, the mid-point of the payment period (or period of enrollment), is applicable.

Cause:

St. Mary's did not have proper controls in place to review and update the student's status for returning the student financial aid to Department of Education.

Effect:

This resulted in the funds being delayed to return to the Department of Education.

Questioned Costs:

None.

Recommendation:

We recommend that St. Mary's update the formula of the Return of Title IV calculation in PeopleSoft. St. Mary's should also ensure that refunds are made for changes that result from the updating of the formula.

Auditee Response and Corrective Action Plan:

The College agrees with the recommendation to comply with the return of Title IV funds processes. The financial aid Office has increased its oversight of the Return of Title IV funds by instituting a process whereby reports of students who withdraw from classes will be delivered electronically from the Office of Academic Services to the Financial Aid and Business Offices. The Registrar's Office sends out emails to faculty asking them to list students who are not attending classes at the end of the drop/add each semester.

Auditee update - October 2014:

The College continues to perform monthly review and approval processes at the supervisory level to ensure that all "Return of Title IV funds" calculation and refunds are completed within the regulatory time limit. Documentation of the returns is maintained in the Office of Financial Aid.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 014 (continued)

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 015

Saint Mary's College of Maryland (St. Mary's)

Student Financial Assistance Cluster

CFDA 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA 84.032	Federal Family Education Loans (FFEL)
CFDA 84.033	Federal Work- Study Program (FWS)
CFDA 84.037	Perkins Loan Cancellations
CFDA 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA 84.063	Federal Pell Grant Program (Pell)
CFDA 84.268	Federal Direct Student Loans (Direct Loan)

U.S Department of Education (ED)

Compliance and Internal Control Deficiency over Reporting

Condition:

During our testing of Disbursement to or on Behalf of Students, we reviewed the disbursement date and amount of Pell funds between the school system and Common Origination and Disbursement (COD) system for forty students. All forty students' disbursement date was incorrectly reported to COD system.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) requires that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per OMB A-133:

All schools receiving Pell grants submit Pell payment data to the Department through the Common Origination and Disbursement (COD) System. Schools submit Pell origination records and disbursement records to the COD. Origination records can be sent well in advance of any disbursements, as early as the school chooses to submit them for any student the school reasonably believes will be eligible for a payment.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2013 - 015 (continued)

Criteria: *(continued)*

Per OMB A-133: (continued)

A school follows up with a disbursement record for that student no more than 30 days before a disbursement is to be paid (7 days in the case of a school using the just-in-time method). The disbursement record reports the actual disbursement date and the amount of the disbursement.

ED processes origination and/or disbursement records and returns acknowledgments to the school. The acknowledgments identify the processing status of each record: Rejected, Accepted with Corrections, and Accepted. Institutions must report student payment data within 30 calendar days after the school makes a payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data. Schools may do this by reporting once every 30 calendar days, bi-weekly, weekly or may set up their own system to ensure that changes are reported in a timely manner.

Cause:

St. Mary's did not have proper controls in place to review and report the student's disbursement date per the school records to the COD System.

Effect:

ED processes the incorrect disbursement records from COD system since the disbursement date per COD system did not match to the disbursement date in the school student's account.

Questioned Costs:

None.

Recommendation:

We recommend that St. Mary's update the reporting and recording process of the disbursement. St. Mary's should also ensure that the disbursement date in the school system is consistent with COD system.

Auditee Response and Corrective Action Plan:

The College agrees with the auditor's finding and recommendation. We are taking appropriate action to enhance the processing of Pell Disbursement. The College is immediately putting in place a process whereby the Business and Financial Aid Offices will meet before and after Pell is disbursed to ensure that the disbursement date on the College's system matches the disbursement dates on the Common Origination and Disbursement (COD) system.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2013 - 015 (continued)

Auditee Update- October 2014:

The College has improved internal processes within the Business and Financial aid Offices. We conduct regular meetings to ensure that the disbursement dates on the College's system matches the disbursement date on the COD system and the student's account record. The meetings are usually held twice a month but the frequency may vary depending upon the time of the year. In addition, both offices maintain electronic communications to confirm the action taken.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2012 - 002

Department of Health and Mental Hygiene (DHMH)

Medicaid Cluster

CFDA No. 93.775 State Medicaid Fraud Control Units

CFDA No. 93.777 State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare

CFDA No. 93.778 Medical Assistance Program (Medicaid; Title XIX)

U.S. Department of Health and Human Services (HHS)

Internal Control and Compliance Deficiency over Special Tests and Provisions – Automatic Data Processing (ADP) Risk Analysis and System Security Review

Condition:

DHMH is required to conduct periodic risk analysis of new and existing ADP systems on a biennial basis. The ADP risk analysis was last completed during fiscal year 2010. During the audit, we noted that the ADP risk analysis was not completed during fiscal year 2012, which is required in order to fall within the biennial requirement.

Criteria:

OMB Circular A-133 states that “State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews (45 CFR section 95.621).”

Cause:

DHMH did not have proper monitoring controls in place to ensure adherence with the timing requirement set forth by the Federal agency.

Effect:

DHMH did not complete the ADP risk analysis on a biennial basis.

Questioned Costs:

None.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 002 (continued)

Recommendation:

We recommend that DHMH strengthen its existing controls over monitoring the timeliness of the ADP risk analysis to ensure the Federal timing requirement is met.

Auditee Response and Corrective Action Plan:

The Administration agrees with the recommendation. The Medical Care Program intended to include the required biennial Risk Assessment for 2012 as part of the overall DHMH Risk Assessment being performed concurrently. However, since the DHMH overall assessment has been delayed, the Medical Care Program has decided to proceed with its own Risk Assessment. The solicitation is currently in process with an anticipated completion date for the assessment of June 30, 2013.

Auditee Update – October 2014:

The assessment review was performed, and completed in September 2013.

The Administration contracted with a company specializing in IT security assessments for government systems. The assessment included reviews of the Medicaid Management Information System (MMIS II) and the Electronic Data Interchange Translator Processing System (EDITPS). Areas reviewed included: Security Test and Evaluation; Risk Assessments; Penetration Testing; Disaster Recovery and Gap Analysis. The security testing was based on the *Recommended Security Controls for Federal Information Systems and Organizations*.

To ensure the risk assessment is completed timely, the Administration no longer relies on the overall assessment performed for the entire Department, and includes specific provisions in its budget for performance of the biennial assessment.

The Risk Assessment for the next two-year period was completed in September 2014.

Auditor Conclusion:

Based on testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2012 - 009

University System of Maryland – University of Baltimore

Student Financial Assistance Cluster

CFDA No. 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA No. 84.032	Federal Family Education Loans (FFEL)
CFDA No. 84.033	Federal Work- Study Program (FWS)
CFDA No. 84.037	Perkins Loan Cancellations
CFDA No. 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA No. 84.063	Federal Pell Grant Program (Pell)
CFDA No. 84.268	Federal Direct Student Loans (Direct Loan)

U.S. Department of Education (ED)

Internal Control and Compliance Deficiency over Special Tests and Provisions - Student Loan Repayments

Condition:

During testing of student loan repayments, we reviewed the loan records for 40 students. For three of the students selected, an exit interview was not conducted with the borrowers before he or she left the institution.

Criteria:

Per 34 CFR Section 674.42:

In part, that an institution is required to conduct an exit interview with the borrower before he or she leaves the institution. Per 34 CFR Section 674.42, an institution must ensure that exit counseling is conducted with each borrower either in person, by audiovisual presentation, or by interactive electronic means. The institution must ensure that exit counseling is conducted shortly before the borrower ceases at least half-time study at the institution. As an alternative, in the case of a student enrolled in a correspondence program or a study-abroad program that the institution approves for credit, the borrower may be provided with written counseling material by mail within 30 days after the borrower completes the program. If a borrower withdraws from the institution without the institution's prior knowledge or fails to complete an exit counseling session as required, the institution must ensure that exit counseling is provided through either interactive electronic means or by mailing counseling materials to the borrower at the borrower's last known address within 30 days after learning that the borrower has withdrawn from the institution or failed to complete exit counseling as required.

Cause:

The University considers a grade of "W" to be a valid grade and student still enrolled. Since the students earned grades of "W" and were not considered withdrawn, therefore; the students were not subject to an exit interview.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 009 (continued)

Effect:

The University is not in compliance with the student loan repayments requirements of OMB Circular A - 133.

Questioned Costs:

None.

Recommendation:

We recommend that the University establish procedures to ensure that enrollment status changes are updated accurately and treat a grade of W as not enrolled in order to meet the Federal regulation.

Auditee Response and Corrective Action Plan:

The University of Baltimore accepts the finding related to Perkins Loan exit interviews. The auditor's interpretation of Federal regulation is that the grade of "W" cannot be considered for enrollment. The University of Baltimore does not challenge this interpretation and will adjust our policies and procedures accordingly to resolve the finding, including conducting Perkins Loan exit interviews as required.

Auditee Update – October 2014:

The University of Baltimore monitors individual student enrollments on a weekly basis. Students who have withdrawn or have been reduced to a part-time enrollment status are immediately notified of the exit interview requirement. Additionally, Campus Partners, the University's Perkins Loan Servicer, notifies the student to complete an online exit interview. If the online interviews are not completed, Campus Partners mails the student(s) a paper exit interview. The University is committed to ensuring we remain compliant with the student loan repayment requirements, which we fully implemented in January 2014, as outlined in OMB Circular A-133.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2012 - 011

University System of Maryland - Coppin State University

Student Financial Assistance Cluster

- CFDA No. 84.007 Federal Supplemental Educational Opportunity Grants (FSEOG)**
- CFDA No. 84.032 Federal Family Education Loans (FFEL)**
- CFDA No. 84.033 Federal Work- Study Program (FWS)**
- CFDA No. 84.037 Perkins Loan Cancellations**
- CFDA No. 84.038 Federal Perkins Loan (FPL) – Federal Capital Contributions**
- CFDA No. 84.063 Federal Pell Grant Program (Pell)**
- CFDA No. 84.268 Federal Direct Student Loans (Direct Loan)**

U.S. Department of Education (ED)

Internal Control and Compliance Deficiency over Special Tests and Provisions - Student Enrollment Reporting

Condition:

During our testing of student enrollment reporting, we reviewed the enrollment status of forty students. We noted forty of the students selected were incorrectly classified and reported in the National Student Loan Database System (NSLDS) database. Forty of the students withdrew from classes and thus took zero credits, but fifteen were incorrectly reported as attending half-time, twenty-three were incorrectly reported as attending full-time, and two were incorrectly reported as less than half-time.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 011 (continued)

Criteria: (continued)

Per OMB A-133:

Under the FFEL and Direct Loan programs, schools must complete and return within 30 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) mailboxes sent by ED via the NSLDS (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every two months, but the minimum is twice a year.

Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS web site. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. Unless the school expects to complete its next roster within 60 days, the school must notify the lender or the guaranty agency within 30 days, if it discovers that a student who received a loan either did not enroll or ceased to be enrolled on at least a half-time basis (FFEL, 34 CFR section 682.610; Direct Loan, 34 CFR section 685.309).

Per 34 CFR § 682.610(c):

A school shall—(1) Upon receipt of a student status confirmation report form from the Secretary or a similar student status confirmation report form from any guaranty agency, complete and return that report within 30 days of receipt to the Secretary or the guaranty agency, as appropriate; and (2) Unless it expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days — (i) If it discovers that a Stafford, Supplemental Loan for Students (SLS), or Parent Loan for Undergraduate Students (PLUS) loan has been made to or on behalf of a student who enrolled at that school, but who has ceased to be enrolled on at least a half-time basis; (ii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who has been accepted for enrollment at that school, but who failed to enroll on at least a half-time basis for the period for which the loan was intended; (iii) If it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a full-time student who has ceased to be enrolled on a full-time basis; or (iv) If it discovers that a student who is enrolled and who has received a Stafford or SLS loan has changed his or her permanent address.

Cause:

The university did not have proper controls in place to review and update enrollment status changes for students receiving student financial aid. The University considers a grade of “W” to be a valid grade and student still enrolled. Therefore a grade of “W” was not reported to NSLDS.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 011 (continued)

Effect:

The change in the student's enrollment to less than half time is not properly reported in the NSLDS database, thus, repayment date, grace period, and deferment are not properly determined.

Questioned Costs:

Unknown.

Recommendation:

We recommend that the University establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

Auditee Response and Corrective Action Plan:

The University's initial transmissions and subsequent transmissions of students' enrollment are reported to the National Student Clearinghouse in a timely manner each semester. In accordance with the University's policies and procedures on students' enrollment and withdrawal, the information reported to the Clearinghouse was correct.

We acknowledge that we have not reported to the Clearinghouse the adjustments in the number of credits when students withdraw from courses. Staff members in Records and Registration, Financial Aid and Information Technology have met to determine how to correct this problem and we have a solution to the reporting problem. The next transmission to the Clearinghouse will reflect students' withdrawals.

Auditee Update - October 2014:

The University continues to use the system solution that was developed by Information Technology Department and the Office of Records and Registration to appropriately report to the Federal Clearinghouse a student's full-time, part-time and withdrawal status. Since the implementation of the new process in Spring 2013 the University has been successful in reporting student enrollment data.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is a repeat finding.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 012

University System of Maryland - Coppin State University

Student Financial Assistance Cluster

CFDA No. 84.007	Federal Supplemental Educational Opportunity Grants (FSEOG)
CFDA No. 84.032	Federal Family Education Loans (FFEL)
CFDA No. 84.033	Federal Work- Study Program (FWS)
CFDA No. 84.037	Perkins Loan Cancellations
CFDA No. 84.038	Federal Perkins Loan (FPL) – Federal Capital Contributions
CFDA No. 84.063	Federal Pell Grant Program (Pell)
CFDA No. 84.268	Federal Direct Student Loans (Direct Loan)

U.S. Department of Education (ED)

Internal Control and Compliance Deficiency over Special Tests and Provisions - Return of Title IV Funds

Condition:

During our testing of Return of Title IV funds, we reviewed the refund calculations for 40 students. For fourteen of the students selected, there was no Title IV refund as the University was unaware that the student dropped or withdrew from class.

Criteria:

The A-102 Common Rule and OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control – Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Per 34 CFR Section 668.22:

In part, that an institution is required to have a fair and equitable refund policy. Per 34 CFR Section 668.22, when a recipient of Title IV grant or loan assistance withdraws from an institution during a payment period or period of enrollment in which the recipient began attendance, the institution must determine the amount of Title IV grant or loan assistance that the student has unofficially withdrawn. The unearned portion of Title IV funds must be returned to the Department of Education within 30 calendar days of the date the student officially withdraws.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 012 (continued)

Criteria: *(continued)*

Any unearned funds must be returned to the Title IV program and no additional disbursements may be made to the student for the payment period. If the student ceases attendance without providing official notification to the institution of his or her withdrawal in accordance with paragraph (c) (1) (i) or (c) (1) (ii) of this section, the mid-point of the payment period (or period of enrollment), is applicable.

Cause:

The University did not calculate the return of funds in accordance with the Federal guidelines.

Effect:

This resulted in the incorrect amount being returned to ED.

Questioned Costs:

\$19,585, related to our 14 exceptions.

Recommendation:

We recommend that the University strengthen its internal controls over the calculation of Title IV funds. These controls should consist of proper documentation, supervision, and calculation of the returns within the required time frames. The review should also ensure the refunds are made in the proper order of return of Title IV funds.

Auditee Response and Corrective Action Plan:

The University was awarding students based on enrollment status at the minimum enrollment or census date, using guidelines of SAP (Satisfactory Academic Progress) (see: HEA Sec. 484(c), 34 CFR 668.16(e), 34 CFR 668.32(f) and 34 CFR 668.34 (a)(s)). As a result, Title IV returns were substantially reduced. However, the University does agree with finding and did not capture and properly calculate all students who had complete withdrawal before the 60% timeframe. As a process of correction, the University will review the "Questioned Cost" amount of \$19K and the students identified and return the funding if substantiated. We will also review any other students who may fit the criteria as identified in the finding and make the required adjustments.

Going forward, the University with cooperation of Financial Aid and Information Technology will implement Title IV (R2T4) Refunding to PeopleSoft (financial software) programming to document and correctly calculate required funding returns for those students who perform a complete withdrawal from the university after minimum enrollment, but before the 60% timeframe. This will be done in conjunction with the solution for enrollment reporting in Records & Registration.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2012 - 012 (continued)

Auditee Update – October 2014:

The University has taken the following corrective action on the finding of Compliance and Internal Control Deficiency over Special Tests and Provisions - Return of Title IV Funds:

- We have reviewed the students identified in association with the Questioned Costs of \$19,000 and determined \$13,000 should be returned. These funds were returned to the appropriate funding program via Common Origination and Disbursement (COD) and the Federal G-5 System in September 2013.
- The University's written Federal Return of Title IV Refund policy and Tuition refund policy has been revised approved and reviewed with personnel responsible for implementing.
- Communication to US Department of Education sent September 2013 included the information stated above and the University has the Final Program Determination Letter.
- The University's Financial Aid Office has elected to use the Department of Education's Return of Title IV Funds on the Web application to calculate the Return of Title IV funds. This allows the designated financial aid staff member to enter data that is collected to perform appropriate procedures including documenting, supervisory review and proper calculations of the Title IV fund returns within the required time frames.

Using the Department of Education's Internet-based solution further ensures the calculations are performed according to the Department of Education's Student Assistance General Provisions.

Auditor Conclusion:

Based on follow-up testing performed during 2014, the finding is resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2011 - 008

Department of Human Resources (DHR)

Emergency Food Assistance Cluster (TEFAP)

CFDA No. 10.568 Emergency Food Assistance Program (Administrative Costs)

CFDA No. 10.569 Emergency Food Assistance Program (Food Commodities)

U.S. Department of Agriculture (USDA)

Compliance and Significant Deficiency over Accountability for Commodities

Condition:

During our audit, we noted that DHR does not have a consistent system of taking periodic inventory counts. We were unable to test the accountability of commodities as the required physical inventory records were not maintained by DHR.

Criteria:

Per 7 CFR sections 250.16(a)(6) and 250.15(c):

Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods, including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind.

Per 7 CFR section 250.14(e):

Distributing and recipient agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency.

Cause:

DHR did not have adequate procedures in place related to the accountability of commodities.

Effect:

The lack of tracking and maintaining records of the physical inventory allows the potential for abuse, including fraud and other defalcation, to exist and not be detected.

Questioned Costs:

Unknown.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2011 - 008 (continued)

Recommendation:

We recommend that physical counts of inventory should be performed at least annually. The results should be reviewed and reconciled to the accounting system. The perpetual inventory listing should be reconciled to the general ledger, with any large discrepancies investigated and explained. Any adjustments, along with the cost of goods sold entries, should be made and a procedure should be implemented to allow for these adjustments to occur on an annual basis.

Auditee Response and Corrective Action Plan:

DHR agrees that at one time, its oversight of commodity food inventories needed improvement.

The USDA reviewed this program in FY 2010, and found some shortcomings regarding the inventory process. Subsequent to June 2011, new processes were implemented by the DHR TEFAP staff.

The unit responsible for commodities and related contracts were previously located in the DHR Office of Grants Management (OGM). A reorganization of some modals within DHR took place effective February 28, 2012, and the OGM personnel responsible for TEFAP administration were transferred to the Family Investment Administration (FIA) Bureau of Policy, Reporting and Training. FIA management is currently reviewing all prior policies and procedures and will work with the TEFAP staff to ensure that the process approved by the USDA remains in place.

Auditee Update – October 2014

In Federal fiscal year 2013 and Federal fiscal year 2014 oversight of The Emergency Food Assistance Program (TEFAP) was transitioned to Maryland Food Bank (MFB) and Capital Area Food Bank (CAFB). MFB and CAFB now serve as Sponsoring Agencies responsible for managing and executing aspects of the program to include receipt, delivery and distribution of all foods, warehousing and inventory accountability.

MFB and CAFB are required to conduct 100 % annual monitoring reviews of each Eligible Recipient Agency (ERAs) contracted to administer TEFAP. In addition to conducting yearly reviews, both Sponsoring Agencies review monthly and/or quarterly ERA inventory reports to ensure product accountability. Discrepancies from the reviews are communicated to the related ERA.

As the State Administering Agency, DHR ensures compliance with the required regulation by performing monitoring activities as well as approval of all commodity requisition and selection made by the MFB and CAFB. Specifically, DHR remains compliant with FNS recommendation for accountability of commodities by conducting physical inventory counts at the MFB and CAFB during our annual storage facility reviews. During this review, a perpetual inventory list is reconciled to the physical count and outcomes are then reported to both CAFB and MFB. DHR also follows-up to ensure that material discrepancies, noted from our review, are adequately resolved.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2011 - 008 (continued)

Auditee Update – October 2014 (continued)

In addition, DHR completes administrative and monitoring reviews of the 26 Eligible Recipient Agencies on a yearly basis, as required.

In Federal fiscal year 2015, DHR implemented a new measurement tool to further ensure accountability. The monthly report captures the receipt and distribution of inventory donated foods, net dollar value and loss/damage per jurisdiction.

Auditor Conclusion:

As physical inventories reconciled to the accounting records were not provided during fiscal year 2014, the finding is a repeat finding.

STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2010 - 010

Department of Human Resources (DHR)

Emergency Food Assistance Cluster

CFDA No. 10.568 Emergency Food Assistance Program (Administrative Costs)

CFDA No. 10.569 Emergency Food Assistance Program (Food Commodities)

U.S. Department of Agriculture (USDA)

Compliance and Significant Deficiency over Accountability for Commodities

Condition:

During our audit, we noted that DHR does not have a consistent system of taking periodic inventory counts. We were unable to test the accountability of commodities due to the required physical inventory records were not maintained by DHR.

Criteria:

Per 7 CFR sections 250.16(a)(6) and 250.15(c):

Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods, including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity is liable for the value of the food or replacement of the food in kind.

Per 7 CFR section 250.14(e):

Distributing and recipient agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency.

Cause:

DHR did not have needed staff to perform functions related to the accountability of commodities.

Effect:

The lack of tracking and maintaining records of the physical inventory allows the potential for abuse, including fraud and other defalcation, to exist and not be detected.

Questioned Costs:

Unknown.

STATE OF MARYLAND

Schedule of Prior Year Findings and Questioned Costs Year Ended June 30, 2014

Finding 2010 - 010 (continued)

Recommendation:

We recommend that physical counts of inventory should be performed at least annually. The results should be reviewed and reconciled to the accounting system. The perpetual inventory listing should be reconciled to the general ledger, with any large discrepancies investigated and explained. Any adjustments, along with the cost of goods sold entries, should be made and a procedure should be implemented to allow for these adjustments to occur on an annual basis.

Auditee Response and Corrective Action Plan:

DHR concurs with the recommendation. The Office of Grants Management (OGM) is developing an automated and improved inventory system to replace the current outdated Excel spreadsheets. This system will reconcile the inventory to the general ledger. Reports will be reviewed monthly and any large discrepancies investigated and explained. Adjustments, along with the cost of goods, will be made and procedures implemented to allow for these adjustments to occur on an annual basis.

The Office of Grants Management will conduct physical inventories to correspond with both the State and the federal fiscal year. The inventories will occur on August 15th for the prior State fiscal year and November 15th for the prior federal fiscal year. Inventories will be conducted at all warehouses that contained Emergency Food Assistance Program (TEFAP) food at the end of the appropriate fiscal year.

Auditee Update – October 2014

In Federal fiscal year 2013 and Federal fiscal year 2014 oversight of The Emergency Food Assistance Program (TEFAP) was transitioned to Maryland Food Bank (MFB) and Capital Area Food Bank (CAFB). MFB and CAFB now serve as Sponsoring Agencies responsible for managing and executing aspects of the program to include receipt, delivery and distribution of all foods, warehousing and inventory accountability.

MFB and CAFB are required to conduct 100 % annual monitoring reviews of each Eligible Recipient Agency (ERAs) contracted to administer TEFAP. In addition to conducting yearly reviews, both Sponsoring Agencies review monthly and/or quarterly ERA inventory reports to ensure product accountability. Discrepancies from the reviews are communicated to the related ERA.

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STATE OF MARYLAND

**Schedule of Prior Year Findings and Questioned Costs
Year Ended June 30, 2014**

Finding 2010 - 010 (continued)

Auditee Update – October 2014 (continued)

In addition, DHR completes administrative and monitoring reviews of the 26 Eligible Recipient Agencies on a yearly basis, as required.

In Federal fiscal year 2015, DHR implemented a new measurement tool to further ensure accountability. The monthly report captures the receipt and distribution of inventory donated foods, net dollar value and loss/damage per jurisdiction.

Auditor Conclusion:

As physical inventories reconciled to the accounting records were not provided during fiscal year 2014, the finding is a repeat finding.

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