

State of Rhode Island and Providence Plantations

Department of Administration
BUREAU OF AUDITS
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June 29, 2016

Mr. James Purcell
Commissioner
Office of the Postsecondary Commissioner
560 Jefferson Boulevard
Warwick, RI 02886

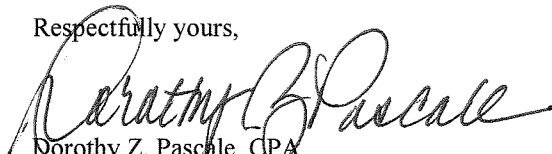
Dear Commissioner Purcell:

The Bureau of Audits has completed its limited scope audit of the Rhode Island Higher Education Assistance Authority. The purpose of the engagement was to determine if the quasi-public agency transitioned as intended in the 2016 Budget Article 7. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendation included herein has been discussed with members of management, and we considered their comments in the preparation of this report.

Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on June 23, 2016, and such response is included in this report. Pursuant to this statute, the Bureau may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the Office of the Postsecondary Commissioner and the Office of the General Treasurer for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,



Dorothy Z. Pascale, CPA
Chief

c- Michael DiBiase, Director, Department of Administration
Jonathan Womer, Director, Office of Management and Budget
Patrick Marr, Chief Operation Officer, Office of the General Treasurer
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Marvin L. Abney, Chairperson, House Finance Committee



Executive Summary

Why the Bureau Did This Review

The Bureau of Audits conducted this limited scope audit to determine if the quasi-public corporation Rhode Island Higher Education Assistance Authority (RIHEAA) transitioned as intended under 2016 Budget Article 7 *Relating to Higher Education Assistance Authority* and if efficiencies were gained in the process.

Background Information

RIHEAA's activities are organized into three divisions:

1. Tuition Saving Program
2. Scholarship and Grant Program
3. Federal Family Education Loan (FFEL) Program Guaranty Agency

Article 7 *Relating to Higher Education Assistance Authority* was approved as a component of the Governor's 2016 Budget. This article eliminated RIHEAA and transferred its powers and programs to the newly created Division of Higher Education Assistance (DHEA) within the Office of the Postsecondary Commissioner (OPC) and to the Office of the General Treasurer.

The Bureau of Audits recommends the Office of the Postsecondary Commissioner:

- Ensure funds are spent in accordance with federal requirements.
- Develop a plan of action to address the impending reduction of available guaranty agency reserve funds.
- Require employees to track and report detailed time descriptions.
- Execute a Memorandum of Understanding between the Office of the Postsecondary Commissioner and the Office of the General Treasurer.

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Background

As required by Rhode Island General Law §42-155-7, Audit of quasi-public corporations (Quasi-Public Act), the Bureau of Audits conducted a limited scope audit of the Rhode Island Higher Education Assistance Authority (RIHEAA). The Governor's 2016 Budget Article 7 *Relating to Higher Education Assistance Authority* was approved. This article eliminated RIHEAA and transferred its powers and programs to the newly created Division of Higher Education Assistance (DHEA) within the Office of the Postsecondary Commissioner (OPC) and to the Office of the General Treasurer. The enacted budget transferred ten full-time equivalent positions (FTEs) to OPC and one FTE to the Treasurer. The Office of the General Treasurer now administers the *CollegeBoundfund* and receives the associated revenue.

Prior to this reorganization RIHEAA's activities were organized into three divisions:

1. Tuition Saving Program
2. Scholarship and Grant Program
3. Federal Family Education Loan (FFEL) Program Guaranty Agency

See Addendum I for a detailed description of the programs and legislative changes that have impacted the administration of each program.

Results of the Merger

DHEA employees continue to support guaranty agency functions, oversee the Scholarship and Grant program and monitor the WaytogoRI portal.¹ OPC and RIHEAA engaged in similar outreach programs when they were separate entities. As the administration requirements for the guarantee agency function and Scholarship and Grant program have decreased, DHEA employees have been incorporated into outreach programs created under OPC to promote the combined Strategic Plan for Postsecondary Education. As a quasi-public corporation, RIHEAA maintained its own financial, facilities, human resource and information technology staff; OPC did not have these positions. Therefore, they relied on other agencies and contracted support to provide these services. Since the merger, the individuals from RIHEAA have been able to fulfill these needs within OPC.

¹This program is a free, internet-based program that helps students, parents and educators explore educational options, discover a wide variety of occupations and make plans to achieve education and career goals. It is used to satisfy a federal mandate from the 2005 Deficit Reduction Act that requires guaranty agencies to provide certain educational information and services to residents. It is also used by many schools within the state to full the Individual Learning Plan for certain students.

Recommendations and Management Responses

Address Diminishing Operating Funds to Impact Continuation of Services as a result of the Transition

As stated above, Budget Article 7 transferred RIHEAA personnel and responsibilities to OPC. The enacted budget combined 15 OPC FTEs and 10 RIHEAA employees. The following chart depicts how the enacted budget and current operations differ:

	Enacted Budget	Current OPC Operations
General Revenue funded FTEs	15	14
Guaranty Agency Operating Fund FTEs	10	11

The additional FTE paid through the guaranty agency operating fund will deplete this fund faster than initially anticipated and will impact DHEA's ability to achieve its mission.

The operational reserves are expected to be depleted as the associated revenue from repayment activity within the guaranty agency function of DHEA is reduced.² DHEA is reliant upon the guaranty agency reserve fund to support the staff and the WaytogoRI program.

It is crucial that DHEA and OPC consider the financial implication of the reduction of guaranty agency operating funds and the impact the impending reduction will have on current staffing levels and the WaytogoRI program.

Recommendations:

1. Ensure funds are spent in accordance with federal requirements.
2. Develop a plan of action to address the impending reduction of available guaranty agency reserve funds with the administration and the legislature.

Management's Responses:

1. We fully agree that the RIHEAA/DHEA operational reserve account should only be used for appropriate purposes and fully believe that all funds have been spent in accordance with federal regulations regarding operating funds for guaranty agencies.

It should be noted that in addition to CFR 682.423 Guaranty Agency Operating Funds regulations, the Deficit Reduction Act of 2005, Section 8023 (b)(2) and (3) College Access Initiative requires:

(2) Activities. --Each guaranty agency shall undertake such activities as are necessary to promote access to postsecondary education for students through providing information on college

² DHEA anticipates the depletion of the fund within two years based on its projections.

planning, career preparation, and paying for college. The guaranty agency shall publicize such information and coordinate such activities with other entities that either provide or distribute such information in the States for which such guaranty agency serves as the designated guarantor.

(3) Funding.--The activities required by this section may be funded from the guaranty agency's Operating Fund established pursuant to section 422B and, to the extent funds remain, from earnings on the restricted account established pursuant to section 422(h)(4).

2. Furthermore, we fully agree that funds in DHEA operational reserves will only support 10 FTEs, and as of submitting this response, staffing on the DHEA side has been reduced to 10.

When RIHEAA merged with the OPC in July 2015, RIHEAA was staffed at 20 FTEs, with the requirement to reduce staff to 10 effective FY2016. Any continued funding of employees through DHEA operational reserves after July 1, 2015 was a result of the transition time required for the administrative tasks related to that mission. Notifying employees of termination, providing employees who had rights under union agreements and civil service protocol opportunity to exercise their rights, as well as administrative time to restructure RIHEAA activities and incorporate new OPC responsibilities were among the tasks to be accomplished.

All activities have been accomplished meeting fiduciary and contractual obligations while still reducing the DHEA FTE count by approximately 50%.

Responsible Party: Jim Purcell, Ed. D., Commissioner of Postsecondary Education

Anticipated Completion Date: 5/1/2016.

Track Employee Time and Effort

Employees under RIHEAA were funded completely by the operating fund, and after the transition into OPC these employees continue to be paid with these federal funds. The federal regulations specify these funds be spent in relation to the guaranty agency functions and/or financial aid-related activities.³ However, without detailed timesheets documenting how hours are spent, there is insufficient evidence to determine whether employee salaries should be paid with federal funds.

Recommendation:

3. Require employees to report time and effort documenting hours spent on each project to evidence time spent on state functions.

Management's Response:

We fully agree that the state of Rhode Island will need to fund the activities of employees conducting a state function rather than out of DHEA operational reserve funds. Currently, there is no state support for

³ CFR 682.423 Guaranty Agency Operating Fund

these state functions and all of these activities are paid from the operational reserves. The use of operational reserve funds for state functions is fully allowable by federal regulations if the activities are associated with financial aid and student support activities.

We fully agree that a multi-year plan to transition the state activities performed by RIHEAA/DHEA staff should be thoughtfully developed and implemented. Conversations with the Governor's office and the Division of Administration regarding the importance of this transition began prior to the merger and are ongoing.

We provided a time study to the audit team which was supplemented by auditor on-site staff interviews. Staff and management prepared significant documentation of the job duties and tasks performed by all of the DHEA employees along with our assessment of time spent in total for a single business cycle (one year).

We agree that a more comprehensive review should be undertaken in order to document fully actual time spent over the course of a complete operating cycle.

Responsible Parties: Gail Mance-Rios and Susan LaPanne

Anticipated Completion Date: December 2017

Develop a Memorandum of Understanding

As discussed above, the enacted 2016 budget shifted one FTE from RIHEAA to the Office of the General Treasurer to administer the *CollegeBoundfund*. Also, the State earns a percentage of revenues and fees related to the *CollegeBoundfund*; these revenues are used to support the RI Promise Grant program. The Office of the General Treasurer has been receiving these revenues since July 1, 2015, and is responsible for remitting the monies to DHEA. There is no remittance schedule between the two agencies dictating when the funds should be transferred. Without this schedule, there could be a delay in providing payments for scholarships and grants.

Recommendation:

4. Execute a Memorandum of Understanding between OPC and the Office of the General Treasurer to determine the remittance schedule and administrative responsibilities relating to the *CollegeBoundfund*.

Management's Response:

We fully agree that a MOU agreement between the Treasurer's office and OPC/DHEA must be approved to resolve unanticipated issues arising from the transition of the *CollegeBoundfund* program to the Office of the General Treasurer. A Memorandum of Understanding has been drafted, approved by OPC General Counsel, and reviewed by the Office of the General Treasurer. We are working closely with the Treasury to resolve technical issues around federal entity identification numbers and account insurance before signing the final version of the document.

In the process of establishing this MOU, the Office of Accounts and Controls has notified OPC that interagency transfers of funds may not happen when a State-controlled account is wiring cash into another agency's separate bank account when both share the State Entity Identification Number issued by the federal Internal Revenue Service.

The Office of Accounts and Controls indicated that the DHEA bank accounts would need to be administered under their own federal entity identification number. However, that separation will also imply that the banks would no longer cover the deposits in excess of FDIC covered limits under the State's negotiated Collateral Agreements and that the agency itself will have to renegotiate such agreements with the banks.

In response to this directive, OPC has taken the request for permission to apply for its own EIN to the Council on Postsecondary Education at its meeting of April 27, 2016 where it was approved.

The next steps include engaging the Office of the General Treasurer to assist OPC in the negotiation of similar collateral agreements with the banks holding the agency accounts and completing these agreements. Once that is complete, the new EIN will be registered for each bank account.

Upon completion of these steps, the MOU as recommended above will be completed and put into process.

Responsible Party: The Office of the Postsecondary Commissioner and the Office of the General Treasurer

Anticipated Completion Date: January 2017

Objective and Scope

The Bureau of Audits conducted this limited scope audit to determine if the quasi-public corporation RIHEAA transitioned as intended in the 2016 Budget Article 7 *Relating to Higher Education Assistance Authority*.

Methodology

To address the limited scope audit objective, the Bureau performed the following:

- Identified RIHEAA goals and objectives.
- Interviewed OPC and Office of the General Treasurer staff.
- Examined budget articles and financial statements.
- Reviewed organizational charts and job descriptions.

Addendum I

Tuition Savings Program

RIHEAA's Tuition Saving Program was responsible for administering the Rhode Island Higher Education Saving Trust, commonly known as the *CollegeBoundfund*. The fund is managed and promoted by Alliance Bernstein L.P.⁴ RIHEAA received fees based on net asset value and direct contribution of non-resident participants. This activity was transferred to the Office of the General Treasurer who has assigned a new fund manager effective July 1, 2016.

Scholarship and Grant Programs

The Scholarship and Grant Division administered student financial assistance programs funded by the operational reserves generated by the Guaranty Agency program and revenues from the Tuition Savings Program. The administration of the Tuition Savings Plan was transferred to the Office of the General Treasurer. The revenue generated by the Tuition Savings plan will continue to be used by OPC in support the state scholarship program. DHEA no longer makes eligibility determinations for this program; colleges and universities determine eligibility and make grant determinations based on financial aid information submitted by the student. The responsibility maintained by DHEA includes administrative and fiduciary oversight and compliance functions.

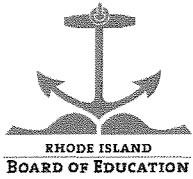
Federal Family Education Loan Program Guaranty Agency

RIHEAA acted as the guaranty agency under the Federal Family Education Loan (FFEL) program, in which lenders used their own funds to make loans to students to pay the costs of postsecondary education. Under the FFEL program, the guaranty agency received the various payments and benefits in exchange for providing the services directly to the guaranteed loan origination, portfolio maintenance, default prevention and aversion and defaulted loan collections.

On March 30, 2010, the President of the United States signed the Health Care and Education Reconciliation Act of 2010, which included a provision eliminating loan origination under the FFEL program. For Fiscal Year 2014, 45 percent of RIHEAA's Operating Fund revenues were generated under activities relating to those guaranteed loans, and 85 percent of RIHEAA employees were allocated to guaranty agency functions.⁵ Although these guaranteed loans are no longer offered, the need for a guaranty agency will continue to exist because of the payment, compliance and ombudsmen-activity required by the US Department of Education and associated with the outstanding FFEL guaranteed loans. The responsibilities associated with the FFEL Program remained with DHEA upon the transition into OPC.

⁴ The Alliance Bernstein L.P. contract expires June 20, 2016.

⁵ These percentages were given in the RIHEAA Financial Statements for Year ended June 30, 2015.



State of Rhode Island and Providence Plantations
Council on Postsecondary Education
OFFICE OF THE POSTSECONDARY COMMISSIONER
560 Jefferson Boulevard Suite 100
Warwick, Rhode Island 02886-1304

June 23, 2016

Barbara S. Cottam
Chair

Dear Chief Pascale:

**Council on Elementary and
Secondary Education**

Daniel P. McConaghy
Chair

I respectfully submit to you a summary of the management responses to each of the findings and recommendations contained in the limited scope final audit report to determine if the quasi-public corporation Rhode Island Higher Education Assistance Authority (RIHEAA) transitioned as intended to become the Division of Higher Education Assistance (DHEA) within the Office of the Postsecondary Commissioner.

Amy Beretta, Esq.

Colleen A. Callahan, Ed.D.

The OPC is always open to review. Here is a general overview of the report and a summary of our response:

Karin Forbes

Jo Eva Gaines

1. We fully agree that the RIHEAA operational reserve account should only be used for appropriate purposes and fully believe RIHEAA and DHEA have not spent funds in any other manner. As cited, federal regulations require student loan guarantee agencies to provide their residents with services to support their career and college aspirations.

Marta V. Martinez

Lawrence Purtill

Joyce L. Stevos, Ph.D.

**Council on Postsecondary
Education**

William Foulkes
Chair

2. We fully agree that a plan to transition the state activities performed by DHEA staff from DHEA Operational reserve funding to state general funding should be thoughtfully planned and executed in order to provide consistent and reliable service to Rhode Island residents. OPC has begun the conversations necessary to facilitate the transition of employees providing state services to state funding in a manner consistent with the wind down of the guaranty agency reserve.

Michael Bernstein

Heather Crosby

Timothy J. DelGiudice

Dennis Duffy, Esq.

It is important to note that the agency operational reserves will continue to decline as a result of the support for the Rhode Island Promise Scholarship and Dual Enrollment programs continue. For FY16-17, \$5.3M of RIHEAA agency operational reserves will be used to fund these programs.

The Honorable Thomas Izzo

Rachel R. Green, Esq.

Dr. Jeffery A. Williams

As part of the transition and in light of the recommendation, DHEA will be conducting a comprehensive, detailed analysis of all functions. We look forward to sharing that review with you in the future.

3. We fully agree that an MOU agreement between the Treasurer's Office and OPC/DHEA be implemented to facilitate the transfer of CollegeBound*fund* revenue to support the RI Promise Scholarship. As detailed in the management response, the transition to the Treasurer's office of the 529 plan funding was fraught with unanticipated consequences. The delay of fund transfers to the OPC/DHEA operational reserve account is problematic. The delay of Cbf revenue has further drained the RIHEAA operational reserves as the scholarship disbursements must be made on time for financial aid to the students. We look forward to these issues being resolved.

In closing, OPC staff found you and your staff to be professional and helpful throughout this process and we are appreciative of their efforts on this project.

Sincerely,



Jim Purcell
Commissioner of Postsecondary Education
Office of the Postsecondary Commissioner