



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

Making government work better

Official Audit Report – Issued April 14, 2022

Massachusetts Educational Financing Authority

For the period July 1, 2019 through December 31, 2020





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

Dear Mr. Graf:

I am pleased to provide this performance audit of the Massachusetts Educational Financing Authority. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, July 1, 2019 through December 31, 2020. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Educational Financing Authority for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular watermark.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Keith C. Shaughnessy, Chair of the Board of Directors, Massachusetts Educational Financing Authority

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EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts Educational Financing Authority (MEFA) for the period July 1, 2019 through December 31, 2020. The purpose of this audit was to determine whether MEFA processed Consumer Financial Protection Bureau¹ complaints and ensured that its student loan servicer sent high-profile complaints within the required timeframes, as well as whether, before it disbursed student loan funds, MEFA ensured that the associated institutions of higher education had certified loan documents.

Our audit revealed no significant instances of noncompliance by MEFA that must be reported under generally accepted government auditing standards.

1. The Consumer Financial Protection Bureau is a federal agency intended to oversee consumer financial institutions such as banks, debt collectors, and lenders. Consumers can file complaints with the bureau for issues they experience with such institutions.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Educational Financing Authority (MEFA) was established by Chapter 803 of the Acts of 1982 and codified as Chapter 15C of the Massachusetts General Laws. MEFA is a not-for-profit, self-funded, state-chartered student loan organization. Its mission is to assist higher-education students by offering low-cost loans and tax-advantaged savings plans.

MEFA's student loan customers are individuals, and families of individuals, who attend eligible nonprofit colleges or universities in the United States. MEFA offers student loan options with fixed interest rates for both undergraduate and graduate students. During the audit period, MEFA disbursed \$421,748,381 of student loans to 29,963 borrowers. Each student loan must be certified by the student's college or university before disbursement to ensure that the loan does not exceed the college's or university's cost of attendance. MEFA also works with parents, students, and school guidance counselors by providing various instructional opportunities through its advisory and outreach programs.

Headquartered in downtown Boston, MEFA employed 41 individuals during the audit period. MEFA contracts with the Pennsylvania Higher Education Assistance Agency (PHEAA), also commonly known commercially as American Education Services, to provide loan servicing for borrowers. As part of its contractual obligations, PHEAA is responsible for processing borrower complaints and escalating complaints that cannot be resolved initially, known as high-profile complaints, to MEFA. The Consumer Financial Protection Bureau also turns over borrower complaints to MEFA.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Educational Financing Authority (MEFA) for the period July 1, 2019 through December 31, 2020.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

Objective	Conclusion
1. Did MEFA process Consumer Financial Protection Bureau (CFPB) complaints associated with its borrowers within 15 days as required by CFPB's <i>Company Portal Manual</i> ?	Yes
2. Did MEFA ensure that all high-profile complaints were reported by the Pennsylvania Higher Education Assistance Agency (PHEAA) within three business days as required by Section 4.14 of its servicing agreement with PHEAA?	Yes
3. Did MEFA ensure that student loans disbursed during the audit period were certified by students' educational institutions as required by Section 5(q) of Chapter 15C of the General Laws?	Yes

To achieve our audit objectives, we gained an understanding of the internal control environment by reviewing MEFA's internal control plans in effect during the audit period. To understand MEFA's complaint management process, we reviewed MEFA's servicing agreement with its loan servicer, PHEAA, as well as MEFA's complaint management procedures. We also interviewed MEFA staff members who were knowledgeable about the complaint management process. To understand loan certifications, we tested application controls that were significant to the certification process, interviewed MEFA staff members who were involved with the process, and conducted a walkthrough of the process.

To determine whether MEFA processed CFPB complaints within 15 days as required by CFPB's *Company Portal Manual*, we obtained from MEFA, and tested, all 23 complaints CFPB referred to MEFA during the

audit period. We compared the date of receipt and date of resolution for each to determine whether the complaints were resolved within 15 days.

To determine whether MEFA ensured that all high-profile complaints were reported by PHEAA within three business days as required by Section 4.14 of the servicing agreement, we obtained from PHEAA, and tested, all five high-profile complaints reported by PHEAA to MEFA during the audit period. We compared the date each complaint was received by PHEAA to the date it was sent to MEFA.

To determine whether MEFA ensured that student loans disbursed were certified as required by Section 5(q) of Chapter 15C of the General Laws, we generated a random, statistical sample of 30 loans, with a 95% confidence level, 0% expected error rate, and 10% tolerable exception rate, from a complete list of 29,963 student loans with disbursements made during the audit period. We then obtained screenshots from MEFA's loan certification portal for each loan in our sample and verified that each loan was certified by the student's educational institution before disbursement.

Data Reliability

We assessed the reliability of data related to loan disbursements, CFPB complaints, and high-profile complaints by performing electronic testing for duplicates, missing data, and data outside the audit period and interviewing MEFA officials who were knowledgeable about the data. In addition, we verified the completeness of high-profile and CFPB complaint data by tracing to source documents. We also verified completeness of loan disbursement data by sampling monthly disbursement totals from MEFA and reconciling the monthly totals to data from PHEAA to ensure that disbursement records matched. For data related to loan disbursements, CFPB complaints, and high-profile complaints, we reviewed information about the data and the systems that produced them or where the data were stored and tracked. We determined that the data were sufficiently reliable for the purposes of this report.

Conclusion

Our audit revealed no significant instances of noncompliance that must be reported under generally accepted government auditing standards.