

TEXAS HIGHER EDUCATION COORDINATING BOARD

Agency Operations Committee

1200 EAST ANDERSON LANE, BOARD ROOM 1.170

AUSTIN, TEXAS

2:00 P.M., October 25, 2017

*John T. Steen, Jr.,
CHAIR
Ricky A. Raven
Vice Chair
S. Javaid Anwar
Fred Farias III, O.D.
Stuart W. Stedman
Andrias R. "Annie" Jones
Student Representative,
Ex-Officio
Bobby Jenkins, Jr., Ex-
Officio*

PUBLIC TESTIMONY: The presiding chair shall designate whether public testimony will be taken at the beginning of the meeting, at the time the related item is taken up by the Board after staff has presented the item, or any other time. For procedures on testifying, please go to http://www.theccb.state.tx.us/public_testimony.

I. Welcome and Committee Chair's Opening Remarks

II. Consideration of Approval of the Minutes from July 26, 2017, Committee Meeting

III. Public Testimony on agenda items relating to the Agency Operations Committee

IV. Agency Operations

A. Consideration of adopting the staff's recommendation to the Committee relating to an amendment to the Board Operating Policies and Procedures

B. Consideration of adopting the Commissioner's recommendation to the Committee relating to proposed amendments to Chapter 25, Subchapter A, Section 25.4 of Board rules concerning the Optional Retirement Program (*Senate Bill 1954, 85th Texas Legislature, Regular Session*)

C. Report on grants and contracts, including those exceeding \$1 million

D. Update on the key initiatives recommended by NTT Data regarding the Agency Cyber Security Framework

V. Finance

A. Review of the Year to Date Fiscal Year 2017 Financial Report to the Board

B. Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for the selection of a vendor for postage services relating to the student loan program

C. Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a vendor for Financial Advisor for the agency's student loan program

D. Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a vendor for Bond Counsel relating to the performance of legal services for the agency for the student loan bond program

VI. Internal Audit

A. Discussion regarding pros and cons of auditor rotation for external audit of agency-wide financial statements

B. Update on Internal Audit Reports and Activities

VII. Compliance Monitoring

A. Update on Compliance Monitoring Reports and Activities

The Texas Higher Education Coordinating Board Agency Operations Committee may convene in Executive Session at any point in this meeting, concerning any item listed in the agenda or to seek or to receive its attorney's advice on legal matters related thereto, pursuant to Texas Government Code Ann. 551.071.

Note: The Board will not consider or act upon any item before the Agency Operations Committee at this meeting. This meeting is not a regular meeting of the full Board. Because the number of Board members who may attend the committee meeting may create a quorum of the full Board, the meeting of the Agency Operations Committee is also being posted as a meeting of the full Board.

Texas Penal Code Section 46.035(c) states: "A license holder commits an offense if the license holder intentionally, knowingly, or recklessly carries a handgun under the authority of Subchapter H, Chapter 411, Government Code, regardless of whether the handgun is concealed or carried in a shoulder or belt holster, in the room or rooms where a meeting of a governmental entity is held and if the meeting is an open meeting subject to Chapter 551, Government Code, and the entity provided notice as required by that chapter." Thus, no person can carry a handgun and enter the room or rooms where a meeting of the THECB is held if the meeting is an open meeting subject to Chapter 551, Government Code.

Please Note that this governmental meeting is, in the opinion of counsel representing THECB, an open meeting subject to Chapter 551, Government Code and THECB is providing notice of this meeting as required by Chapter 551. In addition, **please note** that the written communication required by Texas Penal Code Sections 30.06 and 30.07, prohibiting both concealed and open carry of handguns by Government Code Chapter 411 licensees, will be posted at the entrances to this governmental meeting.

Committee on Agency Operations

AGENDA ITEM I

Welcome and Committee Chair's Opening Remarks

Mr. John Steen, Chair of the Committee on Agency Operations, will provide the Committee an overview of the items on the agenda.

Committee on Agency Operations

AGENDA ITEM II

Consideration of Approval of the Minutes from July 26, 2017, Committee meeting

RECOMMENDATION: Approval

DRAFT

TEXAS HIGHER EDUCATION COORDINATING BOARD Agency Operations Committee

Wednesday, July 26, 2017

Board Room, 1st Floor

Room 1.170

2:00 p.m.

1200 East Anderson Lane, Austin, Texas

The Committee on Agency Operations convened at 2:00 p.m. on July 26, 2017, with the following members present: John Steen; presiding; Javaid Anwar; Fred Farias; Ricky Raven; Stuart Stedman; Annie Jones (Ex-Officio); and Bobby Jenkins (Ex-Officio).

AGENDA ITEM	ACTION
I. Welcome and Committee Chair's Opening Remarks	Chair John Steen called the meeting of the Agency Operations Committee to order.
II. Consideration of Approval of the Minutes from April 19, 2017, Committee Meeting	On a motion by Mr. Anwar, seconded by Mr. Raven, the Committee approved the April 19, 2017, Agency Operations Committee meeting minutes.
III. Public Testimony on Agenda Items Relating to the Committee on Agency Operations	No action required
IV. Agency Operations	
A. Report on grants and contracts, including those exceeding \$1 million	No action required.
B. Report on Major IT Projects in Progress	Mr. John McKenzie, Interim Deputy Assistant Commissioner, Information Solutions and Services and Linda Battles, Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer presented this item to the Committee on the staff's concerns relating to the agency's transition to the Centralized Accounting and Payroll/Personnel System (CAPPS). This item did not require any action.

AGENDA ITEM	ACTION
C. Consideration of adopting the staff's recommendation to the Committee relating to a contract with Department of Information Resources (DIR) for upgrading the agency's legacy phone system	On a motion by Mr. Anwar, seconded by Mr. Stedman, the Committee approved the contract with DIR for upgrading the agency's phone system.
D. Consideration of adopting the staff's recommendation to the Committee relating to a contract with GlobalScope for upgrading the agency's Interactive Voice Response (IVR) and Automated Call Distribution (ACD) systems	On a motion by Dr. Farias, seconded by Mr. Stedman, the Committee approved the contract with GlobalScope for upgrading the agency's IVR and ACD systems.
E. Consideration of adopting the staff's recommendation to the Committee relating to a contract for managed print services	On a motion by Mr. Anwar, seconded by Dr. Farias, the Committee approved the contract for managed print services.
F. Overview of the Board's Legislative Appropriation's Request as approved by the 85th Texas Legislature, Regular Session	Linda Battles, Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer, provided the Board with a brief overview of the Board's LAR as approved by the 85th Texas Legislature, Regular Session. This item did not require any action.
V. Finance	
A. Review of the Year to Date Fiscal Year 2017 Financial Report to the Board	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee. This item did not require any action.
B. Consideration of the adopting the Commissioner's recommendation to the Committee relating to the agency's operating budget for Fiscal Year 2018	On a motion by Dr. Farias, seconded by Mr. Anwar, the Committee approved the Fiscal Year 2018 agency's operating budget.
C. Consideration of adopting a resolution authorizing the issuance of State of Texas College Student Loan Bonds in one or more series; and delegating to the Commissioner the authority for the filing of one or more applications to obtain a portion of the state's allocation for private activity bonds	On a motion by Mr. Anwar, seconded by Mr. Stedman, the Committee approved the issuance of State of Texas College Student Loan Bonds in one or more series; and delegating to the Commissioner the authority for the filing of one or more applications to obtain a portion of the state's allocation for private activity bonds. Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee and Mr. Richard Donoghue with McCall Parkhurst & Horton was present to answer any questions.

AGENDA ITEM	ACTION
VI. Internal Audit	
A. Discussion of the Audit of the Agency-Wide Financial Statements for Fiscal Year Ended August 31, 2016 by KPMG, LLP	Ms. Susan Warren with KPMG, LLP introduced Mr. David Harwood with KPMG who presented this item to the Committee. This item did not require any action.
B. Consideration of adopting the staff's recommendation to the Committee relating to the Annual Internal Audit Plan for Fiscal Year 2018	On a motion by Mr. Raven, seconded by Mr. Stedman, the Committee approved the Fiscal Year 2018 Annual Internal Audit Plan. Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee.
C. Update on Internal Audit Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
VII. Compliance Monitoring	
A. Consideration of adopting the staff's recommendation to the Committee relating to the Annual Compliance Monitoring Plan for Fiscal Year 2018	On a motion by Mr. Anwar, seconded by Mr. Raven, the Committee approved the Fiscal Year 2018 Annual Compliance Monitoring Plan. Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee.
B. Update on Compliance Monitoring Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
C. Consideration of adopting the Commissioner's recommendation to the Committee relating to the Final Report – An Audit of Formula Funding at Tyler Junior College	<p>There were two motions regarding this agenda item upon reconvening after executive session.</p> <p>On a motion by Dr. Farias, seconded by Mr. Stedman, the Committee approved the final report – An Audit of Formula Funding at Tyler Junior College.</p> <p>The second motion was to approve the Commissioner's recommendation to accept the settlement proposed by President Metke in his letter of December 5, 2016 to Mr. Mark Poehl, Director of Internal Audit and Compliance, in which Tyler Junior College will return \$18,968 to the Coordinating Board. On a motion by Mr. Raven, seconded by Mr. Anwar, the Committee approved the Commissioner's recommendation.</p>

AGENDA ITEM	ACTION
VIII. Executive Session	
A. Pursuant to Texas Government Code Section 551.071, Consultation with Attorney, the Agency Operations Committee will meet in closed session to discuss and receive its attorney's advice on legal matters relating to Agenda Item VII-C	The Committee went into closed session at 3:51 p.m. and reconvened at 4:45 p.m. No other business of the Board was discussed before reconvening in open session. There was no action taken during this closed session.
B. Pursuant to Texas Government Code Section 551.074, the Agency Operations Committee will meet in closed session to discuss the performance evaluation of the Internal Auditor since that position, by statute, reports directly to the Board	The Committee went into closed session at 3:51 p.m. and reconvened at 4:45 p.m. No other business of the Board was discussed before reconvening in open session. There was no action taken during this closed session.
IX. Emergency Rule	
A. Consideration of adopting, on an emergency basis, proposed amendments to Chapter 25, Subchapter A, Section 25.4, of Board rules, concerning the Optional Retirement Program (<i>SB 1954, 85th Texas Legislature, R.S.</i>), per the Commissioner's recommendation	On a motion by Mr. Stedman, seconded by Mr. Raven, the Committee approved the proposed amendments concerning the Optional Retirement Program. Ms. Tonia Scaperlanda, Director of Human Resources presented this item to the Committee.

With no further business, on a motion by Mr. Raven, seconded by Mr. Anwar, the meeting adjourned at approximately 4:47 p.m.

Committee on Agency Operations

AGENDA ITEM III

Public Testimony on agenda items relating to the Agency Operations Committee

RECOMMENDATION: No action required

Background Information:

PUBLIC TESTIMONY: The presiding chair shall designate whether public testimony will be taken at the beginning of the meeting, at the time the related item is taken up by the Board after staff has presented the item, or any other time as determined by the presiding chair.

Committee on Agency Operations

Agenda Item IV-A

Consideration of adopting the staff's recommendation to the Committee relating to an amendment to the Board Operating Policies and Procedures

RECOMMENDATION: Approval

Background Information:

At the direction of the Agency Operations Committee in 2014, Coordinating Board staff developed the Board Operating Policies and Procedures document, which was adopted by the Board in October of that year and recently updated in January 2017. This document includes the Board members' code of conduct, conflict of interest/ethics, duties/responsibilities, and protocol in communicating with the media, elected officials, institutional representatives, and students.

Recently, the Board Chair, Vice Chair, and Secretary directed staff to formalize the process for conducting the Commissioner's annual performance evaluation in the Board Operating Policies and Procedures. Recommended changes to the document are noted in red on page 10 of the document, which is provided under separate cover.

Linda Battles, Deputy Commissioner for Agency Operations and Communications/COO, is available to answer questions.

Committee on Agency Operations

Agenda Item IV-B

Consideration of adopting the Commissioner's recommendation to the Committee relating to proposed amendments to Chapter 25, Subchapter A, Section 25.4 of Board rules concerning the Optional Retirement Program (Senate Bill 1954, 85th Texas Legislature, Regular Session)

RECOMMENDATION: Approval

Background Information:

The Optional Retirement Program (ORP) is a retirement program that full-time faculty, librarians, and certain administrators and professionals employed in Texas public institutions of higher education may elect in lieu of the Teacher Retirement System (TRS). Eligible employees of the Coordinating Board may elect ORP in lieu of the Employees Retirement System. ORP is similar to a 401(k) plan and is administered by the institutions. The Coordinating Board has statutory responsibilities under the ORP statute (Chapter 830 in the Texas Government Code) to promulgate rules for ORP eligibility and to promote uniformity in the administration of the program by the institutions.

The intent of the amendments is to incorporate into existing rules changes and provisions enacted by SB 1954, 85th Texas Legislature, Regular Session. The Board adopted the amendments on an emergency basis at the July 2017 meeting. The amendment was then posted for a 30-day comment period as part of the regular rule-making process and is now being proposed for adoption.

The amendment to Section 25.4 strikes current provisions regarding the extension of an ORP-eligible employee's 90-day ORP Election Period when an institution fails to notify the employee of his or her eligibility to elect ORP on a timely basis. The amendment incorporates provisions regarding the extension enacted by SB 1954, 85th Texas Legislature, Regular Session.

Ms. Tonia Scaperlanda, Director of Human Resources, will be available to answer questions.

Date approved by the Commissioner for publication in the *Texas Register*: August 1, 2017

Date published in the *Texas Register*: August 18, 2017

The 30-day comment period with the *Texas Register* ended on: September 18, 2017

No comments were received regarding the amendments.

Chapter 25. Optional Retirement Program
Subchapter A. Optional Retirement Program

Sections

- 25.1. Purpose.
- 25.2. Authority.
- 25.3. Definitions.
- 25.4. Eligibility to Elect ORP.
- 25.5. ORP Vesting and Participation.
- 25.6. Uniform Administration of ORP.

25.4. Eligibility to Elect ORP.

(a) – (n) (No change.)

(o) Administrative Errors.

(1) – (3) (No change.)

(4) Failure to Notify Error. If an ORP employer fails to notify an ORP-eligible employee of his or her eligible status on or before the employee's initial ORP eligibility date, the ORP employer shall notify the eligible employee as soon as the oversight is discovered.

(A) An employee who becomes eligible to participate in ORP and is notified by the ORP employer of the opportunity to participate in the program after the first day and before the 91st day after the date the employee becomes eligible must elect to participate in the program before the later of:

(i) the 91st day after the date the employee becomes eligible; or

(ii) the 31st day after the date the employee receives notice of the opportunity to participate in the program.

(B) An employee who becomes eligible to participate in ORP and is notified by the ORP employer of the opportunity to participate in the program on or after the 91st day after the date the employee becomes eligible must be notified by the employer before the 151st day after the date the employee becomes eligible. The employee must elect to participate in the program before the later of:

(i) the 151st day after the date the employee becomes eligible; or

(i) the 31st day after the date the employee receives notice of the opportunity to participate in the program.

~~The 90-day ORP election period for the eligible employee shall begin on the date that the employee is notified, and the~~

(C) The participation start date shall be determined in accordance with subsection (g) of this section.

Committee on Agency Operations

AGENDA ITEM IV-C

Report on grants and contracts, including those exceeding \$1 million

RECOMMENDATION: No action required

Background Information:

Title 19 Texas Administrative Code, Rule 1.16(j) establishes that any contract for the purchase of goods or services that exceeds \$1 million may be entered into only if the contract is approved and signed by the Commissioner, to whom the Board, by virtue of this rule, delegates such approval and signature authority. In addition to the Board receiving a quarterly report on *Contacts Executed by the Agency in Accordance with Board Rule 1.16*, the Coordinating Board staff would like to also provide the Board a quarterly report highlighting and listing all grants and contracts exceeding \$1 million.

Bill Franz, General Counsel will be available for questions.

Agency Operations Committee

Agenda Item IV-D

Update on the key initiatives recommended by NTT Data regarding the Agency Cyber Security Framework

RECOMMENDATION: No action required

Background Information:

Senate Bill 1134, 83rd Texas Legislature, required the Texas Department of Information Resources (DIR) to develop strategies and a framework for the securing of cyber infrastructure by state agencies. DIR subsequently worked with a committee of agency representatives and private sector reviewers to develop a framework and template that can help agencies comply with requirements.

In 2016, DIR contracted with NTT Data, Inc. to conduct an assessment of the alignment of state agencies' cybersecurity infrastructure with the Texas Cybersecurity Framework. NTT Data, Inc. consultants performed an assessment of the THECB's cybersecurity infrastructure between April and June, 2017, and presented their findings and recommendations to the Board in a Special Called Board meeting on June 28, 2017.

Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services, and Mr. John House, Information Security Officer, will update the Board on the progress made on implementing the key initiatives recommended by NTT Data.

Committee on Agency Operations

AGENDA ITEM V-A

Review of the Year to Date Fiscal Year 2017 Financial Report to the Board

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

During each quarterly committee meeting, the Finance Department provides a financial report summarizing the agency's fiscal year to date budget and financial activities. This is a financial management report that is developed for both agency and board use. Staff may revise this report periodically to present the most relevant information.

Key points:

- This report reflects data for the period of 9/1/16 through 8/31/17.
- This is the last report for fiscal year 2017, the last year of the 2016/2017 biennium.
- The report is distributed to agency executive management on a monthly basis.
- Governor's Hiring Freeze: \$1.17M Budget lapse (\$781K GR & \$388K Loan Funds). Loan fund cash will be transferred back to the TOP account (loan funds). Finance initiated the lapse 8/31.
- Year end funding review:
 - B-on-Time Program: \$1.2M GR and \$19M GRD lapse. GRD cash will remain in the BOT account and will be unappropriated. This account will eventually be returned to the public institutions per HB 800 84th Leg. When we provide the estimate of required funding to the LBB in our LAR, we estimate conservatively so that we ensure that we have enough funding for all required renewal students.
 - Top 10% Scholarships: \$173K GR Lapse. Also, \$2M of the FY17 appropriation was transferred to the Bilingual Ed Program in fiscal year 2017 for use in 2016 and 2017.
 - Bilingual Education Program: \$63K GR Lapse.
 - Educational Aid Program: GR \$1M lapse. This program was a new program for this past biennium. This required negotiated rule-making to establish the allocations to distribute the funds. Most institutions could not find enough students who applied or qualified for the aid.

- Baylor Undergraduate Medical Education: \$615K GR lapse. Student enrollment was below the formula threshold that LBB utilizes to calculate the funding amount. Therefore, not all of appropriated funding could be sent to Baylor Med.
 - Graduate Medical Education (GME)/Expansion: \$825K GR Lapse.
- Graduate Medical Education Expansion: Originally awarded funding of \$75,000 for 7 medical residency positions, but awardees were unable to verify filling the positions in July 2017. The remaining \$50,000 was not enough to make an award.
- GME Planning Grants: Originally awarded a Planning Grant of \$250,000 to Baylor College of Medicine. In May, the institution notified Coordinating Board staff that they would not be able to pursue an additional residency program and returned the funding. The remaining amount of \$15,025 was not enough to make an additional award.
 - Total anticipated lapse for FY17 is approximately \$24M. The BOT program represents over \$20M of this total.
- A software modification was made to the student loan program during September that will save the program \$2M in bond interest each year. This improvement changes the timing of the assignment of bond funds that get dedicated to an initial loan request. The assignment gets delayed, which allows the sale of bonds to be move out a few months and reduces overall bond interest to be paid.
- Eliminated a \$500K bond arbitrage liability relating to the 2007 bonds series. Worked with Bond Counsel and First Southwest to identify additional opportunities to be considered in the calculation.
- Loan default collection activity from Office of the Attorney General (OAG) grew by \$1.7M annually (14.6%) in fiscal year 2017. 1 additional headcount was added to the budget for fiscal year 2018 to help further improve results from this department.

Ken Martin, Assistant Commissioner for Financial Services/CFO and Linda Battles, Deputy Commissioner for Agency Operations and Communications/COO will present this item to the committee.

Committee on Agency Operations

AGENDA ITEM V-B

Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for the selection of a vendor for postage services relating to the student loan program

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

The Borrower Services Department sends various items relating to the student loan program via mail and requires metered postage. In fiscal year 2017, the total number of pieces of mail for Borrower Services was 897,919. The total cost of postage for this was \$361,196 (\$.40/ea.). The cost of first class postage in 2017 is \$.49. The department utilizes a vendor to provide the postage to leverage the high volume for bulk discounts, verses utilizing the standard mailing rate.

The Department of Information Resources (DIR) has a master service agreement (MSA) with various vendors to provide postage services for state agencies. The agency has leveraged these MSAs in the past to support the postage needs of the agency with the highest utilization residing in Borrower Services.

Staff is requesting authority to issue an RFQ for a vendor and expend up to \$450,000 in each year for fiscal years 2019 and 2020.

Key points:

- The loan program issues over \$170 million in loans annually and currently has over 81,000 student borrowers, which total over \$1.5 billion.
- The three main loan programs are the College Access Loans (CAL), B-On-Time (BOT) and Texas Armed Services Scholarship Program (TASSP).
- The loan program issues mail for general correspondence, delinquency notices, monthly payment notifications and other loan related documents.
- The number of loans serviced by Borrower Services continues to grow each year.
- The division is working on various projects to reduce paper mailing and increase electronic communication.

Total Borrowers by loan category and loan status (as of 8/1/17)

	CAL		BOT		TASSP	
	# Students	% Students	# Students	% Students	# Students	% Students
School	12,037	20.5%	4,194	19.5%	309	45.6%
Grace	2,469	4.2%	1,056	4.9%	86	12.7%
Repayment	25,286	43.0%	5,931	27.6%	60	8.9%
Defer/Forb	3,944	6.7%	1,673	7.8%	165	24.4%
Delinquent	5,183	8.8%	1,999	9.3%	27	4.0%
Default	2,332	4.0%	3,305	15.4%	16	2.4%
Judgment	6,272	10.7%	3,243	15.1%	5	0.7%
Uncollectible	1,330	2.3%	97	0.5%	9	1.3%
Total	58,853	100%	21,498	100%	677	100%

Ken Martin, Assistant Commissioner for Financial Services/CFO will present this item to the committee.

Committee on Agency Operations

Agenda Item V-C

Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a vendor for Financial Advisor for the agency's student loan program

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

The Board retains a financial advisor to advise Board staff on the issuance of bonds that provide funds for the operation of the student loan program. The financial advisor's role includes advising Board staff on matters pertinent to a proposed bond issue such as issue structure, timing, marketing, fairness of pricing, determination of terms, and bond ratings. The financial advisor also assists Board staff in preparing cash flows that model the Student Loan program's cash flows to ensure adequate liquidity to maintain program operations in the future.

Student lending is very specialized field and there are a limited number of companies with expertise in this area. Therefore, we are bringing this request forward as early in the year as possible to allow sufficient time for vendors to respond to the RFP and for sufficient time to review the qualified respondents.

The current contract with First Southwest (a division of Hilltop Securities) will expire on August 31, 2018.

Board staff is requesting authorization to issue a RFP up to \$300,000 for financial advisory services for a 2 year period beginning 9/1/18. The results of the RFP will be presented to the Board at the April 2018 meeting for approval.

- This request is for a 2 year period beginning on 9/1/18.
- The College Access Loan program is financially self-supporting and does not receive general revenue from the state.
- The annual cost of financial advisory services is approximately \$100,000 per year. The actual fee charged can vary depending on the level of support provided.
- The financial advisor provides a critical role that supports the existing loan program and future bond issues.
- There it is a very narrow field of financial advisors who support bonding in student loan programs nationally.
- Statewide bonding demand has increased considerably over the past 3 years, which constrains the availability of authority. Also, potential legislative actions could increase the demand on what is currently very limited bonding authority.

Preliminary Statement of Work

- A. Devising and recommending a plan of financing for all bonds or other debt instruments to be issued by the Board, with terms and conditions that will result in the most advantageous terms.
- B. Assisting THECB staff in determining the timing and the sizing of each bond issue.
- C. Assisting THECB staff with the evaluation of proposals for underwriting services.
- D. Assisting bond counsel in the preparation of bond offering documents including resolutions, preliminary official statements, final official statements, and other bond related documents.
- E. Preparing financial information for rating agencies and assisting with presentations to such agencies.
- F. Providing advice in regard to the need for credit enhancement and liquidity facilities, and assisting in the negotiations with providers of such services.
- G. Assisting THECB in presentations to credit enhancers, or prospective bond purchasers.
- H. Monitoring and assisting in the negotiation of all fees and expenses incurred in connection with the issuance of the bonds, including those proposed by the Board's underwriters.
- I. Reviewing all documents that are customary and necessary in order to structure and issue bonds, and attending all document meetings and/or conference calls.
- J. Soliciting bids for printing bond offering documents, ratings, and other related services when necessary.
- K. Assisting in closing details and post-closing duties, including the development of closing memorandum and preparation of the Bond Review Board final report with final costs of issuance.
- L. Assisting in making presentations, required submissions, and obtaining approval of the Bond Review Board, the Legislative Budget Board, and any other State entity with supervisory powers over the issuance of bonds by THECB. Such assistance may include presentations to State Leadership and Legislative Oversight Committees.
- M. Attending meetings of the Board, Bond Review Board, legislative committees, or other meetings to the extent required and/or requested.

Ken Martin, Assistant Commissioner for Financial Services/CFO will present this item to the committee.

Committee on Agency Operations

Agenda Item V-D

Consideration of adopting the staff's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a vendor for Bond Counsel relating to the performance of legal services for the agency for the student loan bond program

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

The Board utilizes the services of specialized legal counsel in support of the student loan program. The student loan program issues tax exempt general obligation private activity bonds to fund the issuance of student loans each year. Legal counsel also assists Board staff with complex legal issues concerning the issuance of tax exempt general obligation state bonds and compliance with IRS tax code, Security Exchange Commission (SEC) rules and various state laws. This function is critical for the proper operation and legal compliance of the student loan program.

The current contract McCall, Parkhurst & Horton will expire on August 31, 2018.

Student lending is very specialized field and there are a limited number of firms with expertise in this area. Therefore, we are bringing this request forward as early in the year as possible to allow sufficient time for vendors to respond and for sufficient time to review the qualified respondents.

Board staff is requesting authorization to issue a RFP up to \$400,000 for Bond Counsel for a 2 year period beginning 9/1/18. The results of the RFP will be presented to the Board at the April 2018 meeting for approval.

- Bonds are authorized under the Texas Constitution, Sections 50b-4 through 50b-7.
- The Board currently maintains 15 individual bond series.
- Bond debt outstanding is \$1,020,215,000 at par.
- The THECB has \$1,056M of constitutional bond authority remaining, as of 8/31/17.
- 8% of state volume cap is reserved for state voter issuers. (Tx Gov. Code, Sec. 1372)
- These bonds are backed by the full credit of the state (AAA rating December 2016).
- The Board issues between \$150 and \$200 million of bonds annually.
- Costs are based on the amount of bonds issued and are around \$100K annually.
- See next page for bond and loan history.

5 year historical sales at par

Bond Series	Bond Par*	Range of Rates	
2012	\$86M	3.0%	5.5%
2013	\$114M	4.0%	5.5%
2014	\$114M	4.0%	6.0%
2015	\$150M	4.0%	5.0%
2016	\$158M	5.0%	6.0%

* Excludes refundings

College Access Loan program disbursement history

	Total				
	# of Students	Gross Disbursed	Amount/Student	Y/Y Disb Growth	Y/Y Growth Amt/Student
PY 04	5,994	\$38,044,856.45	\$6,347.16		
PY 05	6,243	\$41,444,005.02	\$6,638.48	8.9%	4.6%
PY 06	7,040	\$49,470,079.89	\$7,027.00	19.4%	5.9%
PY 07	11,944	\$102,771,870.46	\$8,604.48	107.7%	22.4%
PY 08	7,999	\$74,196,091.12	\$9,275.67	-27.8%	7.8%
PY 09	8,702	\$79,797,917.38	\$9,170.07	7.6%	-1.1%
PY 10	8,911	\$86,175,494.85	\$9,670.69	8.0%	5.5%
PY 11	8,378	\$87,534,007.15	\$10,448.08	1.6%	8.0%
PY 12	8,655	\$97,410,652.08	\$11,254.84	11.3%	7.7%
PY 13	8,102	\$100,582,030.18	\$12,414.47	3.3%	10.3%
PY 14	7,533	\$98,938,509.26	\$13,134.01	-1.6%	5.8%
PY 15	9,080	\$118,885,491.44	\$13,093.12	20.2%	-0.3%
PY 16	10,566	\$147,992,692.45	\$14,006.50	24.5%	7.0%
Total	98,581	\$975,251,005.28			

General legal services provided

- (1) Respond to general questions and attend regular board meetings of the Agency and other meetings on general matters relating to the operations of the Agency and consult with staff and outside consultants regarding all finance-related matters, to the extent requested.
- (2) Meet with and review reports prepared by the Agency's Financial Advisors and other employees and consultants, to the extent requested.

- (3) Advise the Agency and staff on the legal requirements and responsibilities regarding the issuance of debt Securities and the investment of the proceeds of the Securities.
- (4) Review finance-related proposals relating to proposed financings, consult with underwriters and their counsel and other parties regarding those proposals, and participate in the selection process for underwriters, trustees and other finance-related professionals, to the extent requested.
- (5) Review legal issues relating to the structure of the Securities; issue, prepare and review the documents necessary or appropriate to the authorization, issuance and delivery of the Securities including, but not limited to, the Bond Resolution, Paying Agent/Registrar Agreement, Escrow Agreement, if applicable, Pricing Certificate and various closing and other certificates; and participate in the preparation and coordination of financing schedules for various bond issues to avoid conflicts. Outside Counsel will also coordinate the authorization and execution of such documents.
- (6) Assist the Agency in seeking from other governmental authorities such approvals, permissions and exemptions as Outside Counsel determines are necessary or appropriate in connection with the authorization, issuance and delivery of the Securities, except that Outside Counsel will not be responsible for any Blue Sky filings.
- (7) Subject to the completion of proceedings to Outside Counsel's satisfaction, render Outside Counsel's legal opinion to the Agency (the "Approving Opinion") regarding the validity and binding effect of the Securities, the source of payment and security for the Securities, and, if the Securities are issued on such basis, the excludability of interest on the Securities from gross income for federal income tax purposes.
- (8) Assist the Agency in presenting information to bond rating organizations and providers of credit enhancement relating to legal issues affecting the issuance of Securities, to the extent required or requested, and review and negotiate on behalf of the Agency the terms of any credit enhancement agreements with respect to the Securities.
- (9) Attend informational meetings with prospective purchasers of Securities and meetings with bond rating agencies, to the extent required or requested.
- (10) Submit the transcript of legal proceedings pertaining to the authorization and issuance of the Securities to the Attorney General of Texas for approval.

- (11) Supervise the execution, printing, Attorney General's approval, and Comptroller of Public Accounts' registration of the Securities, and delivery thereof to the purchaser.
- (12) Render an opinion to the Agency and to the purchasers of the Securities to the effect that the information in the disclosure document relating to the Securities, the Bond Resolution under which the Securities are issued, the security for the Securities, tax matters, investments and the Approving Opinion is a fair and accurate summary of the information purported to be shown or are correct as to matters of law, as applicable.
- (13) Advise the Agency and staff regarding the requirements of finance-related documents.
- (14) Prepare all forms and responses that need to be filed with the IRS relating to any securities issued during this OCC Term or previously or to be issued by the Agency. Outside Counsel is not responsible for making calculations relating to rebate pursuant to Section 148 of the Internal Revenue Code of 1954, as amended.

Ken Martin, Assistant Commissioner for Financial Services/CFO will present this item to the committee.

Agenda Item VI-A

Pros and Cons of External Auditor Rotation Agency Operations Committee October 2017

Authoritative Sources

Currently, there is no regulatory requirement for non-SEC clients to rotate auditors. Guidance on this topic was developed for SEC registrants and is put forth by the Public Company Accounting Oversight Board (PCAOB) and by the Government Accountability Office (GAO).

PCAOB 2002

In 2002, Sarbanes-Oxley created the PCAOB for oversight of the auditing profession for audits of SEC registrants, and tasked the GAO with studying the rotation of audit firms off of an audit engagement after a set number of years.

Sarbanes-Oxley Section 203 required mandatory lead audit partner rotation at least every 5 years for SEC registrants.

GAO 2003

In 2003, the GAO reported that "mandatory audit firm rotation may not be the most efficient way to enhance auditor independence and audit quality." It also stated that "more experience needs to be gained" with the Sarbanes-Oxley Act requirements and that "it will take at least several years for the SEC and the PCAOB to gain sufficient experience with the effectiveness of the act in order to adequately evaluate whether further enhancements or revisions, including mandatory audit firm rotation, may be needed to further protect the public interest and restore investor confidence."

PCAOB 2011 thru Present

In 2011 the PCAOB issued a "Concept Release on Auditor Independence and Audit Firm Rotation", seeking public comment on the "...advantages and disadvantages of mandatory audit firm rotation."

The Concept Release produced considerable debate regarding mandatory audit firm rotation. In 2014, the PCAOB chairman James Doty indicated that there was no longer an active project regarding a term limit for auditors, and stated the PCAOB would "...continue to think about what impacts independence."

Comparative Practices

Other state agencies external audit practices include:

Teacher's Retirement System of Texas – no formal policy; have used the SAO to perform the service for the last 20+ years; audit committee bylaws task the audit committee with evaluating the effectiveness of the external auditor

Texas Department of Housing and Community Affairs – no formal policy; SAO has performed the audit for the last three years

CB Current External Auditor KPMG Practice

KPMG has a firm policy stating that lead audit engagement and concurring review partners for non-SEC registered clients be rotated after serving for 10 years on the engagement and engagement managers after 7 years. A 2 year extension is allowed if client circumstances warrant.

CB External Auditor Procurement History/Timeline

Please see the attachment showing the procurement history of external audit services at the Coordinating Board. External audit services have been competitively procured four times since 2006.

Committee on Agency Operations

AGENDA ITEM VI-A

Discussion regarding pros and cons of auditor rotation for external audit of agency-wide financial statements

RECOMMENDATION: No action required

Background Information:

The Coordinating Board obtained its first audit of agency's stand-alone financial statements for fiscal year 2006. The agency has obtained a financial statement audit annually thereafter. KPMG LLP, performed the Coordinating Board's initial stand-alone financial statement audit for fiscal year 2006, and has remained the agency's external auditor since 2006. Audit services have undergone competitive solicitation initially for the fiscal year 2006 audit, and three times subsequently in fiscal year 2009, 2012, and most recently in fiscal year 2015. The current contract with KPMG LLP exercised option year two, and has two option years remaining.

The quality and independence of audit services is a matter of rigorous public debate. The debate centers on whether or not audit quality, independence, and professional skepticism is impacted either positively or negatively, by the same audit firm performing audits of a client for numerous, successive years.

The attached documents provide information regarding:

- Consideration of External Auditor Rotation
- Historic Timeline of External Auditor Procurement at the Coordinating Board

Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.

Agenda Item VI-A

Pros and Cons of External Auditor Rotation Agency Operations Committee October 2017

Authoritative Sources

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Agenda Item VI-A

**Texas Higher Education Coordinating Board
External Audit of Agency Financial Statements
Historical Perspective; Prepared September, 2017
Fiscal Year 2018**

Fiscal Year 2017

Presentation of fiscal year 2016 audit to the Agency Operations Committee in July, 2017.

Board approval in August, 2017 of contract extension (Option year 2) for KPMG to audit the FY 2017 agency financial statements.

Fiscal Year 2016

September, 2015—Board approval of contract with KPMG to perform financial statement audit for fiscal year 2015.

Presentation of fiscal year 2015 audit to the Agency Operations Committee in July, 2016.

Board approval in August, 2016 of contract extension (Option year 1) for KPMG to audit the fiscal year 2016 agency financial statements.

Fiscal Year 2015

January, 2015—Board approved RFQ to enter a contract, subject to approval of Board Chair, Vice Chair, and Chair of AOC.

May, 2015—Request for Qualifications (RFQ) for financial audit services. Competitive solicitation and evaluation for respondents.

July, 2015--Presentation of fiscal year 2014 audit to the Agency Operations Committee in July, 2015.

Fiscal Year 2014

October, 2013—Agency Operations Committee approval to extend contract with KPMG for 2 years.

July, 2014--Presentation of fiscal year 2013 audit to the Agency Operations Committee in July, 2014.

Fiscal Year 2013

January, 2013-- Board approval to create new one year contract with KPMG patterned after the prior contract that inadvertently expired. Contract contains option to renew for two additional years.

July, 2013--Presentation of fiscal year 2012 audit to the Agency Operations Committee in July, 2013.

Fiscal Year 2012

December, 2011--approval of one year contract with KPMG to audit the fiscal year 2011 agency financial statements based on competitive solicitation and evaluation of 5 respondents, with option to renew 3 additional years.

Presentation of fiscal year 2011 audit to the Agency Operations Committee in July, 2012.

August 31, 2012--one year contract with KPMG inadvertently expires before renewal option for year two exercised.

**Texas Higher Education Coordinating Board
External Audit of Agency Financial Statements
Historical Perspective; Prepared September, 2017
Fiscal Year 2018**

Fiscal Year 2011

October, 2010--Board approval of KPMG contract amendment to audit the FY 2010 agency financial statements.

Presentation of fiscal year 2010 audit to the Agency Operations Committee in July, 2011.

Committee approval to issue RFQ for fiscal year 2011 audit, and to enter into contract with selected firm subject to approval of Board Chair, Vice Chair, and AOC Chair.

Fiscal Year 2010

October, 2009--Board approval of KPMG contract amendment to audit the fiscal year 2009 agency financial statements.

Presentation of fiscal year 2009 audit to the Agency Operations Committee in July, 2010.

Fiscal Year 2009

October 2008--Agency Operations Committee directs staff to issue a Request for Information (RFI) and prepare an analysis of options and estimated costs for audit services, for Committee consideration in January, 2009.

January 2009--Agency Operations Committee considers three audit services options for auditing the fiscal year 2008 financials based on 5 respondents to the RFI. Committee approved option B, a GASB 34 stand-alone audit of the fiscal year 2008 financials by extending the current contract with KPMG at a fixed, not to exceed rate.

Presentation of fiscal year 2008 audit to the Agency Operations Committee in July, 2009.

Fiscal Year 2008

Presentation of fiscal year 2007 audit to the Agency Operations Committee in July, 2008.

Fiscal Year 2007

Presentation of first agency-wide financial statement audit to the Agency Operations Committee in July, 2007 for fiscal year 2005 and 2006.

Approval of contract extension for KPMG to audit the fiscal year 2007 agency financial statements.

Fiscal Year 2006

July, 2006--Board authorization for Commissioner to contract with KPMG to audit the FY 2006 agency financial statements, following a solicitation for proposals.

Committee on Agency Operations

AGENDA ITEM VI-B

Update on Internal Audit Reports and Activities

RECOMMENDATION: No action required

Background Information:

The Internal Audit Department completed four projects since the last Agency Operations Committee meeting in July, 2017. The reports include:

1. *Final Report – A Review of Payroll Administration at the Coordinating Board*; this was a Category 1 Report with no recommendations.
2. *Final Report - A Follow Up Review of Physical Security of Information Systems*; this was a Category 1 Report with no recommendations.
3. *Final Report – A Self-Assessment of Work Quality at the Coordinating Board*; this was a Category 1 Report with no recommendations.
4. *Internal Audit Annual Report for Fiscal Year 2017*; this is a statutorily required report that provides the State Auditor's Office and other stakeholders a view of fiscal year 2017 internal audit activities.

Update on Internal Audit activities

Audits In Progress	Stage of Project
Review of Contract Administration	Reporting
Follow Up of Tuition Equalization Grant Administration	Planning
Follow Up of College Access Loan Administration	Planning

Other Internal Audit Activities

- Coordinated external audits – SAO, KPMG, etc.
- Prepared the Internal Audit Annual Report
- Provided input on CAPPSFIN implementation considerations
- Provided input on TEG engagement guide

The final reports are attached. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

August 31, 2017

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Fred Farias III, O.D.
Ricky A. Raven
Janelle Shepard

Raymund A. Paredes
COMMISSIONER
OF HIGHER EDUCATION

512/ 427-6101
Fax 512/ 427-6127

Web site:
<http://www.thecb.state.tx.us>

Dr. Raymund A. Paredes
Commissioner of Higher Education
1200 E. Anderson Lane
Austin, TX 78752

Dear Dr. Paredes:

I am attaching the final report of *A Review of Payroll Administration at the Higher Education Coordinating Board*, Report No. THECB-IA-WP-17-194. This report will be presented at the October, 2017 Agency Operations Committee meeting.

This is a category 1 report and contains no reportable observations. If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

Processes over payroll administration at the Texas Higher Education Coordinating Board are effective to ensure expenditures are accurate and well-documented.

Audit Objective, Scope and Methodologies

The objective of the audit was to ensure that internal controls over payroll administration were operating effectively. Our audit scope focused on current payroll processes and tested payroll disbursements to ensure:

- Inactive or ghost employees did not exist;
- Salary payments and employee contributions were processed accurately;
- Payments made to hourly paid employees were accurate;
- Information system access controls in the payroll system were adequate;
- Overtime payments were authorized and disbursed properly; and
- Payroll-related job duties were properly segregated to promote strong internal control

Audit procedures included identifying payroll processing risks, performing tests to verify the effectiveness of internal controls, interviewing personnel and reviewing supporting documentation.

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Additionally, 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, if any, and conclusions based on our audit objectives.

Background

The Texas Higher Education Coordinating Board transitioned to a new payroll system, CAPPS (Centralized Accounting and Payroll/Personnel System), in September 2016 to process payroll. For the month of March 2017, which was selected for testing, the Texas Higher Education Coordinating Board disbursed payroll of \$884,937 to 237 employees.

PERFORMED BY:

Ms. Aporajita Ahmed, CPA, CFE, CITP, CGMA, CICA, Internal Audit Lead

cc:

THECB

Board Members

Commissioner's Office

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services

STATUTORY DISTRIBUTION REQUIREMENT

Legislative Budget Board

Ms. Julie Ivie

Governor's Office of Budget & Planning

Mr. Drew DeBerry

State Auditor's Office

Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

August 8, 2017

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VICE CHAIR

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Raymund A. Paredes
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<http://www.thecb.state.tx.us>

Dr. Raymund A. Paredes
Commissioner of Higher Education
1200 E. Anderson Lane
Austin, TX 78752

Dear Dr. Paredes:

The Texas Higher Education Coordinating Board implemented the recommendations in our prior report, *A Review of Physical Security of Information Systems*, issued July 25, 2016.

Management implemented all four outstanding audit recommendations by:

- Performing and documenting the annual risk assessment of information systems in a timely manner to comply with Texas Administrative Code 202.¹
- Strengthening the process to ensure that agency staff complete the mandated security awareness training in a timely manner.
- Strengthening encryption policies and procedures for flash drives and raising staff awareness of requirements, and developing processes to ensure the collection of flash drives when employees leave the agency.
- Enhancing processes to manage the risks of physical access to, and within, the building.

We conducted this follow-up audit in conformance with the International Standards for the Professional Practice of Internal Auditing and in accordance with the Generally Accepted Government Auditing Standards (GAGAS).

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl".

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

¹ This recommendation is considered fully implemented, as it called for performance of the annual risk assessment of information systems in a timely manner. However, readers should refer to recommendation #3 in the audit report *An Audit of Data Administration and Governance*, issued May 26, 2017. This recommendation called for improvement of the agency's annual risk assessment of information systems.

PERFORMED BY:

Ms. Aporajita Ahmed, CPA, CFE, CITP, CGMA, CICA, Internal Audit Lead

CC:

THECB

Board Members

Commissioner's Office

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services

Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services

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TEXAS HIGHER EDUCATION COORDINATING BOARD

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September 12, 2017

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Dr. Raymund A. Paredes
Commissioner of Higher Education
1200 E. Anderson Lane
Austin, TX 78752

Dear Dr. Paredes:

We performed an assessment of internal audit work quality to satisfy the requirements of professional auditing standards. It is our opinion that the Internal Audit Office *generally conforms* to the Institute of Internal Auditors (IIA) *International Standards for the Professional Practice of Internal Auditing*. These standards require:

- 1300 – Quality Assurance/Improvement Program
1311—Internal Assessments
 - Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge of internal audit practices.

Our self-assessment of internal audit work quality was based on an evaluation of the audit project *An Internal Audit of Texas Educational Opportunity Grant (TEOG) Administration Report No. THECB IA-WP-17-192*, issued in May 2017. We conducted our review using the self-assessment tool outlined by the *State Agency Internal Audit Forum* in their Peer Review Process Manual.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Ms. Aporajita Ahmed, CPA, CFE, CITP, CGMA, CICA, Internal Audit Lead

CC:

THECB

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TEXAS HIGHER EDUCATION COORDINATING BOARD

**INTERNAL AUDIT
ANNUAL REPORT**



**FOR
FISCAL YEAR 2017**

Fiscal year 2017 Internal Audit Annual Report Table of Contents

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Compliance with Texas Government Code, Section 2102.015

Texas Government Code, Section 2102.015 requires state agencies to post on the agency's Internet Web site its internal audit plan, internal audit annual report, and any weaknesses or concerns resulting from the audit plan or annual report. Please see the Coordinating Board internet web site at <http://www.thecb.state.tx.us/> and the "Internal Audit and Compliance Monitoring" tab for this required information. The 2017 Internal Audit Annual Report will be posted following its presentation to the board in October, 2017.

The screenshot shows a web browser window with the URL <http://www.thecb.state.tx.us/index.cfm?objectid=48CDD2AA-A5E9-DCD8-8796A779AD903F>. The page title is "Texas Higher Education Coordinating Board". The navigation bar includes links for "Board Members", "Commissioner", "Agency Info", "Index A-Z", and a "Search:" field. The main content area is titled "Internal Audit and Compliance Monitoring" and features a "Message from the Director" section. A blue box highlights the "Annual Internal Audit Reports" and "Annual Internal Audit Plans" links. The left sidebar contains a list of links including "Closing the Gaps Higher Education Plan", "Communications and Policy", "Internal Audit and Compliance Monitoring", "Academic Quality and Workforce Division", "Research and Project Grants", "College Readiness and Success", "Finance and Resource Planning", "Information for Governing Board Members", "Data Resources and Tools", "Online Institutional Resumes", "Applying and Paying for College", "Student Loans", "Innovation and Policy Development", "Star Awards", and "Laws and Rules".

Texas Higher Education Coordinating Board

Board Members | Commissioner | Agency Info | Index A-Z | Search:

[Home](#) / [Misc.](#) / Internal Audit and Compliance Monitoring

Internal Audit and Compliance Monitoring

[Message from the Director](#)

General Information	Annual Internal Audit Plans and Annual Internal Audit Reports
Internal Audit Charter	Annual Internal Audit Reports
Internal Audit Process	Annual Internal Audit Plans
Organization Chart	
Compliance Monitoring Process	
Report Fraud	
Useful Links	
Ask the Auditors	
Staff Directory	
Compliance Monitoring - Senate Bill 215 and TAC 1.13	

Internal Audit and Compliance Monitoring Reports
Internal Audit Reports
Compliance Monitoring Reports

Left Sidebar Links:

- Closing the Gaps Higher Education Plan
- Communications and Policy
- Internal Audit and Compliance Monitoring
- Academic Quality and Workforce Division
- Research and Project Grants
- College Readiness and Success
- Finance and Resource Planning
- Information for Governing Board Members
- Data Resources and Tools
- Online Institutional Resumes
- Applying and Paying for College
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- Innovation and Policy Development
- Star Awards
- Laws and Rules

Internal Audit Plan for Fiscal Year 2017

Explanatory Information - The table below indicates the status of FY 17 planned audits, as shown on the approved audit plan, versus those accomplished during the year.

Board-Approved FY 17 Audit Plan	Status of Audit at 8/31/17
Follow Up Audits	<p>(1) Follow Up Review of Physical Security of Information Systems THECB-IA-WP-17-196 Completed. Report date August 8, 2017.</p> <p>(2) Follow Up Audit of Contract Management THECB-IA-WP-16-185 Completed. Report date September 13, 2016.</p> <p>(3) Follow Up Audit of TEXAS Grant THECB-IA-WP-16-187B—work in Completed: Report date January 13, 2017.</p> <p>(4) Follow Up Audit of College Access Loan (CAL) Administration THECB-IA-WP-17-190--work in progress: expected reporting date January, 2018.</p> <p>(5) Follow Up Audit of Tuition Equalization Grant (TEG) Administration THECB-IA-WP-17-197--work in progress: expected reporting date January, 2018.</p>
Self-Assessment of Work Quality, Internal Audit	Self-Assessment of Work Quality THECB-IA-WP-17-196 was reported October, 2017.
Review of Data Administration and Governance	Review of Data Administration and Governance THECB-IA-WP-17-193 Report date May 25, 2017.
Review of Texas Educational Opportunity Grant (TEOG) Program Administration	Review of Texas Educational Opportunity Grant (TEOG) Program Administration THECB-IA-WP-17-192 Report date May 25, 2017.

Board-Approved FY 17 Audit Plan	Status of Audit at 8/31/17
Review of Payroll Administration	Review of Payroll Administration THECB-IA-WP-17-194 was reported October, 2017.
Review of Contract Management Administration	Review of Contract Management Administration THECB-IA-WP-17-195--work in progress: expected reporting date January, 2018.

CONSULTING ENGAGEMENTS AND NON-AUDIT SERVICES COMPLETED

The Texas Higher Education Coordinating Board internal audit function did not perform consulting or non-audit services in fiscal year 2017.

EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

G Shemo Consulting Inc.
George J. Shemo, CPA, CGMA
13 Pearce Lane
Ballston Lake, New York 12019

Office: 518-399-3235
Cell: 518-894-7477
Email: gjsmol@nycap.rr.com

Certified: NYS
Member: AICPA
NYSSCPA
IIA



REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF

TEXAS HIGHER EDUCATION COORDINATING BOARD

INTERNAL AUDIT and COMPLIANCE DEPARTMENT

September 28, 2016



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Executive Summary

Purpose

As requested by the Director, Internal Audit and Compliance (DIAC), G Shemo Consulting conducted an external EQA of the IA activity of THECB. The principal objectives of the EQA were to:

- Assess IA activity conformance to the IIA “Definition of Internal Auditing”, the *International Standards for the Professional Practice of Internal Auditing (Standards)*, and the Code of Ethics;
- Assess IA activity conformance to applicable GAO Standards;
- Assess IA activity compliance with the Texas Internal Auditing Act;
- Evaluate IA activity effectiveness in carrying out its mission, as set forth in its charter and expressed in the expectations of the THECB Agency Operations Committee (AOC) and senior management;
- Identify opportunities to enhance IA activity management and work processes, as well as its ability to add value to THECB.

Scope and Methodology

Prior to GSC arriving onsite at THECB to conduct the EQA, the DIAC provided advance preparation documents, which contained detailed information about the IA activity and THECB. Additionally, GSC conducted a preliminary meeting with the DIAC in order to gather additional background information, select executives and operating managers for interviews during our onsite field work, and to finalize planning and administrative arrangements for the EQA. Onsite fieldwork commenced on September 12, 2016 and concluded on September 20, 2016.

During the onsite fieldwork we conducted interviews with the Chair of the AOC, members of senior management, selected operating managers, a representative of the external CPA firm, and all members of the IA activity staff. We also evaluated the IA activity risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes, and a representative sample of the IA activity work papers and reports.

We conducted the QA according to the IIA and GAO guidelines and procedures that were necessary to evaluate the following components of the IA activity:

- Director Reporting Lines and Quality Assurance
- Organization of the Audit Activity
- Communications with the AOC and Senior Management
- Risk Assessment and Engagement Planning
- Staff Professional Proficiency
- Information Technology Capabilities
- Productivity and Value Added to THECB
- Audit Engagement Work Papers and Reports
- Audit Tools and Methodologies
- Engagement and Staff Management Processes

Executive Summary

Summary of Recommendations for Conformance

Based on the results of this EQA, no issues affecting conformance, with either the IIA or GAO Standards, or compliance with the Texas Internal Auditing Act were found, and therefore, no recommendations are provided.

Summary of Recommendations for Enhancement

The following recommendations are identified as potential opportunities to enhance the IA activity ability to add value to THECB:

1. Broaden senior management's expectations for IA activity services
2. Increase AOC involvement in evaluating performance of the DIAC
3. Expand the Quality Assurance and Improvement Program (QAIP)
4. Enhance the IA activity Annual Planning Process

Commendations

During our review, we observed the IA activity environment to be well-structured and progressive; that the IIA Standards, the GAO Standards, and the requirements of the Texas Internal Auditing Act are appropriately understood; and IA activity management is endeavoring to provide useful audit tools and implement appropriate practices in order to add value to the operations of THECB. It is appropriate to commend the IA activity for the following:

- Results of this EQA are well above average relative to other EQAs performed throughout the profession
- Excellent relationship with and strong support from the AOC and executive management
- DIAC is recognized for leadership, experience, integrity, guidance, and emphasis on continuous improvement
- Staff is viewed positively for their professionalism, knowledge, demeanor, willingness to listen, and well written reports; and
- Competent and experienced staff with 12 professional certifications and five graduate degrees
- IA and Compliance viewed as adding value to THECB on a collaborative basis
- Annual visitation with key stakeholders soliciting input and ideas for the annual risk assessment
- IA and Compliance is instrumental in THECB risk management
- Embedding audit steps and procedures within the TeamMate audit software program
- IA activity maintains a publicly accessible website providing relevant information which promotes transparency

Recommendations for Enhancement

- 1. Consider broadening senior management's expectations for IA activity services and expand the scope of those services to increase focus on THECB governance and business processes**

Implementing Stakeholders: Senior Management
Agency Operations Committee
IA activity

Associated Stakeholder: Operating Management

Successful Practice

Related Practice Advisories: 2110-1, 2110-2, 2110-3

This EQA has determined that the DIAC has implemented a program of internal auditing that fully meets the AOC and senior managements' formally established expectations in a highly effective manner. Currently, those expectations focus on assurance services related to the control environment and compliance with the policies and procedures of THECB. As a result of the discussions with senior and operating management during the EQA interviews, there appears to be considerable interest in having the IA activity increase services that are more focused on process improvement. While current IA activity services do provide some elements of process improvement, the formal scope of services would need to be expanded to meet increased expectations.

Accordingly, senior management, the Agency Operations Committee, and the DIAC could consider the opportunity to formally increase expectations of expanded IA activity services. Such consideration would need to be viewed in light of recommendation #4 regarding a more in depth evaluation of Internal Audit resource requirements. Some elements of an expanded scope of services could include:

- The economic and efficient use of resources
- Performance measurement
- Business process improvement
- Administrative process improvement
- THECB governance processes

Recommendations for Enhancement

2. Increase AOC involvement in evaluating performance of the DIAC

Implementing Stakeholders: Senior Management

Agency Operations Committee

Associated Stakeholder: DIAC

Reference: Practice Advisory 1110-1

The structure of the functional and administrative reporting relationships of the IA activity within THECB is entirely appropriate, and achieves complete independence for the IA activity. It establishes the proper environment to allow the IA activity to effectively support THECB in fulfilling its mission and achieving its goals and objectives, in line with senior management's expectations. As a result of this EQA, there appears to be an opportunity to further enhance IA activity independence by increasing the responsibilities of the AOC in regard to the functional reporting relationship. The AOC could consider revising its Charter to include the following responsibilities:

- Approving all decisions regarding the performance evaluation, appointment, or removal of the DIAC.
- Approving the annual compensation and salary adjustment of the DIAC.

3. Expand the Quality Assurance and Improvement Program (QAIP)

Implementing Stakeholder: IA activity

Associated Stakeholders: Agency Operations Committee
Senior Management
Operating Management

Practice Advisories: 1311-1 and 1320-1

The DIAC has designed and implemented a fully functional QAIP which appropriately monitors and assesses IA activity performance, and its conformance with the IIA and GAO Standards, as well as the Texas Internal Auditing Act. The DIAC could increase the effectiveness of the QAIP even further by considering the following:

- Expanding the scope of periodic self-assessments to ensure that every IIA and GAO Standard is assessed at least once during a three year cycle;

Recommendations for Enhancement

3. Expand the Quality Assurance and Improvement Program (QAIP) (Cont.)

- Including the results of external assessments, internal self-assessments, and ongoing monitoring activities, as well as the resulting IA activity plans for continuous improvement, in periodic status reports to senior management and the AOC.

4. Enhance the IA activity Annual Planning Process

Implementing Stakeholder: IA activity

Associated Stakeholders: Agency Operations Committee
Senior Management
Operating Management

Practice Advisory: 2020-1

The annual planning process developed by the DIAC provides the AOC and senior management with a risk based plan that appropriately determines the priorities of the IA activity consistent with THECB's goals. The plan, as presented to senior management for their review, and for the approval of the AOC, properly communicates IA planned activities and the resource requirements needed to accomplish them. There are opportunities to further enhance annual planning by providing additional information which will provide the basis to better quantify IA resource requirements that are needed to meet the needs of THECB. For example, the DIAC could consider the following:

- Reviewing the detailed audit universe with the AOC and senior management to agree on the entities within the universe that need to be reviewed by IA at some point, over a period of time, in the future (the auditable segment), and those that do not need to be reviewed by IA at any point in the future (the non-auditable segment). Separation of the audit universe should be based upon an assessment of the THECB's need for support, not on the amount of current IA activity resources. Reviewing the audit universe in this manner needs to occur each year, as part of the annual planning process in order to determine if there is a need to shift entities between segments.
- Assessing risk of the entities within the auditable segment, and ranking the segment in risk rating order.
- Grouping the entities according to risk ratings. Establish groups consistent with AOC and senior management expectations. For instance, four groups could be established for

Recommendations for Enhancement

4. Enhance the IA activity Annual Planning Process (Cont.)

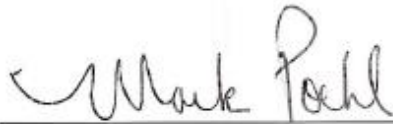
extremely high, high, moderate, and low risks. Assigning entities to the groups should be done with the agreement of the AOC and senior management.

- Establishing frequency guides for each risk group. For example: extremely high risk entities audited annually; high risk entities audited over two years; moderate risk entities over four years; and low risk entities over five years. The frequency guides should be established with the agreement of the AOC and senior management.
- Preparing an annual plan in a multi-year format. The number of years presented would be equal to the frequency guide established for the lowest risk group. It is important to note that the plan includes all entities assigned to the auditable segment of the audit universe, regardless of its risk group. The DIAC would prepare preliminary scope descriptions and resource estimates for the entities identified for audit in the upcoming year. Remaining entities would show an indication of the future year in which it is to be audited. In the example above, the upcoming year would include all extremely high risk, one-half of high risk, one-fourth of moderate risk, and one-fifth of low risk entities.

Following this approach will provide a result that specifically quantifies the IA activity resource requirements to service the needs of THECB in the upcoming year. It can serve as the basis for the AOC and senior management to make informed decisions on the quantity of IA activity resources to be provided, and the impact that any resource shortages will have on the multi-year plan.

Director Response

I have read this report in its entirety, and acknowledge responsibility for communicating it to the appropriate members of the Agency Operations Committee and senior management. I accept the "Recommendations for Enhancement" as advisory, and understand they are provided for consideration as potential opportunities to increase the value the IA activity adds to THECB. In consultation with the Agency Operations Committee and senior management, I will develop action plans as appropriate, and will share these plans with the Agency Operations Committee and senior management.



Mark Poehl

Director, Internal Audit and Compliance

THECB

Attachment A

IIA Standards

	GC	PC	DNC
OVERALL EVALUATION	x		
ATTRIBUTE STANDARDS	x		
1000 Purpose, Authority, and Responsibility	x		
1010 Recognition of the Definition of Internal Auditing	x		
1100 Independence and Objectivity	x		
1110 Organizational Independence	x		
1111 Direct Interaction with the Board	x		
1120 Individual Objectivity	x		
1130 Impairments to Independence or Objectivity	x		
1200 Proficiency and Due Professional Care	x		
1210 Proficiency	x		
1220 Due Professional care	x		
1230 Continuing Professional Development	x		
1300 Quality Assurance and Improvement Program	x		
1310 Requirements of the Quality Assurance and Improvement Program	x		
1311 Internal Assessments	x		
1312 External Assessments	x		
1320 Reporting on the Quality Assurance and Improvement Program	x		
1321 Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
1322 Disclosure of Noncompliance	x		
PERFORMANCE STANDARDS	x		
2000 Managing the Internal Audit Activity	x		
2010 Planning	x		
2020 Communication and Approval	x		
2030 Resource Management	x		
2040 Policies and Procedures	x		

Attachment A

IIA STANDARDS

2050	Coordination	x		
2060	Reporting to Senior Management and the Board	x		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	NA		
2100	Nature of Work	x		
2110	Governance	x		
2120	Risk Management	x		
2130	Control	x		
2200	Engagement Planning	x		
2201	Planning Considerations	x		
2210	Engagement Objectives	x		
2220	Engagement Scope	x		
2230	Engagement Resource Allocation	x		
2240	Engagement Work Program	x		
2300	Performing the Engagement	x		
2310	Identifying Information	x		
2320	Analysis and Evaluation	x		
2330	Documenting Information	x		
2340	Engagement Supervision	x		
2400	Communicating Results	x		
2410	Criteria for Communicating	x		
2420	Quality of Communications	x		
2421	Errors and Omissions	x		
2430	Use of "Conducted in conformance with the International Standards for the Professional Practice of Internal Auditing"	x		
2431	Engagement Disclosure of Nonconformance	NA		
2440	Disseminating Results	x		
2450	Overall Opinions	x		
2500	Monitoring Progress	x		
2600	Management's Acceptance of Risks	x		
IIA Code of Ethics		x		



Attachment B

GAO STANDARDS

	PASS	FAIL
GENERAL (107)	X	
Independence (59)	X	
Professional Judgment (9)	X	
Competence (13)	X	
Quality Control & Assurance (26)	X	
PERFORMANCE (85)	X	
Planning (52)	X	
Supervision (3)	X	
Evidence (23)	X	
Documentation (7)	X	
REPORTING (44)	X	

TEXAS HIGHER EDUCATION COORDINATING BOARD

INTERNAL AUDIT

Audit Plan

Fiscal Year 2018

The Texas Internal Auditing Act requires state agency Internal Auditors to conduct a program of auditing that includes an annual audit plan, is prepared using risk assessment techniques, and identifies the individual audits to be conducted during the year. The following proposed plan meets the requirements of the Texas Internal Auditing Act.

Specific risk factors were considered as they apply to the agency's significant operational activities. These risk factors included:

- Financial significance
- Reputational significance and visibility
- Complexity; inherent risk; and the potential for abuse
- Prior audit and compliance monitoring results as an indicator of control effectiveness
- Audit recency – internal audit, compliance monitoring (as applicable), KPMG, SAO, and/or Federal auditors
- Changes in mission or key management

A risk-ranked listing of significant operational activities became the basis for the audits proposed for consideration herein.

A. Required Audits

	<u>Estimated Hours Required</u>
1. Follow Up of Prior Internal Audits <i>Assess the implementation status of previously reported internal audit findings in the areas of Physical Security of Information Systems, Tuition Equalization Grant, Contract Management, and CAL Administration.</i>	195
2. Self-Assessment of Work Quality, Internal Audit <i>Perform a self-assessment of internal audit work quality, in accordance with the requirements of professional auditing standards.</i>	150
3. Investigations	340

Texas Government Code Chapter 321.022, Coordination of Investigations, requires the coordination of investigations between the agency and the Texas State Auditor's Office. If the administrative head of an agency that is subject to audit by the state auditor has reasonable cause to believe that money received from the state by the agency or by a client/department of the agency may have been lost, misappropriated, or misused, or that other fraudulent or unlawful conduct has occurred in relation to the operation of the agency, the administrative head shall report the reason and basis for the belief to the state auditor. The state auditor may investigate the report or may monitor any investigation conducted by the agency.

4. Provide Assistance--External Audit of Agency Financial Statements 50

Internal Audit provides 50 hours of audit support to reduce external audit fees and to increase the level of knowledge of external auditors' assessment of the agency's financial statements and associated risks.

5. Status Assessment of Corrective Action Plan Implementation to Address NTT Texas Cyber Security Assessment Report 420

Perform a status assessment to assess the implementation status of the corrective action plan prepared to address recommendations from the 2017 NTT Texas Cyber Security Assessment Report.¹

B. Risk-Based Audits

6. Review of Formula Funding 390

Review the administration of formula funding processes for compliance, effectiveness, and efficiency. The formula funding appropriation for FY 2017 was \$4.6 billion.

7. Review of Physician Education Loan Repayment Program 442

Review internal administrative activities associated with the PELRP Program. The PELRP budget for fiscal year 2017 was approximately \$17 million

8. Review of Contract Management Administration 394

Review agency contract administration processes for compliance with laws, regulations, policies, and procedures.

¹ Texas Administrative Code (TAC) 202 requires an independent review of the state agency's information security program.

External Audit Services Procured in Fiscal Year 2017

The agency contracted with KPMG, LLP, to perform an independent audit of the agency's Fiscal Year 2016 Financial Statements. As part of the agreement, the agency provided 50 hours of internal audit staff support to KPMG, LLP.

Reporting Suspected Fraud and Abuse

Actions taken by the agency to address the requirements of Section 7.10.Fraud Reporting, General Appropriations Act (82nd Legislature), Article IX and Government Code, Section 321.022.Coordination of Investigations, include:

- 1) Established a fraud prevention policy and posted the policy on the agency intranet for the employees. The policy encourages reporting of suspected violations to the State Auditor's Office Fraud Hotline.
- 2) Established a link to the State Auditor's Office Fraud Hotline on the agency's home page to enable the general public or employees to report suspected fraud or misconduct directly to the State Auditor's Office.
- 3) Coordinated with the Special Investigations Unit of the State Auditor's Office to investigate suspected fraud.
- 4) Provided ethics-related information to all new employees as part of the orientation process.

Committee on Agency Operations

AGENDA ITEM VII-A

Update on Compliance Monitoring Reports and Activities

RECOMMENDATION: No action required

Background Information:

Update on Compliance Monitoring Reports

The Compliance Monitoring team completed four projects during the reporting period since the July 2017 Agency Operations Committee meeting. The final reports are attached.

Formula Funding Engagements Completed

A Compliance Monitoring Audit of Formula Funding at Sul Ross State University Rio Grande College (no findings)

Financial Aid Engagements Completed

A Compliance Audit of TEXAS Grant at The University of Texas at Austin (no findings)
A Compliance Desk Review of TEXAS Grant at Texas A&M University – Corpus Christi (no findings)
A Compliance Audit of TEXAS Grant at Texas A&M University (no findings)

Projects In Progress	Stage of Project
The University of Texas Southwestern Medical Center – Formula Funding	Reporting
El Paso Community College – Formula Funding	Planning
South Plains College – Formula Funding Follow Up	Planning
Texas Tech University – TEXAS Grant	Planning

Other Compliance Monitoring Activities

- Assessing FY 2018 Compliance Monitoring Audit Plan for engagements planned at institutions impacted by Hurricane Harvey
- Preparing to interview for the vacant Compliance Specialist position

The final reports are attached. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.



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August 7, 2017

Dr. Bill Kibler
President
Sul Ross State University
3107 Bob Rogers Drive
Eagle Pass, TX 78852

Dear Dr. Kibler:

I am attaching a copy of the final report of *A Compliance Monitoring Audit of Formula Funding at Sul Ross State University Rio Grande College*, Report No. THECB CM-FF-17-020. There were no findings resulting from our engagement.

The cooperation of Dr. Claudia Wright during this audit is greatly appreciated.

Sincerely,

A handwritten signature in black ink, reading "Mark A. Poehl". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

Sul Ross State University Rio Grande College (SRSURGC) complied with relevant Coordinating Board (THECB) rules and regulations for enrollment data used for formula funding and with Texas Education Code Section 61.

We conducted this 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 recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the audit objectives.

Reported Semester Credit Hours Were Eligible for Formula Funding

No reportable findings were noted.

Student Tuition Payment was Received in Accordance with Requirements

No reportable findings were noted.

Reported Enrollment Was Eligible for Formula Funding

No reportable findings were noted.

Audit Scope, Objective, and Methodology

Our audit included tests of enrollment data reported and certified by SRSURGC. Our audit focused on the following enrollment data and time periods:

CBM001 (Student Report) – Summer semester 2014; Fall semester 2014; Spring semester 2015
CBM004 (Class Report) – Summer semester 2014; Fall semester 2014; Spring semester 2015

Our work included procedures to verify:

- Reported semester credit hours were eligible for formula funding;
- Student tuition payment was received in accordance with requirements;
- Reported enrollment was eligible for formula funding; and
- Evidence of academic credentials was maintained to support required instructor qualifications.

The audit methodology included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and performing other tests of controls necessary to achieve the objectives of the audit. THECB used random sampling to determine the extent to which SRSURGC accurately reported enrollment data.

Background

The Texas Education Code 61.059(b) – directs the Board to “devise, establish, and periodically review and revise formulas for the use of the governor and the Legislative Budget Board in making appropriations recommendations to the legislature for all institutions of higher education, including the funding of postsecondary vocational-technical programs. As a specific element of the periodic review, the board shall study and recommend changes in the funding formulas based on the role and mission statements of institutions of higher education.”

The funding formulas are allocations; institutions of higher education have the authority to spend funds appropriated through the formulas in the manner deemed most appropriate; the formula models include enrollment as a major driver; and not all appropriations are made through the formulas.

Texas Administrative Code §1.13 (b)(2) states, “The purpose of the Board's risk assessment process and compliance methodologies is to maximize the effectiveness of monitoring funds allocated by the Board and data reported to the Board. The agency-wide, risk-based compliance monitoring function is established for... (B) data reported by institutions of higher education to the Board and used by the Board for funding or policymaking decisions, including data used for formula funding allocations, to ensure the data are accurately and consistently reported.”

SRSURGC received \$3.7 million in formula funding for the FY 2016-2017 biennium based on its percentage of weighted semester credit hours.

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

CC:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications

Mr. William Franz, General Counsel

Strategic Planning and Finance

Dr. Julie Eklund, Assistant Commissioner

Sul Ross State University

Mr. Scott Cupp, Sul Ross State University, Director, Office of Audits & Analysis

Dr. Jimmy Case, Executive Vice President & Provost

Mr. Cesario Valenzuela, Vice President for Finance & Operations

Texas State University System

Ms. Carol Fox, System Director, Office of Audits & Analysis

Ms. Rossanna Salazar, Board Chair

Sul Ross State University Rio Grande College

Dr. Claudia Wright, Director, Admissions/Records & Student Services

Dr. Veronica Mendez, Dean of Sul Ross State University Rio Grande College

Texas Council of Public University Presidents and Chancellors

Dr. Rissa Potter, Executive Director

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State Auditor's Office

Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine, Director



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July 21, 2017

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Dr. Gregory L. Fenves
President
The University of Texas at Austin
110 Inner Campus Drive
Stop G3400
Austin, TX 78712-3400

Dear Dr. Fenves,

I am attaching the final report on *A Compliance Audit of TEXAS Grant at The University of Texas at Austin*, Report No. THECB-FA-17-018. There were no findings resulting from this engagement.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on October 25, 2017.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

The University of Texas at Austin (UT) complied with relevant Coordinating Board (THECB) rules and regulations for the Toward EXcellence, Access, and Success (TEXAS) Grant Program and with Texas Administrative Code (TAC) Sections 22.225 – 22.240, in the areas of eligibility and award amounts.

We conducted this 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 reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the audit objectives.

The following observations were noted during our review:

Award Amounts

No reportable findings were noted.

Student Eligibility

No reportable findings were noted.

Financial Need

No reportable findings were noted.

Satisfactory Academic Progress

No reportable findings were noted.

Residency

No reportable findings were noted.

Selective Service Registration

No reportable findings were noted.

Scope, Objective, and Methodology

Our compliance audit included tests of TEXAS Grant disbursements during fiscal year 2016 for compliance with relevant criteria, including:

- Student Eligibility
- Financial Need
- Satisfactory Academic Progress (SAP)
- Residency
- Selective Service Registration
- Award Amounts

Our work included procedures to verify:

- Students met all eligibility criteria including SAP requirements;
- Students demonstrated financial need;
- Students fulfilled residency requirements;
- Applicable students registered with the selective service system; and
- Reported award amounts reconciled with UT's student information system data and payment records.

The audit methodology included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and performing other tests of controls necessary to achieve the objectives of the audit. THECB used random and judgmental sampling to determine the extent to which UT accurately reported TEXAS Grant data.

Background

The purpose of the Toward EXcellence, Access, & Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. During fiscal year 2016, there were 5,758 students who received award disbursements totaling \$30,065,411.

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communication/COO

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner of Financial Services & Chief Financial Officer

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner, Student Financial Aid Programs

The University of Texas at Austin

Mr. David Wolcott, Office of the Provost

Ms. Rachelle Hernandez, Senior Vice Provost of Enrollment Management

Ms. Diane Todd Sprague, Director of Financial Aid

Ms. Alice Hatfield, Senior Information Technology Manager

Mr. Mike Vandervort, Chief Audit Executive

The University of Texas System

Mr. Paul L. Foster, Chair, Board of Regents

Mr. William McRaven, Chancellor

Texas Council of Public University Presidents and Chancellors

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August 7, 2017

Dr. Kelly M. Quintanilla
Interim President
Texas A&M University-Corpus Christi
6300 Ocean Dr.
Corpus Christi, TX 78412

Dear Dr. Quintanilla,

I am attaching the final report on *A Compliance Desk Review of TEXAS Grant at Texas A&M University-Corpus Christi*, Report No. THECB-FA-17-019. There were no findings resulting from this engagement.

Texas A&M University-Corpus Christi complied with relevant Coordinating Board (THECB) rules and regulations for the Toward EXcellence, Access, & Success (TEXAS) Grant and with the Texas Administrative Code (TAC) §22.21 through 22.32.

Summary

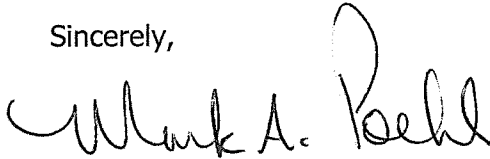
Our desk review included tests of relevant financial data reported and certified by Texas A&M University-Corpus Christi for award year 2015-2016. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the desk review objectives.

Our work included procedures to verify:

- Students met all eligibility criteria including SAP requirements;
- Students demonstrated financial need;
- Students fulfilled residency requirements;
- Applicable students registered with the selective service system; and
- Reported award amounts reconciled with Texas A&M University-Corpus Christi's student data system and payment records.

The cooperation of your staff during this review is greatly appreciated. If you have any questions or comments on the conduct of this engagement, please let me know.

Sincerely,

A handwritten signature in black ink, reading "Mark A. Poehl". The signature is fluid and cursive, with a large loop at the end of the last name.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

PERFORMED BY:

Ms. Carol Conner, Compliance Specialist

CC:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and
Communication/COO

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner of Financial Services & Chief Financial
Officer

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner, Student Financial Aid Programs

Texas A&M University-Corpus Christi

Ms. Jeanne Gage, Director of Financial Aid

Ms. Tracie Perez, Associate Director of Financial Aid

Ms. Margaret Dechant, Associate VP for Enrollment Management

Ms. Judy Harral, Executive Director for Administrative Services

Ms. Rebecca Torres, Associate VP for Finance and Controller

Mr. Terry Tatum, Executive VP for Finance and Administration

Dr. Ted Guffy, Interim Provost and VP for Academic Affairs

Mr. Edward Evans, Associate VP for Information Technology

The Texas A&M University System

Mr. Charles W. Schwartz, Chairman, Board of Regents

Mr. John Sharp, Chancellor

Mr. Charlie Hrcir, Chief Auditor

Texas Council of Public University Presidents and Chancellors

Dr. Rissa Potter, Executive Director

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Dr. Michael K. Young
President and CEO
Texas A&M University
400 Bizzell St., 1246 TAMU
College Station, Texas 77843-1246

Dear Dr. Young,

I am attaching the final report on *A Compliance Audit of TEXAS Grant at Texas A&M University*, Report No. THECB-CM-FA-17-022. There were no findings resulting from this engagement.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, in October 2017.

If you have any questions or comments, please let me know.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

EXECUTIVE SUMMARY

Texas A&M University (TAMU) complied with relevant Coordinating Board (THECB) rules and regulations for the Toward EXcellence, Access, and Success (TEXAS) Grant Program and with Texas Administrative Code (TAC) 19, Chapter 22, Sections §22.225 - 22.240, in the areas of eligibility and award amounts.

We conducted this 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 reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the audit objectives.

The following observations were noted during our review:

Award Amounts

No reportable findings were noted.

Student Eligibility

No reportable findings were noted.

Financial Need

No reportable findings were noted.

Satisfactory Academic Progress

No reportable findings were noted.

Residency

No reportable findings were noted.

Selective Service Registration

No reportable findings were noted.

Scope, Objective, and Methodology

Our compliance audit included tests of TEXAS Grant disbursements during fiscal year 2016 for compliance with relevant criteria, including:

- Student Eligibility
- Financial Need
- Satisfactory Academic Progress (SAP)
- Residency
- Selective Service Registration
- Award Amounts

Our work included procedures to verify:

- Students met all eligibility criteria including SAP requirements;
- Students demonstrated financial need;
- Students fulfilled residency requirements;
- Applicable students registered with the selective service system; and
- Reported award amounts reconciled with Texas A&M University's Banner data system and payment records.

The audit methodology included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and performing other tests of controls necessary to achieve the objectives of the audit. THECB used random and judgmental sampling to determine the extent to which Texas A&M University accurately reported TEXAS Grant data.

Background

The purpose of the Toward EXcellence, Access, and Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. During fiscal year 2016, Texas A&M University awarded approximately \$33 million in TEXAS Grants to 6,444 students.

PERFORMED BY:

Ms. Carol Conner, Compliance Specialist

cc:

THECB**Board Members****Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and
Communication/COO

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services and Chief Financial
Officer

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner

Texas A&M University

Ms. Delisa Falks, Assistant Vice President of Scholarships and Financial Aid

Mr. Joseph P. Pettibon II, Vice President for Enrollment and Academic Services

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