

EXECUTIVE DIGEST

MICHIGAN HIGHER EDUCATION ASSISTANCE AUTHORITY AND MICHIGAN HIGHER EDUCATION STUDENT LOAN AUTHORITY

INTRODUCTION

This report, issued in April 1998, contains the results of our performance audit* of the Michigan Higher Education Assistance Authority (MHEAA) and the Michigan Higher Education Student Loan Authority (MHESLA), Department of Treasury.

AUDIT PURPOSE

This performance audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency* .

BACKGROUND

MHEAA was established and prescribed certain powers and responsibilities by Act 77, P.A. 1960 (Sections 390.951 - 390.961 of the *Michigan Compiled Laws*). The Act created MHEAA as a nonprofit authority and as an agency in the Department of Education. MHEAA is comprised of 15 members appointed by the Governor and

one ex-officio member, the State Treasurer, who serves as the chairman of MHEAA.

MHESLA was created and organized by Act 222, P.A. 1975 (Sections 390.1151 - 390.1165 of the *Michigan Compiled Laws*). The Act states that MHESLA was created as a public body corporate and politic within the Department of Education. MHESLA is comprised of the members of MHEAA, as provided by Section 390.1153 of the *Michigan Compiled Laws*.

Effective April 8, 1995, MHEAA and MHESLA were transferred, pursuant to Executive Order 1995-3 (Executive Reorganization Order 1995-2), from the Department of Education to the Department of Treasury.

The objective of the programs operated by MHEAA and MHESLA is to enhance employability prospects for Michigan residents by providing equality of access and freedom of choice to students seeking a postsecondary education.

MHEAA and MHESLA are comprised of five separate offices. As of September 30, 1997, MHEAA and MHESLA had 127.5 full-time equated* employees.

AUDIT OBJECTIVES,
CONCLUSIONS, AND
NOTEWORTHY
ACCOMPLISHMENTS

Audit Objective: To assess the effectiveness and efficiency of MHEAA's and MHESLA's programs and contracted services.

Conclusion: We concluded that MHEAA's and MHESLA's programs and contracted services were generally performed effectively and efficiently. However, we noted reportable conditions* involving a continuous

quality improvement process* , MHEAA program compliance audits, scholarship and grant awards, loan discharge controls, and a refund policy (Findings 1 through 5).

Noteworthy Accomplishments: The Office of the Michigan Guaranty Agency's (MGA's) cooperative effort with other state student loan guarantors in updating the Common Manual culminated in its distribution to MGA clients during fiscal year* 1995-96. The Common Manual is intended to standardize and streamline student loan policies and administration. For the first time since student loan programs began over 30 years ago, all guarantors are administering the Federal Family Education Loan Program with a common policy manual.

Audit Objective: To assess MHEAA's and MHESLA's compliance with State and federal laws and regulations that could have a material effect on the administration of their programs.

Conclusion: We concluded that MHEAA and MHESLA generally operated their programs in compliance with State and federal laws and regulations that could have a material effect on the administration of their programs. However, we noted reportable conditions involving contractor loan collection procedure compliance and annual report timeliness (Findings 6 and 7).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Michigan Higher Education Assistance Authority and the Michigan Higher Education Student Loan Authority. Our audit was conducted in accordance with

Government Auditing Standards issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

Both MGA, within MHEAA, and MHESLA have an annual financial audit* and a biennial Single Audit* performed by a public accounting firm.

Our methodology included an examination of MHEAA, MHESLA, and Department records primarily covering fiscal years 1994-95, 1995-96, and 1996-97.

We surveyed MHEAA and MHESLA programs and identified potential problem areas; determined which of these problem areas had the greatest risk and/or potential to improve the operation of the programs; established audit objectives that defined these areas; and developed and performed audit methodologies that resulted in an assessment of the level of performance or compliance for each audit objectives.

To accomplish our first objective, we reviewed MHEAA's and MHESLA's enabling legislation and identified their responsibilities and program goals* and objectives*. Also, we analyzed MHEAA's and MHESLA's efforts to develop a continuous quality improvement process to evaluate the effectiveness and efficiency of their programs and contracted services.

To accomplish our second audit objective, we examined documentation supporting program services provided and observed program operational practices. We obtained a

random sample of student financial aid records and determined the validity of information related to eligibility for program services. We compared student data submitted to MHESLA with independent sources to verify critical information necessary to obtain loans, scholarships, and grants.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 7 findings and 10 corresponding recommendations. The agency's preliminary response indicated that it agreed with 9 of the 10 recommendations. The agency indicated that it had taken steps to comply with some of the recommendations.

The Department of Education complied with 17 of the 20 prior audit recommendations included within the scope of our current audit. The other recommendations are repeated in this audit report.