

TEXAS HIGHER EDUCATION COORDINATING BOARD

Agency Operations Committee

1200 EAST ANDERSON LANE, BOARD ROOM 1.170
AUSTIN, TEXAS

October 23, 2019; 2:00 p.m.

*VACANT, Chair
Ricky A. Raven, Vice Chair
S. Javaid Anwar
Fred Farias III, O.D.
Stuart W. Stedman
Lauren C. McKenzie
Student Representative, 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 24, 2019, Committee Meeting

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

IV. Agency Operations

- A. Report on grants and contracts
- B. Update on the Key Initiatives Recommended by AT&T Cybersecurity regarding the Agency Cybersecurity Framework

V. Finance

- A. Review of the Fiscal Year 2019 Financial Report to the Board
- B. Consideration of adopting a resolution authorizing the issuance of State of Texas College Student Loan Bonds in one or more series; and delegation of the authority for administration and approval of the activities necessary to complete the sale of the private activity bonds

VI. Internal Audit

- A. Report on the External Quality Assurance Review of Internal Audit and Compliance Monitoring
- B. An Audit Report on Performance Measures at the Higher Education Coordinating Board by the Texas State Auditor's Office
- C. Post Payment Audit Report for the Texas Higher Education Coordinating Board by the Texas Comptroller of Public Accounts

- D. Update on Internal Audit Reports and Activities

VII. Compliance Monitoring

- A. Update on Compliance Monitoring Reports and Activities

VIII. Executive Session

- A. 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 and the General Counsel since these positions report directly to the Board.

IX. Adjournment

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.

Agency Operations Committee

AGENDA ITEM I

Welcome and Committee Chair's Opening Remarks

The Chair of the Agency Operations Committee, will provide the Committee an overview of the items on the agenda.

Agency Operations Committee

AGENDA ITEM II

Consideration of Approval of the Minutes from July 24, 2019, Committee meeting

RECOMMENDATION: Approval

DRAFT
TEXAS HIGHER EDUCATION COORDINATING BOARD
Agency Operations Committee

Wednesday, July 24, 2019; 2:00 p.m.

**Board Room, 1st Floor
Room 1.170**

1200 East Anderson Lane, Austin, Texas

The Agency Operations Committee convened at 2:00 p.m. on July 24, 2019, with the following members present: John Steen, presiding; Fred Farias; Javaid Anwar; Stuart Stedman; and Lauren McKenzie (Ex-Officio).

Other board members present: Donna Williams

Members absent: Ricky Raven

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 24, 2019, Committee Meeting	On a motion by Dr. Farias, seconded by Mr. Stedman, the Committee approved the April 24, 2019, 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	Mr. Bill Franz, General Counsel, was available for questions. This item did not require any action.
B. Consideration of adopting the Commissioner's recommendation to the Committee relating to the certification of gifts that are fundable through the Texas Research Incentive Program (TRIP) for the Emerging Research Universities	On a motion by Mr. Anwar, seconded by Dr. Farias, the Committee approved the certification of gifts that are fundable through the Texas Research Incentive Program for the Emerging Research Universities. Dr. Julie Eklund, Assistant Commissioner for Strategic Planning and Funding, provided a brief presentation and was available for questions.

AGENDA ITEM	ACTION
C. Consideration of adopting the staff's recommendation to the Committee relating to amending the Board Operating Policies and Procedures	On a motion by Mr. Stedman, seconded by Dr. Farias, the Committee approved the amendments to the Board Operating Policies and Procedures. Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications/COO, was available for questions.
V. Finance	
A. Review of the Fiscal Year 2019 Financial Report to the Board	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO, presented this item to the Committee and was available for questions. This item did not require any action.
B. Consideration of adopting the Commissioner's recommendation to the Committee relating to the agency's operating budget for fiscal year 2020	On a motion by Mr. Anwar, seconded by Dr. Farias, the Committee approved the agency's operating budget for Fiscal Year 2020. Mr. Ken Martin presented this item and was available for questions.
VI. Internal Audit	
A. Discussion of the Audit of the Agency-Wide Financial Statements for Fiscal Year Ended August 31, 2018 by KPMG LLP	Ms. Susan Warren, Audit Partner, with KPMG LLP, presented this item to the Committee and was available for questions. This item did not require any action.
B. Consideration of adopting the Commissioner's recommendation to the Committee relating to the Annual Internal Audit Plan for Fiscal Year 2020	On a motion by Mr. Stedman, seconded by Dr. Farias, the Committee approved the Annual Internal Audit Plan for Fiscal Year 2020. Mr. Mark Poehl, Director of Internal Audit and Compliance, presented this item and was available for questions.
C. Update on Internal Audit Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance, presented this item and was available for questions. This item did not require any action.

AGENDA ITEM	ACTION
VII. Compliance Monitoring	
A. Consideration of adopting the Commissioner's recommendation to the Committee relating to the Annual Compliance Monitoring Plan for Fiscal Year 2020	On a motion by Dr. Farias, seconded by Mr. Anwar, the Committee approved the Annual Compliance Monitoring Plan for Fiscal Year 2020. Mr. Mark Poehl, Director of Internal Audit and Compliance, presented this item and was available for questions.
B. Update on Compliance Monitoring Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance, presented this item and was available for questions. This item did not require any action.
VIII. Executive Session	
A. Pursuant to Texas Government Section 551.076 and 551.089, the Board will meet in closed session to discuss security recommendations from a Department of Information Resources contractor	The Committee went into closed session at 3:14 p.m. and reconvened at 3:53 p.m. There was no action taken during the closed session.
VIII. Adjournment	On a motion by Dr. Farias, seconded by Mr. Anwar, the meeting adjourned at approximately 3:55 p.m.

Agency Operations Committee

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.

Agency Operations Committee

AGENDA ITEM IV-A

Report on grants and contracts

RECOMMENDATION: No action required

Background Information:

Title 19 Texas Administrative Code, Title 19, 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 of the Texas Higher Education Coordinating Board (THECB), by virtue of this rule, delegates such approval and signature authority. In addition to the Board receiving a quarterly report on *Contracts Executed by the Agency in Accordance with Board Rule 1.16*, the THECB staff will also provide the Board a quarterly report highlighting and listing all grants and contracts exceeding \$1 million.

Bill Franz, General Counsel, will be available to answer questions.

Agency Operations Committee

Agenda Item IV-B

Update on the Key Initiatives Recommended by AT&T Cybersecurity regarding the Agency Cybersecurity Framework

RECOMMENDATION: No action required

Background Information:

As a state agency, the Texas Higher Education Coordinating Board is required by statute to go through a biennial review of its information security program for compliance with the standards set forth by the Texas Cybersecurity Framework.

Between May and July 2019, AT&T Cybersecurity, a vendor contracted by the Department of Information Resources, conducted an assessment on the 40 security control objectives implemented at the agency. The vendor representative presented the assessment results and key recommendations to the Board at the July 2019 Agency Operations Committee meeting.

During this presentation, the agency information security team will introduce the Fiscal Year 2020 Key Security Initiatives Implementation Roadmap and discuss the next steps to improve the security posture of the agency.

Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services/Chief Information Officer, and Mr. Peter Donton, Information Security Officer, will be available to answer questions.

Agency Operations Committee

AGENDA ITEM V-A

Review of the Fiscal Year 2019 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 Texas Higher Education Coordinating Board's (THECB) fiscal-year-to-date budgetary 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 full Fiscal Year (FY) 2019.
 - September 1, 2018, through August 31, 2019.
- The report is distributed to agency executive management on a monthly basis.
- Report overview:
 - Budget adjustments are primarily related to the carrying forward of unexpended balances (UB) from FY2018 into FY2019. The THECB received new federal funding of \$800,000 relating to the Mental Health Loan Repayment Program and \$1.8 million from the Texas Workforce Commission for the Advise Texas Innovation and Opportunity (IO) program.
 - Community college funding and expenditures are reflected in this report.
 - College Access Loan (CAL) program demand is approximately 6% higher than the previous year due to the low interest rate. Rate is currently 5.2%.
 - The Math and Science Scholar's Loan Repayment Program had \$1.7 million of unutilized funding. A request was submitted to the Governor's office and to the Legislative Budget Board for transfer authority.
 - The Graduate Medical Education Expansion program was under budget by \$1.7 million due to lower utilization of residencies.
 - The B-On-Time loan program was under budget due to the program being phased out by the end of FY2020.
 - The student loan program was favorable by \$927,180 mainly due to a reduction in credit card fee expense.
 - The Top 10% Scholarship program was being phased out and did not have expenses in this fiscal year. This was the last year of the program

Ken Martin, Assistant Commissioner for Financial Services/CFO, will present this item to the Committee and be available to answer questions.

Agency Operations Committee

AGENDA ITEM V-B

Consideration of adopting a resolution authorizing the issuance of State of Texas College Student Loan Bonds in one or more series; and delegation of the authority for administration and approval of the activities necessary to complete the sale of the private activity bonds

RECOMMENDATION: Approval

Background Information:

Texas Higher Education Coordinating Board (THECB) staff is requesting approval to issue up to \$288 million in aggregate principal amount of private activity bonds in Fiscal Year 2020 to fund College Access Loans (CAL) to eligible students under Texas Education Code, Chapter 52, Subchapter C and to refund the 2010 bond series. The THECB staff has determined that it will be necessary to issue these bonds in one or more series to provide adequate funding to maintain the program, and the refunding bonds will be sold if the interest rate remains favorable at the time of closing.

Key Points:

- An application to the Bond Review Board will be submitted for a portion of the state's allocation of the private activity volume cap.
- \$200 million of the volume cap will be utilized to issue new bonds to support new student loans during the 2020/2021 Academic Year.
- \$88 million of volume cap will be utilized to refund the 2010 bond series that is callable after August 1, 2020.
- The THECB is a state-voted issuer of bonds.
- These bonds are authorized under the Texas Constitution, Sections 50b-4 through 50b-7.
- The total bond debt outstanding is currently \$1.2 billion.
- The total bond funded student loans outstanding is \$1.5 billion.
- The THECB has \$935 million of bonding authority remaining.
- 10% of the state ceiling is reserved for state voter issuers, and the THECB is authorized up to \$200 million, or 6.80%. (Tx Gov. Code, Sec. 1372) for new bonds. Refunding bonds are authorized in this statute under sub-ceiling 5.
- The Agency sells tax exempt private activity bonds.
- The Agency is required to maintain compliance with various state statutes, and Securities Exchange Commission and Internal Revenue Service regulations.
- These bonds are general obligation and are backed by the credit of the State (Moody's AAA rating June 2019).
- The Office of Attorney General is required to approve the final sale.

Historical bond sales

Year Principal Yield

2011A	\$ 124,995,000	4.52%
2011B	\$ 29,061,285	1.46%
2011C	\$ 7,425,538	3.40%
2012	\$ 99,995,837	2.74%
2013A	\$ 112,785,395	2.74%
2013B	\$ 127,419,151	3.35%
2014	\$ 81,144,804	2.93%
2015	\$ 169,502,971	3.05%
2016	\$ 179,995,090	4.11%
2017	\$ 170,613,632	3.11%
2018R	\$ 103,848,967	2.68%
2019	\$ 170,275,723	3.35%

Loan volume has increased over the past five years.

College Access Loan disbursement history

	Total # of Students	Gross Disbursed
PY 04	5,994	\$38,044,856.45
PY 05	6,243	\$41,442,307.08
PY 06	7,040	\$49,470,079.89
PY 07	11,944	\$102,756,666.88
PY 08	7,999	\$74,181,871.12
PY 09	8,702	\$79,778,517.38
PY 10	8,911	\$86,157,023.17
PY 11	8,378	\$87,521,197.15
PY 12	8,655	\$97,407,152.08
PY 13	8,102	\$100,585,758.18
PY 14	7,533	\$98,925,759.26
PY 15	9,080	\$118,877,752.87
PY 16	10,615	\$148,242,100.06
PY 17	11,921	\$172,867,455.17
PY 18	9,056	\$148,466,342.93

A representative from the Board's bond counsel, McCall, Parkhurst & Horton, and a financial advisor from Hilltop Securities, Inc. will be available to answer questions regarding the proposed resolution authorizing the issuance of the bonds, the delegation the authority to approve all final terms of the bonds, or the delegation of authority to file for the state's allocation of private activity volume cap.

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

Agency Operations Committee

AGENDA ITEM VI-A

Report on the External Quality Assurance Review of Internal Audit and Compliance Monitoring

RECOMMENDATION: No action required

Background Information:

An External Quality Assurance Review of the agency's Internal Audit and Compliance Monitoring functions was performed by Richard Tarr, CIA, CISA, in July 2019. A final report was issued in August 2019 and is attached for the Board's reference. The report contains two recommendations aimed at improving the agency's Internal Audit and Compliance Monitoring functions. Management's responses to the recommendations are included in the final report.

Mr. Tarr is a consultant who specializes in Quality Assurance Reviews of internal audit departments. He will be briefing the Committee by phone regarding the results of the Internal Audit & Compliance Monitoring Quality Assurance Review Report and will be available to answer questions.

Mark Poehl, Director of Internal Audit and Compliance, will be presenting this item and will introduce Mr. Tarr.

Agency Operations Committee

AGENDA ITEM VI-B

Audit Report on Performance Measures at the Higher Education Coordinating Board by the Texas State Auditor's Office

RECOMMENDATION: No action required

Background Information:

The Texas State Auditor's Office completed *An Audit Report on Performance Measures at the Higher Education Coordinating Board*. The report was issued on August 9, 2019. The report shows that all five key performance measures tested were considered reliable by the auditors. All measures tested were "certified with qualification," due to improvements required in measure calculating and reporting to ensure continued accuracy.

The auditors made several recommendations to improve controls by strengthening documentation and review of data collection processes, calculation and review of performance measures, and verification of data completeness for data reported by institutions of higher education. Management concurred with the recommendations and has developed corrective action plans to document resolution of the noted deficiencies.

The report from the Texas State Auditor's Office is attached. A representative from the Texas State Auditor's Office will present this item and be available to answer questions.



An Audit Report on

Performance Measures at the Higher Education Coordinating Board

August 2019

Report No. 19-047



An Audit Report on

Performance Measures at the Higher Education Coordinating Board

SAO Report No. 19-047
August 2019

Overall Conclusion

The Higher Education Coordinating Board (Board) reported reliable results for all five key performance measures audited for fiscal year 2018. A performance measure result is considered reliable if it is certified or certified with qualification.

All audited performance measures were certified with qualification. The Board calculated four of the five audited performance measures using data that higher education institutions self-reported to the Board. While the reported results were accurate, the controls over measure calculation and reporting were not adequate to ensure continued accuracy. Specifically, the Board did not have documented policies and procedures for calculating and reviewing most measures, Board personnel did not document reviews of performance measure data, and the Board could strengthen controls over the collection of the performance measures data.

Those issues were identified previously in the State Auditor's Office's 2013 audit of performance measures¹ at the Board.

Table 1 on the next page summarizes the certification results, discussed in Chapter 1 of this report, for the five performance measures tested.

Background Information

The Higher Education Coordinating Board's (Board) mission is to provide leadership and coordination for Texas higher education and to promote access, affordability, quality, success, and cost efficiency through multiple initiatives.

Higher education institutions report results for their key measures to the Board, and the Board uses those to calculate some of its performance measures that are reported to the Legislative Budget Board's Automated Budget and Evaluation System of Texas (ABEST).

The Board's appropriations totaled \$806.1 million for fiscal year 2018 and \$769.1 million for fiscal year 2019.

Sources: The Board and the General Appropriations Act, Article III, pp. III-45 – III-46 (85th Legislature).

¹ An Audit Report on Performance Measures at the Higher Education Coordinating Board (State Auditor's Office Report No. 14-008, October 2013).

Table 1

Performance Measure Results for the Higher Education Coordinating Board (Agency No. 781)				
Related Objective or Strategy, Classification	Description of Performance Measure	Fiscal Year	Results Reported in ABEST	Certification Results ^a
A.1.5, Outcome	Percentage of University Students Graduating in Four Years ^b	2018	36.8%	Certified With Qualification
A.1.7, Outcome	Percentage of University Students Graduating within Six Years ^b	2018	60.9%	Certified With Qualification
A.1.9, Outcome	Number of Master's Degrees, Bachelor's Degrees, Associate's Degrees and Certificates Awarded ^c	2018	333,920	Certified With Qualification
F.1.3, Outcome	Percent of First Year Medical Resident's Headcount to Texas Medical School Graduates ^b	2018	115%	Certified With Qualification
C.1.1, Output	Number of Students Receiving Texas ^d Grants	2018	77,377	Certified With Qualification
<p>^a A performance measure is certified if reported performance is accurate within plus or minus 5 percent of actual performance and if it appears that controls to ensure accuracy are in place for collecting and reporting performance data.</p> <p>A performance measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A performance measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A performance measure is also certified with qualification if agency calculation of performance deviated from the performance measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.</p> <p>A performance measure is inaccurate when the actual performance is not within 5 percent of the reported performance, or when there is a 5 percent or greater error rate in the sample of documentation tested. A performance measure also is inaccurate if the agency's calculation deviated from the performance measure definition and caused a 5 percent or greater difference between the number reported to ABEST and the correct performance measure result.</p> <p>A factors prevented certification designation is used if documentation is unavailable and controls are not adequate to ensure accuracy. This designation also will be used when there is a deviation from the performance measure definition and the auditor cannot determine the correct performance measure result.</p> <p>^b The Board calculated this fiscal year 2018 performance measure using fiscal year 2017 data, which was the most recent certified data available. The Board did not disclose this limitation in its definition for this measure.</p> <p>^c The Board calculated this fiscal year 2018 performance measure using fiscal year 2017 data, which was the most recent certified data available. The Board disclosed this limitation in its definition for this measure.</p> <p>^d Acronym for Toward Excellence, Access and Success.</p>				

Auditors communicated other, less significant issues separately in writing to Board management.

Summary of Management's Response

At the end of each subchapter in this report, auditors made recommendations to address the issues identified during this audit. The Board agreed with the recommendations in this report.

Audit Objectives and Scope

The objectives of this audit were to determine whether the Board:

- Is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Has adequate controls in place over the collection, calculation, and reporting of its performance measures.

The scope of this audit covered five key performance measures that the Board reported for fiscal year 2018 (September 1, 2017, through August 31, 2018).

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Detailed Results

Chapter 1

The Board Reported Reliable Results for Five Performance Measures Tested; However, It Should Improve Controls Over Calculating Measures and Verifying Data Completeness

The Higher Education Coordinating Board (Board) reported reliable results for all five key performance measures tested for fiscal year 2018.² All performance measures audited were certified with qualification (see text box).

While the reported results were accurate, the controls over performance measure calculation and reporting were not adequate to ensure continued accuracy. Specifically, the Board did not have documented policies and procedures for calculating and reviewing most measures, Board personnel did not document reviews of performance measure data, and the Board could strengthen controls over the collection of the performance measures data. In its 2013 performance measures audit³ of the Board, the State Auditor's Office recommended that the Board implement policies and procedures and document its review of performance measure data before entering it in ABEST.

Auditors determined that the Board had implemented documented policies and procedures for reporting its performance measure results into the Automated Budget and Evaluation System of Texas (ABEST) as recommended in that audit; however, the Board had not implemented policies and procedures for the calculation and review of most measures.

In addition, the Board could strengthen its processes and controls over the higher education institutions' (institutions) self-reported data by ensuring that institutions submit complete data.

Certified With Qualification

A performance measure is certified with qualification when reported performance appears accurate but the controls over data collection and reporting are not adequate to ensure continued accuracy. A performance measure is also certified with qualification when controls are strong but source documentation is unavailable for testing. A performance measure is also certified with qualification if an agency's calculation of performance deviated from the performance measure definition but caused less than a 5 percent difference between the number reported to ABEST and the correct performance measure result.

Source: *Guide to Performance Measure Management* (State Auditor's Office Report No. 12- 333, March 2012).

² The Board calculated the audited fiscal year 2018 measures (except Number of Students Receiving Texas Grants) using fiscal year 2017 data because it was the most recent certified data available. Of the four audited measures prepared using fiscal year 2017 data, the Board disclosed its use of prior year data only in its definition for Number of Master's Degrees, Bachelor's Degrees, Associate's Degrees and Certificates Awarded.

³ *An Audit Report on Performance Measures at the Higher Education Coordinating Board* (State Auditor's Office Report No. 14-008, October 2013).

Policies and Procedures

While the Board had procedures for reporting performance measure results into ABEST for all measures, it did not have documented internal policies and procedures for the calculation and review of four of the five audited performance measures. The Board had documented procedures for only one measure: Number of Students Receiving Texas⁴ Grants. The *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012) (Guide) states that an agency's written policies and procedures should clearly document all steps performed in the collection, calculation, review, and reporting of the performance measure data.

The lack of written policies and procedures increases the likelihood that performance measures could be calculated incorrectly and that the Board may not be able to reproduce the calculation results. For example, in fiscal year 2018, the Board modified the data described in the measure definition for Percent of First Year Medical Resident's Headcount to Texas Medical School Graduates to improve the measure's accuracy. The modifications included deducting residents from certain programs that are not residency programs in their first year. Board staff members asserted that they made the modifications based on their knowledge of the programs, but the Board did not have detailed procedures that documented the modification process. Therefore, staff members without prior knowledge of the calculation modifications may not be able to produce accurate results for that measure. Developing detailed written procedures would help provide assurance that Board personnel will calculate this measure, and all others, consistently and in a manner that matches the measure definition.

Data Review

The Board did not have documented policies and procedures for all of its data review processes, which contributed to the Board not having required documented reviews of (1) its calculations of performance measures or (2) its performance measure prior to data entry into ABEST. The Board asserted that it performed those reviews; however, auditors could not verify that the reviews occurred due to the lack of documentation. Specifically,

- The Board asserted that before it enters each performance measure's results into ABEST, each division's executive officer initials and dates an approval routing sheet as indication of review. However, the Board did not retain those routing sheets, which would have indicated that a review occurred.

⁴ Acronym for Toward Excellence, Access and Success.

- As part of the quarterly report process, Board procedures require the Texas Grants program manager to compare the total number of students listed in a sample of fund request forms, which are the source documents, to the corresponding entries in its Texas Grants ledger. The Board did not have documentation to support that review.
- Management asserted that it compared the final numbers for two of the audited performance measures against prior years' results for consistency, but did not document this review. Those measures were (1) Percentage of University Students Graduating in 4 Years and (2) Percentage of University Students Graduating in 6 Years.

The Guide states that a supervisor or other individual should perform a documented review of the performance measure calculations to help ensure that they are consistent with the performance measure definition and free of mathematical errors. The Guide also states that those responsible for the accuracy of performance measure information should review all performance measure data entered into ABEST before the data is submitted in that system. A lack of documented reviews increases the risk that the Board could report inaccurate performance measure results in ABEST.

Data Verification

The Board had processes and controls over the institutions' self-reported data; however, it could strengthen the controls over the collection of performance measure data by ensuring that institutions submit complete data for the measure calculations. Four of the audited performance measures⁵ relied primarily on data that institutions self-reported to the Board. While the Board has automated edit checks to help provide assurance over the accuracy of data submitted, the Board could improve its data collection process by ensuring that all records transmitted by institutions were received and included in those edit checks. By ensuring that it has all necessary data, the Board would be able to comprehensively evaluate the completeness and accuracy of the institutions' submitted data.

⁵ The Number of Students Receiving Texas Grants performance measure is not calculated based on institutions' self-reported data.

Recommendations

The Board should:

- Develop detailed written policies and procedures for all performance measures, including procedures for creating and retaining documentation of reviews.
- Perform and document reviews of its calculation of performance measure results.
- Perform and document reviews of the performance measure results entered into ABEST prior to submitting those results into that system.
- Consider strengthening its data collection processes by ensuring that all records transmitted by institutions are included in performance measure calculations.

Management's Response

Recommendation 1: *Management agrees with the auditor's recommendation to develop (and strengthen existing) written policies and procedures for all performance measures, including more detailed procedures for creating and retaining documentation of reviews. Management agrees that it is important to enhance its current documentation to ensure staff unfamiliar with the measures can easily and consistently produce (and reproduce) accurate and reliable results. In response to this recommendation, management is ensuring each division has more detailed, step-by-step written policies and procedures for all key performance measures that include instructions relating to the specific location of pertinent data, the derivation of the final percentage or number reported, and when applicable, limitations on the collection of data.*

Recommendation 2: *Management agrees with the auditor's recommendation to strengthen its documentation of staff calculations of performance measure results and will document that the reviews were performed.*

Recommendation 3: *Management agrees with the auditor's recommendation to enhance its reviews of performance measure results entered into ABEST prior to submitting those results into the system. In response to this recommendation, management has modified existing written policies and procedures by adding an additional or secondary review by a staff member who is not in the division that prepared the draft performance measure report prior to submission into ABEST. This review will compare the*

divisional submissions to the draft ABEST report. A signature page has also been added directly to the report for required signatures from the Assistant Commissioner/CFO, Deputy Commissioner of Agency Operations and Communications/COO, and Deputy Commissioner of Academic Planning and Policy/CAO to capture final review and approval of the report prior to submission into ABEST.

Recommendation 4: *Management acknowledges that the current practice of notifying institutions about discrepancies between their reported number of records in a file and the actual number of records submitted can be strengthened from a control standpoint. To enhance controls, the number of records as reported by the institution will be incorporated into the edit report so that a discrepancy/error between institutional counts and the THECB counts will be flagged for review in the CBM report as an alert to the analyst and institution. Institutions will be asked to resolve the discrepancy along with any other errors before the report is certified.*

Appendix

Objectives, Scope, and Methodology

Objectives

The objectives of this audit were to determine whether the Higher Education Coordinating Board (Board):

- Is accurately reporting its performance measures to the Automated Budget and Evaluation System of Texas (ABEST).
- Has adequate controls in place over the collection, calculation, and reporting of its performance measures.

Scope

The scope of this audit covered five key performance measures that the Board reported for fiscal year 2018 (September 1, 2017, through August 31, 2018).

Methodology

The audit methodology included auditing the Board's reported performance measure results for accuracy and adherence to performance measure definitions, evaluating internal controls over the Board's performance measure calculation, and reporting processes. Auditors tested the controls that impacted the performance measure collection, calculation, and reporting processes to ensure that controls were in place and operating effectively to enable the Board to continue accurately reporting its performance measures. Auditors assessed the reliability of the data obtained from the Board's information systems that supported the performance measure data, logical access testing, and reviewing the data queries that the Board used to extract performance measure information. Auditors did not rely on sampling to support their findings, conclusions, or recommendations. Instead, auditors used techniques including recalculation, data analysis, and automated query reviews for that support.

Data Reliability and Completeness

Auditors assessed the reliability and completeness of data from the Board's Education Data Center (EDC) system and the Statistical Analysis System (SAS) that was significant to the following four of the five audited performance measures:

- Percentage of University Students Graduating in Four Years.

- Percentage of University Students Graduating within Six Years.
- Number of Master's Degrees, Bachelor's Degrees, Associate's Degrees and Certificates Awarded.
- Percent of First Year Medical Resident's Headcount to Texas Medical School Graduates.

To do that, auditors tested (1) the automated query that the Board used to evaluate data that higher education institutions (institutions) self-reported during the Board's data certification process; (2) the automated application used to transfer that data into the Board's main database to ensure that the Board used all data received from institutions in its calculations; and (3) the SAS queries that the Board used to extract the data it used to calculate the performance measures. Auditors also reviewed user access.

Auditors did not test the reporting institutions' source data. Instead, they tested the Board's certification process to determine whether the Board's data review controls in that process correctly identified data errors as defined by the Board. Auditors also examined automated queries that perform comparative analysis of the data submitted by the institutions necessary to meet their objectives. Additionally, auditors examined the audit processes that the Board's compliance monitoring function used to perform monitoring of data at the institutions. Auditors determined that the information and data obtained was sufficiently reliable for this audit.

Auditors also assessed the reliability of data that was significant to the fifth audited performance measure: Number of Students Receiving Texas Grants. Auditors reviewed the Excel spreadsheet that the Board internally maintained as a grant ledger for its Toward Excellence, Access and Success (Texas) Grants. To do that, auditors (1) determined that the population was complete; (2) compared all fiscal year 2018 ledger entries to source documentation; and (3) evaluated user access to the ledger. Auditors determined that for fiscal year 2018, data from that spreadsheet was sufficiently reliable for the purposes of this audit.

Information collected and reviewed included the following:

- Student data, including graduation and enrollment data, that was significant to the performance measures tested.
- Completed Texas Grant fund request forms.
- Texas Grant expenditure data, including the number of grant recipients, in the fiscal year 2018 Texas Grant ledger.

- Board policies and procedures.
- The Board's supporting documentation of its performance measure calculations.
- Reports of information system users and automated queries.
- Selected financial aid audits and formula funding audits performed by the Board's compliance monitoring function and the supporting working papers for those audits.

Procedures and tests conducted included the following:

- Interviewed Board staff to gain an understanding of the processes used to calculate performance measures.
- Evaluated the sufficiency of the Board's policies and procedures to determine whether they were adequate to help ensure the correct calculation of the performance measures.
- Reviewed performance measure calculations for accuracy and to determine whether the calculations were consistent with the methodology on which the Board, the Legislative Budget Board, and the Governor's Office of Budget, Planning, and Policy agreed.
- Used original supporting documentation to recalculate reported performance measures to verify their accuracy and the effectiveness of controls.
- Reviewed the Board's queries used to retrieve, calculate, and report performance measures.
- Tested EDC data for the presence of error values to ensure that automated edit checks used during the data certification process detected and corrected those error values.
- Performed logical access control testing.
- Assessed performance measure results in one of the four categories: certified, certified with qualification, inaccurate, and factors prevented certification.

Criteria used included the following:

- The *Guide to Performance Measure Management* (State Auditor's Office Report No. 12-333, March 2012).

- ABEST performance measure definitions.
- The Texas Department of Information Resources' *Security Controls Standards Catalog, version 1.3*.
- Board reporting and procedures manuals for institutions to self-report data.
- Board policies and procedures.

Project Information

Audit fieldwork was conducted from January 2019 through May 2019. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Gregory Scott Adams, MPA, CPA, CGFM (Project Manager)
- Eric Ladejo, MPA, CFE (Assistant Project Manager)
- Kayla Barshop
- Robert P. Burg, MPA, CPA, CFE, SAS Certified Base Programmer for SAS 9
- Alana Montoro
- Dana Musgrave, MBA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)

Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair
The Honorable Dennis Bonnen, Speaker of the House, Joint Chair
The Honorable Jane Nelson, Senate Finance Committee
The Honorable Robert Nichols, Member, Texas Senate
The Honorable John Zerwas, House Appropriations Committee
The Honorable Dustin Burrows, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Higher Education Coordinating Board

Members of the Higher Education Coordinating Board

Mr. Stuart Stedman, Chair
Dr. Fred Farias III, Vice-Chair
Mr. John Steen Jr., Secretary
Mr. S. Javaid Anwar
Mr. Ricky Raven
Ms. Donna Williams
Mr. Welcome Wilson Jr.
Ms. Lauren McKenzie, Student Representative
Dr. Raymund A. Paredes, Commissioner of Higher Education



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Agency Operations Committee

AGENDA ITEM VI-C

Post Payment Audit Report for the Texas Higher Education Coordinating Board by the Texas Comptroller of Public Accounts

RECOMMENDATION: No action required

Background Information:

The Texas Comptroller of Public Accounts issued *A Post Payment Audit Report for the Texas Higher Education Coordinating Board* on August 8, 2019. The report shows that the Texas Higher Education Coordinating Board generally complied with the General Appropriations Act, relevant statutes, and Comptroller requirements.

The auditors made three recommendations to (1) ensure that each contract includes a detailed budget and cost estimate specifying exactly what is payable under the contract; (2) strengthen current procedures for identifying duplicate invoices to avoid making duplicate payments to a vendor; and (3) implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible. Management concurred with the recommendations and has developed corrective action plans to document resolution of the noted deficiencies.

The report from the Texas Comptroller of Public Accounts is attached. Michael C. Apperlee, Manager, Statewide Fiscal Oversight-Fiscal Management, Texas Comptroller of Public Accounts, will present this item and be available to answer questions.

Glenn Hegar

Texas Comptroller of Public Accounts

August 8, 2019

Mr. Stuart W. Stedman
Chairman
Texas Higher Education Coordinating Board
1200 E. Anderson Ln.
Austin, Texas 78752-1706

Dear Mr. Stedman:

We have completed a post-payment audit of certain payroll, purchase, travel, grant, loan, refund of revenues and contract transactions of the Texas Higher Education Coordinating Board (Board). We would like to thank you and your staff for your responsiveness and cooperation in assisting us with this audit. A draft of this audit report was sent to Chief Financial Officer, Ken Martin on July 12, 2019. The Board's response to the draft is included in this report.

Our purpose was to determine whether the Board's expenditures complied with certain state laws and rules concerning expenditures and with the processing requirements of the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS). The Board is responsible for ensuring that its staff is knowledgeable in these areas.

We intend for this report to be used by the Board's management and certain state officials and agencies as listed in Texas Government Code, Section 403.071. However, this report is a public record and its distribution is not limited.

We noted other matters involving the processing of expenditures by the Board that we communicated to Ken Martin in an email dated July 12, 2019.

The Board may inquire about and register for training related to expenditures through the Fiscal Management [Training Center](#).

We would like input from you or your designee on the quality of the audit process and the service the audit staff provided while conducting this audit. Please take our [Post-Payment Audit Survey](#) to rate and comment on the post-payment audit process. Your feedback is greatly appreciated.



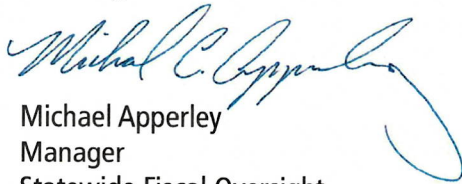
Comptroller.Texas.Gov
P.O. Box 13528
Austin, Texas 78711-3528

512-463-4444
Toll Free: 1-800-531-5441 ext: 3-4444
Fax: 512-463-4902

Mr. Stuart W. Stedman
August 8, 2019
Page Two

Thank you for your cooperation. If we can be of any further assistance, please contact anna.calzada@cpa.texas.gov or 512-463-4338.

Sincerely,

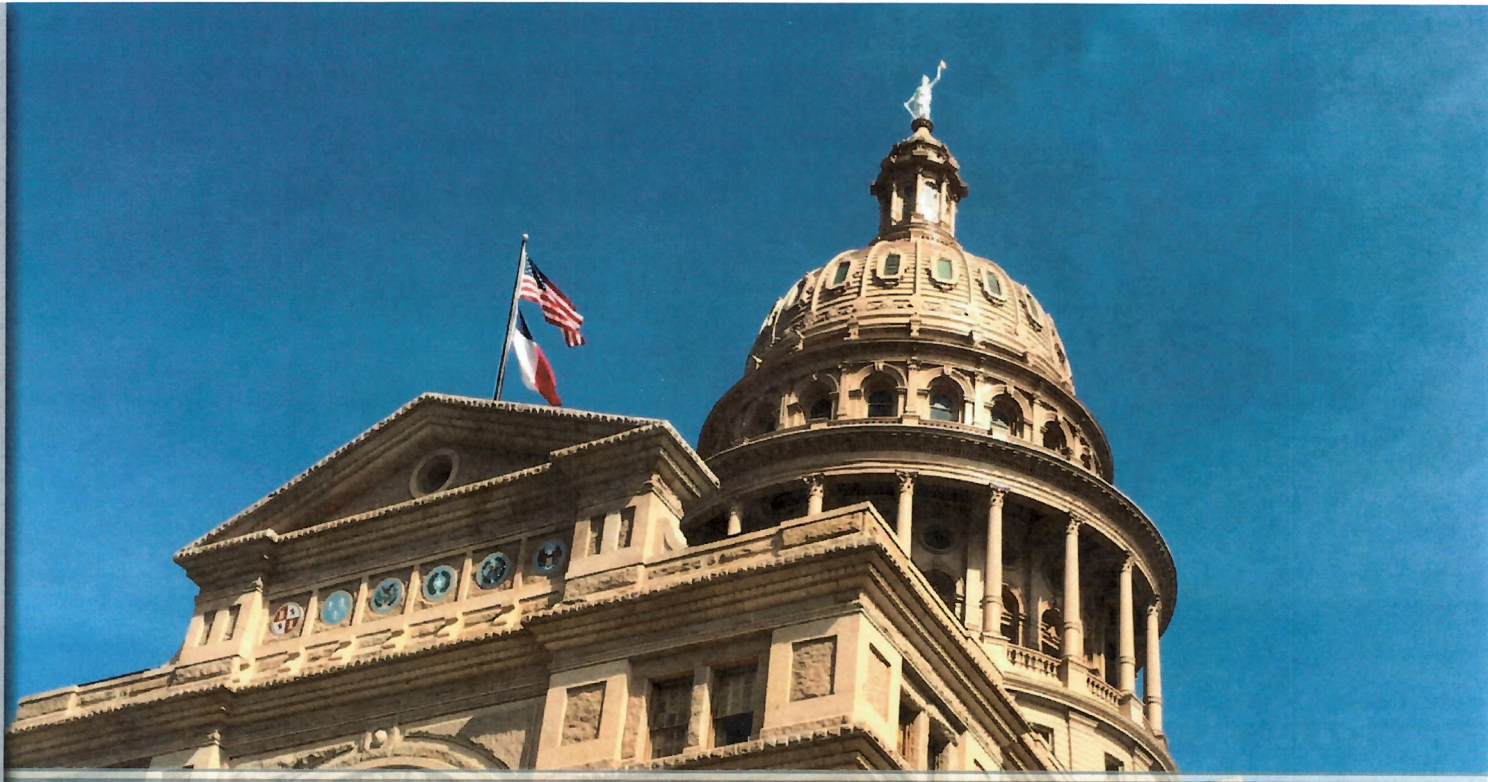


Michael Apperley
Manager
Statewide Fiscal Oversight
Fiscal Management Division

Attachments

cc: Dr. Raymund Paredes, Commissioner, Texas Higher Education Coordinating Board
Mark Poehl, Director, Internal Audit, Texas Higher Education Coordinating Board
Ken Martin, Chief Financial Officer, Texas Higher Education Coordinating Board
Anna Calzada, Auditor, Texas Comptroller of Public Accounts





An Audit of the **Texas Higher Education Coordinating Board**

Audit Report # 781-18-01
August 8, 2019

Glenn Hegar
Texas Comptroller of Public Accounts





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Executive Summary

Purpose and Scope

The objectives of the Texas Higher Education Coordinating Board (Board) audit were to determine whether:

- Contracts were procured according to applicable state laws and Comptroller requirements.
- Payments were processed according to applicable state laws, Comptroller requirements and statewide automated system guidelines.
- Documentation to support those payments was appropriately maintained.
- Capital and high-risk assets were properly recorded.
- Appropriate security over payments was implemented.

This audit was conducted by the Texas Comptroller of Public Accounts (Comptroller's office), and covers the period from March 1, 2017, through Feb. 28, 2018.

Background

The Texas Higher Education Coordinating Board is an agency of Texas government that oversees all public post-secondary education in the state. The Board determines which Texas public four-year universities are permitted to start or continue degree programs. The Board developed a new higher-education plan for the state, called "60x30TX." The plan's stated goal is that 60 percent of young adults in Texas will hold some type of postsecondary credential by 2030.

**Texas Higher Education
Coordinating Board website**

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

Audit Results

The Board generally complied with the General Appropriations Act (GAA), relevant statutes and Comptroller requirements. Auditors found no issues with payroll, travel, grants, loans, refunds of revenue, contracts, system access or property records. However, the Board should consider making improvements to its purchase and internal control structure processes.

The auditors reissued one finding related to duplicate payments from the last audit conducted at the Board. Auditors originally issued this finding in August 2013. An overview of audit results is presented in the following table.

Table Summary

Area	Audit Question	Results	Rating
Payroll Transactions	Did payroll transactions comply with the GAA, all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Travel Transactions	Did travel transactions comply with the GAA, all pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
<u>Purchase/ Procurement Transactions</u>	Did purchase transactions comply with the GAA, all pertinent statutes and Comptroller requirements?	<ul style="list-style-type: none"> Insufficient contract terms/provisions  Duplicate payment 	Compliant, Findings Issued
Grant Transactions	Did grant payments comply with the GAA, state laws and regulations pertaining to grants, and other pertinent statutes?	No issues	Fully Compliant
Loans	Did loan payments comply with the GAA, state laws and regulations pertaining to loans, and other pertinent statutes?	No issues	Fully Compliant
Refund of Revenues	Did refund of revenue payments comply with the GAA, state laws and regulations pertaining to refund of revenues, and other pertinent statutes?	No issues	Fully Compliant
Contract Transactions	Did contracts and related payments comply with the GAA, pertinent statutes and Comptroller requirements?	No issues	Fully Compliant
Security	Did all system access over payments comply with all Comptroller security guidelines?	No issues	Fully Compliant



Repeat Finding



Area	Audit Question	Results	Rating
<u>Internal Control Structure</u>	Are duties segregated to the extent possible to help prevent errors or detect them in a timely manner and help prevent fraud?	One employee with conflicting duties	Control Weakness Issues Exist
Fixed Assets	Were tested assets in their intended location and properly reported in the State Property Accounting System?	No issues	Fully Compliant



Repeat Finding

Key Recommendations

Auditors made several recommendations to help mitigate risk arising from control weaknesses. Key recommendations include:

- The Board must ensure that each contract includes a detailed budget and cost estimate specifying exactly what services are payable under the contract. The Board must require that all invoices submitted under a contract provide a cost breakout, allowing the Board to verify that all of the costs on the invoice are for services agreed to in the contract terms.
- The Board must strengthen its current procedures for identifying duplicate invoices to avoid making duplicate payments to a vendor. Additionally, the Board should ensure that its accounting staff reconciles invoices and payments to prevent duplicate payments.
- The Board must have or implement additional controls over expenditure processing that segregate each accounting task to the greatest extent possible.



Detailed Findings

Payroll Transactions

Auditors developed a representative sample from a group of 20 employees and 91 payroll transactions totaling \$252,911.72 to ensure that the Board complied with the GAA, the [Texas Payroll/Personnel Resource \(FPP F.027\)](#) and pertinent statutes. Additionally, a limited sample of 10 voluntary contribution transactions was audited with no exceptions identified. Audit tests revealed no exceptions for this group of transactions.

Travel Transactions

Auditors developed a representative sample of 15 travel transactions totaling \$2,670.12 to ensure the Board complied with the GAA, [Textravel \(FPP G.005\)](#) and pertinent statutes. An additional 33 travel documents totaling \$11,204.47 from a special report outside of the sample were tested. Audit tests revealed no exceptions for the travel documents in the special report.

Purchase/Procurement Transactions

Auditors developed a representative sample of 20 purchase/procurement transactions totaling \$2,129,639.55 to ensure that the Board complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed an insignificant instance of noncompliance, which was reported to the Board in a separate management report. Audit tests revealed the following exceptions in the purchase transactions.

Insufficient Contract Terms/Provisions

Auditors noted one contract and amendment, related to the implementation and expansion of the Texas Puente Program model and staff training, that did not include sufficient information to determine whether the payments were made correctly. The Request for Proposal (RFP), original contract and contract amendment do not clearly list the contract deliverables and budget information, so it is unclear what services should be performed.

The original contract did not include a list of the program participants. It provided funding for institutions currently implementing the program, and for new institutions interested in joining the program. Conversely, the amendment did include a list of the program participants, but it was not clear if these were current or new participants. Additionally, the amendment did not include language allowing new institutions to join the program.



The RFP required respondents to submit budgets at the start of the initiative, and a budget/cost estimate was prepared for the initial contract. According to the Board, it increased the amount in the amendment by 173% to expand the work and budget categories. However, the Board did not prepare a budget/cost estimate or detailed pricing sheet for the increased amount in the amendment.

The Board stated that the expansion of the budget was discussed verbally with the vendor and that any monies paid would be based on actual work completed and invoiced. The Board further explained that the expenses requested and paid after the execution of the amendment were allowable and not unusual for this kind of work. However, the invoice does not include sufficient information to match the contract terms and conditions. The invoice contains line items for operating expenses, insurance, office space and postal box rental that are not included in the original contract. Additional line items are not detailed or itemized as stated in the contract. Without a detailed cost breakdown in the contract, the Board cannot determine whether the charges listed on the invoice are accurate.

The *State of Texas Procurement Manual* effective at the time the contract was awarded required an estimated cost of the procurement to ensure successful procurement.

Recommendation/Requirement

The Board must ensure that each contract includes a detailed budget and cost estimate specifying exactly what services are payable under the contract. The Board must require that all invoices submitted under a contract provide a cost breakdown allowing the Board to verify that all of the costs on the invoice are for services agreed to in the contract terms.

Board Response

In September 2018, the Comptroller's audit team shared with the THECB staff their budget documentation concern. In November 2018, THECB staff drafted language to the agency's Procurement and Contract Management Handbook making budget documentation mandatory for all contracts, grants and amendments. THECB staff hosted three Contracting and Invoicing Training information sessions on Feb. 6, 12, and 19, 2019. At each training, THECB staff addressed the Comptroller's budget concern and introduced the new procedures moving forward. The implementation became official with the publishing of the THECB's Procurement and Contract Management Handbook in May 2019. The THECB will continuously review each set of contractual documentation for compliance.



Duplicate Payment

In a report generated outside the sample, auditors identified one duplicate payment processed by the Board during the audit period. The Board agreed that the transaction was a duplicate payment. The Board did not detect the duplicate payment because the vendor sent separate invoices on two different occasions.

The Board sought reimbursement from the vendor and received it in October 2018. In addition, the Board implemented a procedure to help identify duplicate invoices.

Recommendation/Requirement

The Board must strengthen its current procedures for identifying duplicate invoices to avoid making duplicate payments to vendors. Additionally, the Board should ensure that its accounting staff reconciles invoices and payments to prevent duplicate payments.

Board Response

Once the duplicate payment was identified, the vendor was notified immediately and a refund of the payment was received on Oct. 18, 2018. THECB has modified the procedures for querying the agency's duplicate invoice review report and has enhanced the review process to include dual reviews. In addition, THECB continues to monitor contract balances weekly for any overpayments which could also indicate possible duplicate payments.

Grant Transactions

Auditors developed a representative sample of 12 grant transactions totaling \$51,817,551.87 to ensure the Board complied with state laws and regulations pertaining to grants and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Loan Transactions

Auditors developed a representative sample of two loan transactions totaling \$5,280,146.07 to ensure the Board complied with state laws and regulations pertaining to loans. Audit tests revealed no exceptions for this group of transactions.

Refund of Revenue Transactions

Auditors developed a representative sample of 10 refund-of-revenue transactions totaling \$260,989.14 to ensure the Board complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.



Contract Transactions

Auditors developed a representative sample of 16 transactions from two contracts totaling \$135,209.52 to ensure that all phases of contract development, planning, solicitation, award, payments and monitoring complied with the GAA, [eXpendit \(FPP I.005\)](#), the [State of Texas Procurement and Contract Management Guide](#) and pertinent statutes. Audit tests revealed no exceptions for this group of transactions.

Security

The audit included a security review to identify any of the Board's employees with security in the Uniform Statewide Accounting System (USAS) or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner. Audit tests revealed no security exceptions.

Internal Control Structure

The review of the Board's segregation of duties was limited to obtaining reports identifying current users' access. The review did not include tests of existing mitigating controls. The audit tests conducted revealed the following exception in user access.

Control Weakness Over Expenditure Processing

As part of the planning process for the post-payment audit, auditors reviewed certain limitations that the Board placed on its accounting staff's ability to process expenditures. Auditors reviewed the Board's security in USAS, Texas Identification Number System (TINS) and voucher signature cards that was in effect on July 30, 2018. Auditors did not review or test any internal or compensating controls that the Board may have relating to USAS, TINS security or internal transaction approvals.

The Board had one employee who could pick up warrants from the Comptroller's office and approve paper vouchers. The Board stated that its finance department has limited staffing and needs a few individuals who can perform the agency functions to ensure continuity of the business. The Board was provided with a schedule of this finding during fieldwork.

In September 2018, during the audit fieldwork, the Board sent a request to have the employee removed from the Agency Authorization for Warrant Pickup list.



Recommendation/Requirement

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent possible. Ideally, no individual should be able to process transactions without another person's involvement.

Board Response

THECB has a control environment that provides reasonable assurance of achievement of the agency's objectives. While one employee had the ability to approve expedited paper vouchers and pick up warrants, it is not the regular practice of THECB to process paper vouchers. This employee was removed from the warrant pickup list on Sept. 7, 2018. In addition to internal controls and segregation of duties, THECB also has system controls in place to prevent any one individual from entering and releasing (approving) vouchers in USAS. The Board of the THECB also commissions an external financial audit annually, which includes a review of internal controls.

Fixed Assets

The audit included a review of a limited number of fixed assets acquired by expenditures during the audit period to test for proper tracking in the Board's internal system. All assets tested were in their intended location, properly tagged and properly recorded in the State Property Accounting system.



Appendices

Appendix 1 — Objectives, Scope, Methodology, Authority and Team

Audit Objectives

The objectives of this audit were to:

- Ensure payments are documented so a proper audit can be conducted.
- Ensure payment vouchers are processed according to the requirements of any of the following:
 - Uniform Statewide Accounting System (USAS),
 - Uniform Statewide Payroll/Personnel System (USPS),
 - Standardized Payroll/Personnel Report System (SPRS) or
 - Human Resource Information System (HRIS).
- Verify payments are made in accordance with certain applicable state laws.
- Verify assets are in their intended locations.
- Verify assets are properly recorded for agencies and institutions of higher education that use the State Property Accounting (SPA) system.
- Verify voucher signature cards and systems security during the audit period are consistent with applicable laws, rules and other requirements.

Audit Scope

Auditors reviewed a sample of the Texas Higher Education Coordinating Board (Board) payroll, travel, purchase, grant, loan, refund of revenue and contract transactions that processed through USAS and USPS from March 1, 2017, through Feb. 28, 2018, to determine compliance with applicable state laws.

The Board receives appendices with the full report, including a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

The audit provides a reasonable basis for the findings set forth in this report. The Board should implement the recommendations listed in the Detailed Findings of this report. It is the Board's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Board's documents comply in the future. The Board must ensure that the findings discussed in this report are resolved.



Audit Methodology

The Expenditure Audit section uses limited sampling to conduct a post-payment audit.

Fieldwork

Each auditor in the Expenditure Audit section approaches each audit with an appropriate level of professional skepticism based on the results of the initial planning procedures.

If an auditor suspects during an audit that fraud, defalcation or intentional misstatement of the facts has occurred, the auditor will meet with his or her supervisor, the Statewide Fiscal Oversight manager, or both, to decide what action or additional procedures would be appropriate.

Audit Authority

State law prohibits the Comptroller's office from paying a claim against a state agency unless the Comptroller's office audits the corresponding voucher.

- Texas Government Code, Sections 403.071(a), 403.078, 2103.004(a)(3).

State law allows the Comptroller's office to audit a payment voucher before or after the Comptroller's office makes a payment in response to that voucher.

- Texas Government Code, Section 403.071(g)-(h).

In addition, state law authorizes the Comptroller's office to conduct pre-payment or post-payment audits on a sample basis.

- Texas Government Code, Sections 403.011(a)(13), 403.079, 2155.324.

Audit Team

Anna Calzada, CTCD, Lead Auditor

Melissa Hernandez, CTCD, CTCM

Scott Coombes, CIA, CISA



Appendix 2 — Definition of Ratings

Compliance Areas

Definition	Rating
Agency complied with applicable state requirements and no significant control issues existed.	Fully Compliant
Agency generally complied with applicable state requirements; however, control issues existed that impact the agency's compliance, or minor compliance issues existed.	Compliant, Findings Issued
Agency failed to comply with applicable state requirements.	Noncompliant
Restrictions on auditor's ability to obtain sufficient evidence to complete all aspects of the audit process. Causes of restriction include but are not limited to: <ul style="list-style-type: none">• Lack of appropriate and sufficient evidentiary matter.• Restrictions on information provided to auditor.• Destruction of records.	Scope Limitation

Internal Control Structure/Security Areas

Definition	Rating
Agency maintained effective controls over payments.	Fully Compliant
Agency generally maintained effective controls over payments; however, some controls were ineffective or not implemented. These issues are unlikely to interfere with preventing, detecting, or correcting errors or mitigating fraudulent transactions.	Control Weakness Issues Exist
Agency failed to effectively create or implement controls over payments.	Noncompliant

Repeat Finding Icon Definition



This issue was identified during the previous post-payment audit of the agency.

Agency Operations Committee

AGENDA ITEM VI-D

Update on Internal Audit Reports and Activities

RECOMMENDATION: No action required

Background Information:

Update on Internal Audit Reports

The Internal Audit team completed four projects during the reporting period since the July 2019 Agency Operations Committee meeting. The final reports are attached.

Engagements Completed

- Review of Scholarship Programs (one finding)
- Review of Selected Security Awareness Practices (two findings)
- Complaint Regarding Alleged Improper Admissions Practices at Texas Southern University (unsubstantiated)
- Follow Up Audit of the Physician Education Loan Repayment Program (all recommendations implemented)
- Internal Audit Annual Report for FY2019

Projects In Progress	Stage of Project
Review of Contract Administration	Reporting
Review of Selected Academic Grant Programs (GME)	Planning
Follow-Up Audit of Formula Funding	Fieldwork

Other Internal Audit Activities

- Coordination of External Audit(s)
 - Single Audit (CLA)
 - KPMG Financial Statement Audit
 - U.S. Department of Education – FFELP Audit
- Implementation of External Quality Assurance Recommendations

Mark Poehl, Director, Internal Audit and Compliance, will present this item to the Committee and be available to answer questions.



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

September 17, 2019

Stuart W. Stedman
CHAIR

Fred Farias III, O.D.
VICE CHAIR

John T. Steen, Jr.
SECRETARY OF THE BOARD

Lauren C. McKenzie
STUDENT REPRESENTATIVE

S. Javaid Anwar
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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:

I am attaching the final report for *A Review of Scholarship Programs at the Texas Higher Education Coordinating Board*, Report No. THECB-IA-WP-19-215.

The issues presented in this report resulted in a Category 1 Report Rating. These reports contain no or minimal reportable observations. While the noted observations require management attention, if addressed timely they do not pose a significant risk for negative reputational or financial consequences.

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

EXECUTIVE SUMMARY

Controls were effective over the administration of the License Plate Insignia Program and the Texas Armed Services Scholarship Program. However, the organization of scholarship information on the Coordinating Board's main website and the College For All Texans website needs improvement. The Coordinating Board's main website and the College For All Texans website can be improved to provide more cohesive, and complete scholarship information to students and institutions. Organized and complete communication of scholarship information is vital to the Coordinating Board's Strategic Plan 60x30TX.

Audit Objective, Scope and Methodologies

The audit objective was to review scholarship programs for compliance, effectiveness, and efficiency. Based on risk, our scope was refined to specifically review current processes in the License Plate Insignia Program and the Texas Armed Service Scholarship Program. The audit included reviewing relevant documentation related to the audit area, performing various testing to address the audit objectives, and interviewing appropriate THECB staff.

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 and conclusions based on our audit objectives.

Background

The Coordinating Board generally considers scholarships to be non-loan, merit, or need-based financial aid directed to a student to pursue a degree or certificate. Various areas administer scholarships in a variety of ways; most scholarships are administered through Student Financial Aid Programs (SFAP).

Although scholarship information can mostly be found in two locations, the Coordinating Board main website and the College For All Texans website, neither site provides a centralized location of scholarship information. Both websites have different scholarship programs listed with varying information, with the College For all Texans website stated as the main informational site for scholarship programs according to management.

Through the risk assessment process, two programs were selected for review; the License Plate Insignia Program and the Texas Armed Services Scholarship Program.

The Coordinating Board seeks to ensure students and institutions have accurate, timely, and clear information related to student assistance opportunities. Ensuring accurate dissemination of information to external parties promotes two of the goals of the Coordinating Board's strategic plan 60x30TX to reduce student debt and to ensure students complete degrees.

The audit team greatly appreciates the efforts of program staff and assistance during this project.

Detailed Observation, Recommendation, and Management Response

1. The organization of agency scholarship information, and the ease by which uninformed stakeholders can locate that information, requires improvement.

The organization of agency scholarship information, and the ease by which uninformed stakeholders can locate that information, requires improvement. Programs administered by the Coordinating Board that use the word "scholarship", whether they are true scholarship programs or some other type of student financial assistance such as a loan or waiver, are currently promoted in two locations:

1. [The agencies main website](#)
2. [The College For All Texans website](#)

Neither location provides a comprehensive, organized listing of programs that use the word “scholarship”. Further, each website promotes different financial assistance programs. The result is that stakeholders, especially prospective or current college students, may not be able to easily locate resources that could assist them in their pursuit of higher education credentials. Any lack of optimization in locating student financial assistance runs contrary to the goals of the agency’s strategic plan, 60X30TX.

The agency’s main website was searched using the word “scholarship”. The search result shows a page titled “Work-Study & Scholarships” first, which has three programs; Texas College Work-Study, Top Ten Percent (10%) Scholarship, and Bilingual Education Exchange Program Scholarship. None of these programs are listed on College For All Texans website.

The College For All Texans website was searched using the term “scholarship”. The result was a mix of web pages listing various scholarships; in order to find a collective list of scholarships several additional webpages were reviewed while trying to locate a complete list. The site “Types of Financial Aid-State and Federal Grants and Scholarships” was located and lists 13 programs, which are a mix of Coordinating Board and external programs. The information is organized in a manner that makes it difficult to find scholarship programs and to easily obtain accurate information.

Recommendations:

1. Improve [the agency’s main website](#), and the [College For All Texans website](#), regarding the ability to obtain meaningful, comprehensive search results and underlying information when stakeholders query “scholarship”.

Management Response:

Management agrees with the observation that confusion in finding scholarship information could be lessened. Financial aid information on the agency’s main website (www.thecb.state.tx.us) is targeted toward institutional financial aid administrators. For example, the “Work-Study and Scholarships” page referenced in the observation is located under the “Institutional Resources & Programs” menu. Alternately, the College for All Texans website provides the consumer information regarding financial aid for students, parents, counselors, and others. Financial Aid Services will work with the Website Governance Committee and Information Solutions and Services (ISS) to identify and implement opportunities to (a) make

it clearer on the main agency web pages that the financial aid information is for aid administrators, and (b) improve the search and navigation on the agency's website to guide students, parents, counselors, and other consumers to College For All Texans for financial aid details.

The College For All Texans website is currently undergoing review, led by the College Readiness and Success (CRS) division. Financial Aid Services is participating in those discussions and will continue to suggest improvements that can be made during that project to improve the accessibility of financial aid information.

Implementation Date:

May 1, 2020 for updates to pages on the agency website; the Website Governance Committee in collaboration with ISS will need to define timeline for improvements to search engine, and CRS will need to provide updates to improvements to College For All Texans website.

Responsible Party (ies):

DeChà Reid for updates to pages on the agency website.

PERFORMED BY:

Ms. Michelle Koog, CFE, CISA, Internal Auditor

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

Student Financial Aid Programs

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

DeChà Reid, Director, Financial Aid Services

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P.O. Box 12788 Austin, Texas 78711

September 10, 2019

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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 the *Review of Selected Security Awareness Practices at the Texas Higher Education Coordinating Board*, Report No. THECB-IA-WP-19-219.

The issues presented in this report resulted in a Category 1 Report Rating. These reports contain no or minimal reportable observations. While the noted observations require management attention, if addressed timely they do not pose a significant risk for negative reputational or financial consequences.

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

EXECUTIVE SUMMARY

Selected security awareness practices were generally effective in ensuring that Coordinating Board data is protected from loss or compromise. Our observation of employee work areas and paper recycle bins resulted in no exceptions. Physical documents were protected in compliance with agency policies.

However, issues that warrant attention to better protect the agency's data include:

1. Agency staff are not complying with the agency requirement to lock computer terminals when unattended.
2. Agency mandated annual security awareness training is not updated to properly train staff on how to lock a computer terminal.

Review Objective, Scope and Methodologies

The review objective was to review selected security awareness practices at the Coordinating Board. Our scope was to observe if:

- Confidential data in paper format were protected.
- Passwords were written down and displayed at an employee's work area where they might be seen by unauthorized individuals.
- Computer monitors were left unattended without logging off or locking the device.

We performed unannounced walk throughs both during and after standard working hours.

Background

The Internal Audit plan for FY 2019 included a project to assess corrective action plan implementation to address the NTT Texas Cybersecurity Assessment Report issued in 2017. Since a new vendor, AT&T, was selected by the Texas Department of Information Resources to conduct a cybersecurity assessment in 2019, our Internal Audit project focused on one area, security awareness and training, where the agency scored lower than the statewide average on the 2017 assessment by NTT. Future Internal Audit projects will assess implementation of recommendations from AT&T.

Detailed Observation, Recommendation, and Management Response

1. Agency staff are not complying with the agency requirement to lock computer terminals when unattended.

Agency staff are not complying with the agency requirement to lock computer terminals when unattended.

We noted unattended workstations with sensitive information displayed in the following areas:

- Student Financial Aid Programs
- Academic Quality and Workforce
- Strategic Planning and Funding
- College Readiness and Success
- Academic Planning and Policy
- Financial Services
- General Counsel
- External Relations
- Commissioner's Office
- Innovation and Policy Development
- Information Solutions and Services

The protection of confidential information in any form is required to comply with the Family Educational Rights and Privacy Act (FERPA) and other applicable laws. Additionally, two Information Solutions and Services policies provide requirements for all agency personnel.

- Agency security policy HH-10 requires users to ensure that confidential data, regardless of form (electronic media, paper, etc.) are protected from disclosure to or modification by unauthorized individuals.

- Agency user policy HH-13 states that PCs should not be left unattended without logging off/locking the device.

Noncompliance with security law and policy places confidential or sensitive agency data at risk of disclosure to unauthorized individuals.

Recommendations:

Ensure that staff are aware of, and comply with, FERPA and agency policies regarding the security of confidential and sensitive information.

Management Response:

October is the National Cybersecurity Awareness Month. The ISS security team is working on a series of events to help raise awareness among the agency staff on security best practices and the related agency policies. We will include this topic in the training and communication materials.

To ensure continuous awareness and compliance, the Information Security Officer (ISO) will also publish security updates and best practices in the quarterly Employee Newsletters.

Implementation Date:

October 2019

Responsible Party (ies):

Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services

2. Agency mandated annual security awareness training is not updated to properly train staff on how to lock a computer terminal.

Agency mandated annual security awareness training is not updated to properly train staff on how to lock a computer terminal. The content of the training included the process for locking a computer screen as 'Windows + L'. However, the related test question listed the correct answer as 'pressing Ctrl + Alt + Del to lock the computer'. Though this answer is an alternate method to take the first step of locking a computer screen, the second step of 'pressing the lock option' was not shown.

Incorrect or incomplete information in the agency training curriculum regarding information security practices places confidential and sensitive agency information at increased risk of compromise.

Recommendations:

Revise the annual security awareness training presentation to ensure that required practices are accurately and completely covered.

Management Response:

Management agrees with the observation. The security team updated the security awareness training content on 8/28/2019 per the audit team's recommendation.

Implementation Date:

August 28, 2019

Responsible Party (ies):

Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services

PERFORMED BY:

Ms. Aporajita Ahmed, CPA, CFE, CGMA, CICA, CITP, 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
Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services

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July 2, 2019

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Dr. Paredes:

This memorandum is to close a complaint regarding alleged inappropriate admission practices at Texas Southern University. The complainant alleged that Texas Southern University tried to increase enrollment by encouraging staff to admit all students, irrespective of whether the student met the university's admission requirements.

We worked with Texas Southern University Office of Internal Audit and Assurance. Their confidential report found no wrongdoing regarding the university's admission practices during the fall 2017 and fall 2018 semesters. We plan no further work on this complaint.

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

Mark Poehl
Director, Internal Audit and Compliance

Cc: Hillary Eckford, State Auditor's Office
David Gardner
Bill Franz
Linda Battles



TEXAS HIGHER EDUCATION COORDINATING BOARD

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September 12, 2019

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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 all outstanding audit recommendations from the *Audit of the Physician Education Loan Repayment Program* report issued September 2018.

Management implemented audit recommendations by:

- Adding an additional control to ensure the MOU with HHSC is renewed timely.
- Strengthening controls around the review of physician applications, which includes automated physician application entry and additional administrative review.
- Updating policies and procedures to include validation of citizen status.
- Modifying and updating user access roles to create better segregation of duties.
- Changing review of user access roles to ensure only authorized users have access.
- Adding monthly reconciliation of the LRP database.
- Implementing agency wide risk assessment requirements and processes.

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,



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

PERFORMED BY:

Ms. Michelle Koog, CFE, CISA, Internal Auditor

cc:

THECB

Board Members

Commissioner's Office

Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications
Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy
Mr. William Franz, General Counsel
Mr. Ken Martin, Assistant Commissioner for Financial Services and CFO
Ms. Zhenzhen Sun, Assistant Commissioner for Information Solutions and Services

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner
Lesa Moller, Senior Director – Student Financial Aid Programs
Stacy Johnson, Program Manager – Loan Repayment Programs

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TEXAS HIGHER EDUCATION COORDINATING BOARD

**INTERNAL AUDIT
ANNUAL REPORT**



**FOR
FISCAL YEAR 2019**

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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](#) and the "Internal Audit and Compliance Monitoring" tab under 'About Us' for this required information. The 2019 Internal Audit Annual Report will be posted following its presentation to the board in October, 2019.

The screenshot shows a web browser window displaying the THECB website. The address bar shows the URL: <http://www.thecb.state.tx.us/index.cfm?objectid=C22D5B80-1738-11E8-A6640050560100A9>. The browser has multiple tabs open, including 'CBNet', 'For Internal Audi...', 'Texas State Audit...', and 'THECB - Inter...'. The website's navigation bar includes links for 'Plan, Pay, & Complete College', 'Institutional Resources & Programs', 'Data & Reports', 'Legislative & Media Resources', and 'About Us'. A search bar is located on the right side of the navigation bar. The main content area is titled 'Internal Audit & Compliance Monitoring' and contains several sections: 'Internal Audit Charter', 'Report Fraud', 'Annual Internal Audit and Compliance Monitoring Plans', 'Annual Internal Audit Reports', 'Internal Audit Reports', and 'Compliance Monitoring Reports'. A sidebar on the left lists navigation options under 'About Us', including 'Board/Commission', '60x30TX', 'Meetings/Broadcasts', 'Advisory Committees', 'Human Resources', 'Procurement', 'Internal Audit & Compliance Monitoring', and 'Rules/Statutes'. The 'Internal Audit & Compliance Monitoring' section is currently selected.

Internal Audit & Compliance Monitoring

Internal Audit Charter

The Internal Audit Charter defines Internal Audit's purpose, authority, and responsibility as approved by the agency's governing board.

Report Fraud

The Texas Higher Education Coordinating Board along with its Stakeholders, are responsible for protecting the assets and resources of the agency, and its programs. To accomplish this, Stakeholders are encouraged to report factual information suggestive of dishonest or illegal activities involving the agency and its programs.

Annual Internal Audit and Compliance Monitoring Plans

The Annual Internal Audit Plan and Annual Compliance Monitoring Plan are reports of scheduled audits by process or location that are developed each year based on a comprehensive risk assessment. These plans are approved annually by the agency's governing board.

Annual Internal Audit Reports

The Texas Internal Auditing Act requires certain state agencies and higher education institutions to submit an internal audit annual report each year to the Governor, the Legislative Budget Board, the Sunset Advisory Commission, the State Auditor's Office (SAO), and the entities' governing boards and chief executives.

Internal Audit Reports

An Internal Audit report is a formal document where Internal Audit summarizes audit results and reports its findings and recommendations based on that work.

Compliance Monitoring Reports

A Compliance Monitoring audit report is a formal document where Compliance Monitoring summarizes audit or desk review results and reports its findings and recommendations based on that work.

Inquiries should be directed to Mark.Poehl@thecb.state.tx.us.

Internal Audit Plan for Fiscal Year 2019

Explanatory Information - The table below indicates the status of FY 19 planned audits, as shown on the approved audit plan, versus those accomplished during the year.

Board-Approved FY 19 Audit Plan	Status of Audit at 8/31/19
Follow Up Audits	<p>(1) A Follow Up Audit of Data Administration and Governance THECB-IA-WP-19-207 Report date: December 8, 2018.</p> <p>(2) A Follow Up Audit of Contract Administration THECB-IA-WP-19-211 Report date: January 8, 2019.</p> <p>(3) A Follow Up Audit of Texas Educational Opportunity Grant (TEOG) THECB-IA-WP-19-212 Report date: February 4, 2019.</p> <p>(4) A Follow Up Review of An Internal Audit of College Access Loan Administration THECB-IA-WP-17-190 Report date: October 1, 2018</p> <p>(5) A Follow Up Audit of Formula Funding: Planned to complete in Fiscal Year 2020.</p> <p>(6) A Follow Up Audit of Physician Education Loan Repayment Program: Planned to complete in Fiscal Year 2020. <i>Note: Report date, September 19, 2019.</i></p>
Self-Assessment of Work Quality, Internal Audit	Self-Assessment of Work Quality THECB-IA-WP-19-208 Report date: October 25, 2018.
An Audit of Formula Funding-Community College 'Ten Pay' Payment System at The Texas Higher Education Coordinating Board	An Audit of Formula Funding THECB-IA-WP-19-213 Report date April 1, 2019.

Board-Approved FY 19 Audit Plan	Status of Audit at 8/31/19
Status Assessment of Corrective Action Plan Implementation to Address NTT Texas Cybersecurity Assessment Report	A Review of Selected Security Awareness Practices THECB-IA-WP-19-219: Planned to complete in Fiscal Year 2020. <i>Note: Report date, September 10, 2019.</i>
Review of Contract Management Administration	Review of Contract Management Administration: Planned to complete in Fiscal Year 2020.
Review of Scholarship Programs	Review of Scholarship Programs: Planned to complete in Fiscal Year 2020. <i>Note: Report date, September 17, 2019.</i>
Review of Selected Academic Grant Programs	Review of Selected Academic Grant Programs: Planned to complete in Fiscal Year 2020.

Contract Audits Performed since Fiscal Year 2015:

1. Fiscal Year 2015:
 - a. Review of Contract Management at The Higher Education Coordinating Board, THECB-IA-WP-14-173, Report date: April 23, 2015.
2. Fiscal Year 2016:
 - a. A Review of Contract Administration, THECB-IA-WP-16-184, Report date: September 14, 2016.
 - b. An Internal Audit Follow Up of Contract Management, THECB-IA-WP-16-185, Report date: September 16, 2016.
3. Fiscal Year 2017:
 - a. An Internal Audit of Contract Administration, THECB-IA-WP-17-195, Report date: December 20, 2017.
4. Fiscal Year 2019:
 - a. A Follow Up Audit of Contract Administration, THECB-IA-WP-19-211, Report date: January 8, 2019.
 - b. Complaint Regarding Access to Research Data and Regarding Competitive Grant Vendor Selection, THECB-IA-WP-19-216C, Report date: June 3, 2019.

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 2019.

External Quality Assurance Review (Peer Review)



Texas Higher Education Coordinating Board

INTERNAL AUDIT and COMPLIANCE DEPARTMENT REPORT

August 2019

Prepared by:
Richard Tarr, CIA, CISA
P.O. Box 560716
Orlando, FL 32856
Ph/Fax: 407.896.2760
E-mail: rtarr@racar.com



OVERVIEW

An External Quality Assurance (EQA) review was conducted at the offices of the Texas Higher Education Coordinating Board (THECB) in Austin, Texas from July 8 to July 12, 2019 for audits conducted from September 1, 2016 to March 31, 2019.

Texas Government Code § 2102 (Texas Internal Auditing Act) requires an internal audit activity be in conformance with the Standards for the Professional Practice of Internal Auditing, the Code of Ethics, contained in the Professional Practices Framework as promulgated by the Institute of Internal Auditors (IIA), and with the Government Accountability Office's (GAO) Generally Accepted Government Auditing Standards (GAGAS). These are collectively referred to as the *Standards* in this report.

The overall objective of the EQA review was to determine the extent to which the Internal Audit and Compliance Department (IACD) at THECB is in conformance with the *Standards* and the requirements of the Texas Internal Auditing Act.

The review was performed by Richard Tarr, CIA, CISA and Elizabeth Stepp, CPA, CIA, CGAP, CRMA who attest that they are fully qualified to conduct this EQA review, and are independent in all respects from THECB and the IACD. The reviewers utilized guidance from both the State Agency Internal Audit Forum (SAIAF) Peer Review Program's assessment tool and the IIA's 2017 "Quality Assessment Manual" that include within the scope of the work evaluations and assessments of the following areas:

- The Director, Internal Audit and Compliance's reporting relationship and his communication with the Agency Operating Committee, and the Commissioner of Higher Education;
- The independence and the objectivity of the audit work performed;
- Existing internal audit policies and procedures;

- The risk assessment and annual audit planning process;
- The planning process for individual audit projects;
- The audit methodologies used in performing the work;
- A review of a representative sample of audit workpaper files and reports;
- The workpaper documentation that supported the work performed;
- The support in the workpapers for the conclusions and recommendations in the audit reports;
- How the results of audits are communicated;
- The procedures for following up on audit recommendations; and
- The knowledge, skills, discipline, and training of the staff.

Interviews were also conducted with selected individuals, who included, among others: the Chair of the Board; the Chair of the Agency Operating Committee (AOC); the Commissioner of Higher Education; the Deputy Commissioner for Academic Planning and Policy/Chief Academic Officer; the Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer; the General Counsel; the Director of Internal Audit and Compliance; and the audit staff.

OPINION

It is important to note that the *Standards* are expressed in terms of broad concepts and objectives rather than detailed procedures, and their application requires the exercise of professional judgement. The extent of internal audit policies and procedures and the manner in which they are implemented will depend upon a number of factors such as an audit activity's size and organizational structure, the nature of its audit responsibilities, its philosophy with respect to the degree of operating autonomy appropriate for its staff, and the expectations of its board or governing body and senior management.

Based on the work outlined above, it is the review team's opinion concerning:

The IIA Standards:

For the period under review, the internal audit activity at the THECB "Generally Conforms" to the IIA Standards, and the Code of Ethics. This is the top rating provided within the IIA guidance, with the others being "Partially Conforms" and "Does Not Conform". For a detailed list of conformance to individual IIA Standards, please see Attachment A. The review team has identified opportunities for further enhancing the internal audit activity, details of which are provided in this report.

The GAO Standards:

For the period under review, the ICAD at the THECB has in place, in all material respects, the appropriate processes and procedures in place to receive a Peer Review Rating of "Pass". This rating is the highest of the three ratings provided within the GAO Standards, with the other ratings being "Pass With Deficiencies", and "Fail". For a detailed list of conformance to individual GAO Standards, please see Attachment B.

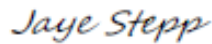
The Texas Internal Auditing Act:

As of July 12, 2019, the internal audit activity at the THECB conforms to all requirements.

This report should be sent to the Chair of the Board, the Chair of the Agency Operating Committee, and The Commissioner of Higher Education.



Richard H. Tarr, CIA, CISA
External Quality Assurance Team Lead



Elizabeth J. Stepp, CPA, CIA, CGAP, CRMA
External Quality Assurance Team Member

OBSERVATIONS

The Director of Internal Audit and Compliance is a CPA (Certified Public Accountant), a CIA (Certified Internal Auditor), a CISA (Certified Information Systems Auditor), and a CFE (Certified Fraud Examiner) with extensive auditing experience in higher education, is very effectively managing the IACD, has a good working relationship with the AOC and is well respected by senior executives at the agency. He is also well respected by the IACD staff. He reports functionally to the AOC and administratively to the Commissioner for Higher Education as required by the Texas Internal Auditing Act.

The IACD has a strong Internal Audit Charter that authorizes the staff to: have full, free, and unrestricted access to all functions, records, property, and personnel; allocate resources; have full and free access to the AOC; set audit frequencies; select audit subjects; determine the scope of work, and apply the techniques required to accomplish audit objectives. All of these are requirements of the *IIA Standards*. Also, the AOC must approve decisions regarding the appointment and removal of the IACD Director. This enables the IACD to be very independent and capable of rendering objective assessments and conclusions when conducting their work. The department also has a very well thought out risk-based annual audit planning process that is approved by the AOC for both internal agency audits and compliance audits at the components.

The interviews conducted with the Board Chair, the AOC Chair, the Commissioner of Higher Education and senior agency management indicated that there is strong support for the scope and type of audit work the IACD conducts. A confidential survey of IACD audit customers conducted during the review indicated that over 99% of those surveyed rated the department excellent and good on 18 different criteria. This is a very positive rating and speaks well of the professionalism and ability of the Director and the audit staff.

A sample of audit workpapers was reviewed and verified that the conclusions and opinions communicated in the audit reports that are issued are appropriately supported. The audit projects were appropriately planned and the work performed was adequately documented in accordance with the *Standards*. There was evidence in the workpapers that the audit work was conducted at a very professional level. The audit programs were appropriately referenced to the audit steps. The tests performed during the audits and the conclusions contained in the audit reports were supported by the work documented in the workpapers. There was evidence that the workpapers are thoroughly reviewed by someone other than the person who performed the work and the Director reviews all the workpapers and the audit reports before they are issued.

OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

While the internal audit activity at THECB generally conforms to the *Standards*, the following comments and recommendations are intended to build on the foundation that is already in place with the objective of further improving on the efficacy and value of the audit work being performed. These are not intended to correct a lack of conformance with the *Standards*. They are operational ideas based on the experiences of the external review team from working with other internal audit activities.

- 1. The department would benefit from enhancing direct supervision of the Internal Audit, Compliance Monitoring, and Federal Compliance functions.**

Currently while there is an Internal Audit Lead position that provides project-level assistance to the two internal audit staff members, direct supervision of the three internal audit staff, the four Compliance Monitoring staff, and the Federal Compliance Specialist is provided by the Director. This arrangement requires the Director to review and approve, in detail, the audit planning and

work of eight staff members in addition to a long list of other responsibilities.

The agency would be better served if someone were given day to day supervisory responsibilities over the Internal Audit, Compliance Monitoring, and Federal Compliance functions. While the Director would still have overall responsibility for the quality of the work performed by the staff, his review could be less detailed allowing him the time to deal with higher level concerns at the Board and Commissioner level. This would also allow someone else in the department the opportunity to gain supervisory experience.

Response:

We agree with the recommendation to increase the level of direct supervision over the Internal Audit, Compliance Monitoring, and Federal Compliance functions. The Director, Internal Audit and Compliance, will evaluate current roles and responsibilities within the department, and make changes to achieve enhanced direct supervision. Target date for responsibilities to be re-aligned is by November 1, 2019.

2. Provide the Agency Operations Committee and the Commissioner a periodic report on the status of audit recommendations.

Currently IACD creates and distributes individual follow-up reports on the status of previous audit recommendations for audit and review projects conducted at the agency and the institutions of higher education. Preparing and distributing individual follow-up reports to the Agency Operations Committee and the Commissioner is time consuming and makes it difficult for these recipients to get an oversight view of where there may be delays or issues that would need their attention.

It would be more efficient and effective if IACD maintained and distributed an on-going status report that tracked all outstanding recommendations either from

on-sight audits, desk reviews or agency audits to the Agency Operations Committee and the Commissioner. This report could be a simple spread sheet that includes: a brief description of the recommendation; the date the recommendation was agreed to be implemented by; whether or not it has been implemented; and the name of the person directly responsible for implementation. This spread sheet could even be color coded as to the status of the implementation. "Completed" recommendations could be color coded as green, "in process" coded as yellow, and "past due" coded as red. This report would make it easier for the Agency Operations Committee and the Commissioner to stay current overall on the status of recommendations at both the agency level and at the institution of higher education level.

Response:

We agree with the recommendation to provide high level status reporting on Internal Audit and Compliance Monitoring recommendations. Effective with the fiscal year beginning September 1, 2019, recommendations outstanding will be tracked and a periodic report will be provided to the Agency Operations Committee and the Commissioner.

Attachment A: Summary of IIA Standards

		GC	PC	DNC
Overall Evaluation				
Definition of Internal Auditing				
Code of Ethics				
ATTRIBUTES STANDARDS				
1000	Purpose, Authority, and Responsibility			
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter.			
1100	Independence and Objectivity			
1110	Organizational Independence			
1111	Direct Interaction with the Board			
1120	Individual Objectivity			
1130	Impairments to Independence or Objectivity			
1200	Proficiency and Due Professional Care			
1210	Proficiency			
1220	Due Professional Care			
1230	Continuing Professional Development			
1300	Quality Assurance and Improvement Program			
1310	Requirements of the Quality Assurance and Improvement Program			
1311	Internal Assessments			
1312	External Assessments			
1320	Reporting on the Quality Assurance and Improvement Program			
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "			
1322	Disclosure of Nonconformance			

		GC	PC	UNC
PERFORMANCE STANDARDS				
2000	Managing the Internal Audit Activity			
2010	Planning			
2020	Communication and Approval			
2030	Resource Management			
2040	Policies and Procedures			
2050	Coordination			
2060	Reporting to Senior Management and the Board			
2070	External Service Provider and Organizational Responsibilities for Internal Audit			
2100	Nature of Work			
2110	Governance			
2120	Risk Management			
2130	Control			
2200	Engagement Planning			
2201	Planning Considerations			
2210	Engagement Objectives			
2220	Engagement Scope			
2230	Engagement Resource Allocation			
2240	Engagement Work Programs			
2300	Performing the Engagement			
2310	Identifying Information			
2320	Analysis and Evaluation			
2330	Documenting Information			
2340	Engagement Supervision			
2400	Communicating Results			
2410	Criteria for Communicating			
2420	Quality of Communications			
2421	Errors and Omissions			
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"			
2431	Engagement Disclosure of Nonconformance			
2440	Disseminating Results			
2450	Overall Opinions			
2500	Monitoring Progress			
2600	Resolution of Senior Management's Acceptance of Risks			

Attachment B: Summary of GAO Standards

	Pass	Fail
General (107)		
Independence (59)		
Professional Judgement (9)		
Competence (13)		
Quality Control & Assurance (26)		
Performance (85)		
Planning (52)		
Supervision (3)		
Evidence (23)		
Documentation (7)		
Reporting (44)		

Internal Audit Plan for Fiscal Year 2020

TEXAS HIGHER EDUCATION COORDINATING BOARD

INTERNAL AUDIT & COMPLIANCE MONITORING

Internal Audit Plan

Fiscal Year 2020

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 Audits <i>Assess the implementation status of previously reported internal audit findings in the areas of College Access Loan Program, Data Administration and Governance, Formula Funding, Physician Education Loan Repayment Program, and Contract Management.</i>	460
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>	130
3. Investigations <i>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</i>	335

or may monitor any investigation conducted by the agency.

- | | | |
|----|--|-----|
| 4. | Provide Assistance-External Audit of Agency Financial Statements
<i>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.</i> | 50 |
| 5. | Ongoing Status Assessment of Corrective Action Plan Implementation to Address NTT Texas and AT&T Cybersecurity Assessment Reports
<i>Perform an ongoing status assessment to assess the implementation status of the corrective action plan prepared to address recommendations from the 2017 NTT Texas Cyber Security Assessment Report¹, and from the 2019 AT&T Cybersecurity Assessment Report.</i> | 470 |
| 6. | SAO Performance Measures Follow Up Audit
<i>Perform a follow up audit of SAO Performance Measures at the Coordinating Board.</i> | 200 |

B. Risk-Based Audits

- | | | |
|-----|--|-----|
| 7. | Information Security Policy Compliance
<i>Review compliance with select provisions of agency information security policy.</i> | 470 |
| 8. | Review of Bonds Program
<i>Review the internal administrative activities of bonds for compliance, effectiveness and efficiency. Bonds for FY 2019 were budgeted at approximately \$120 million.</i> | 470 |
| 9. | Human Resources Policy Compliance
<i>Review compliance with select provisions of agency human resources policy.</i> | 460 |
| 10. | Review of Contract Management Administration
<i>Review of agency contract administration processes for compliance with laws, regulations, policies, and procedures.</i> | 460 |

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 2019

The agency contracted with KPMG, LLP, to perform an independent audit of the agency's Fiscal Year 2018 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.

Agency Operations Committee

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 six projects during the reporting period since the July 2019 Agency Operations Committee meeting. The final reports are attached.

Formula Funding Engagements Completed

- A Compliance Audit of Formula Funding at Stephen F. Austin State University (no findings)
- A Compliance Audit of Formula Funding at Tarleton State University (no findings)
- A Compliance Audit of Formula Funding at The University of Texas Rio Grande Valley (no findings)
- A Compliance Audit of Formula Funding at Lamar State College Port Arthur (no findings)
- A Follow-Up Audit of Formula Funding at Del Mar College (no findings)

Financial Assistance Engagements Completed

- A Compliance Audit of Texas Educational Opportunity Grant at Northwest Vista College (no findings)

Projects In Progress	Stage of Project
Clarendon College	Reporting
The University of Texas Permian Basin	Reporting
The University of Mary Hardin-Baylor	Reporting

Other Compliance Monitoring Activities

- Training of new Compliance Specialist
- Preparing FY2020 Notification Letters
- Implementation of External Quality Assurance Recommendations

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



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August 27, 2019

Dr. Steve Westbrook, Interim President
Stephen F. Austin State University
1936 North Street
Nacogdoches, Texas 75962

Dear Dr. Westbrook,

I am attaching the final report on *A Compliance Monitoring Audit of Formula Funding at Stephen F. Austin State University*, Report No. THECB-CM-FF-19-017. There were no findings resulting from our 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 23, 2019.

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

EXECUTIVE SUMMARY

Stephen F. Austin State University (SFASU) 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 Payments Were 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 SFASU. Our audit focused on the following enrollment data and time periods:

- CBM001 (Student Report) - summer semester 2017, fall semester 2017, spring semester 2018; and
- CBM004 (Class Report) - summer semester 2017, fall semester 2017, and spring semester 2018.

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 SFASU accurately reported semester credit hour 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.”

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist
Mr. Bobby Lane, 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

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

Stephen F. Austin State University

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Ms. Karyn Hall, Director of Institutional Research

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Mr. John Colyandro, Senior Advisor and Policy Director

Legislative Budget Board

Ms. Julie Ivie, Assistant Director



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July 12, 2019

Dr. F. Dominic Dottavio
President
Tarleton State University
1313 W. Washington
Stephenville, Texas 76402

Dear Dr. Dottavio,

I am attaching the final report on *A Compliance Monitoring Audit of Formula Funding at Tarleton State University*, Report No. THECB-CM-FF-19-016. 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 23, 2019.

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 written in a cursive style with a large, stylized "M" and "P".

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

EXECUTIVE SUMMARY

Tarleton State University (TSU) complied with relevant Coordinating Board (THECB) rules and regulations for enrollment data used for formula funding and with Texas Education Code, Chapter 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 Tarleton State University. Our audit focused on the following enrollment data and time periods:

- CBM001 (Student Report) - summer semester 2017, fall semester 2017, spring semester 2018; and
- CBM004 (Class Report) - summer semester 2017, fall semester 2017, and spring semester 2018.

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 Tarleton State University 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.”

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

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner for Strategic Planning and Funding

Tarleton State University

Dr. Javier Garza, Vice President, Enrollment Management

Dr. Diane Taylor, Associate Provost and Senior AVP for Curriculum, Assessment and
Faculty Affairs

Mr. David Sutton, Registrar

Mr. Kent Styron, Director of Risk Management & Compliance, University Compliance
Officer

Texas A&M University System

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August 27, 2019

Dr. Guy Bailey, President
The University of Texas Rio Grande Valley
1201 West University Drive
Edinburg, Texas 78539

Dear Dr. Bailey:

I am attaching a copy of the final report of *A Compliance Monitoring Audit of Formula Funding at The University of Texas Rio Grande Valley*, Report No. THECB-CM-FF-19-019. There were no findings resulting from our engagement.

The cooperation of your staff during this audit is greatly appreciated.

Sincerely,

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

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

EXECUTIVE SUMMARY

The University of Texas Rio Grande Valley (UTRGV) 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 Were 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 UTRGV. Our audit focused on the following enrollment data and time periods:

CBM001 (Student Report) – Summer semester 2017; Fall semester 2017; Spring semester 2018

CBM004 (Class Report) – Summer semester 2017; Fall semester 2017; Spring semester 2018

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 were eligible for formula funding; and
- Evidence of academic credentials were 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 UTRGV 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.”

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist

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 Funding

Dr. Julie Eklund, Assistant Commissioner

The University of Texas Rio Grande Valley

Ms. Janna Arney, Deputy President

Ms. Susan Brown, Assistant Vice President for Strategic Analysis and Institutional Reporting

Mr. Eloy Alaniz, Chief Audit Executive

The University of Texas System

Mr. Kevin P. Eltife, Chairman, Board of Regents

Mr. James B. Milliken, Chancellor

Mr. J. Michael Peppers, Chief Audit Executive

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Mr. John Colyandro, Policy Director

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Ms. Julie Ivie, Assistant Director



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September 12, 2019

Dr. Betty J. Reynard, President
Lamar State College-Port Arthur
1500 Procter Street
Port Arthur, Texas 77640

Dear Dr. Reynard,

I am attaching the final report on *A Compliance Monitoring Audit of Formula Funding at Lamar State College-Port Arthur*, Report No. THECB-CM-FF-19-015. 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 23, 2019.

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

EXECUTIVE SUMMARY

Lamar State College-Port Arthur 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.

We reviewed the following areas:

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.

Instructors of Record met Applicable Requirements

No reportable findings were noted.

Audit Scope, Objective, and Methodology

Our audit included tests of enrollment data reported and certified by Lamar State College-Port Arthur. Our audit focused on the following enrollment data and time periods:

- CBM001 (Student Report) – Summer semester 2017, Fall semester 2017, Spring semester 2018; and
- CBM004 (Class Report) – Summer semester 2017, Fall semester 2017, Spring semester 2018.
- CBM00C (Continuing Education Class Report) – Summer semester 2017, Fall semester 2017, Spring semester 2018.

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 were 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 Lamar State College-Port Arthur accurately reported semester credit hour data.

Background

Fifty public community college districts receive state appropriations based on their student enrollment data. These institutions are governed by locally elected boards that have the authority to levy property taxes in their districts. The state appropriations the colleges receive are used to fund administrative and instructional (education and general) services for post-secondary academic and vocational/technical education.

State financing of higher education programs for public community colleges is provided from the State's General Revenue Fund. The THECB and the Comptroller of Public Accounts distributes these appropriations to colleges based on allocations and performance measures. Each college submits enrollment reports (CBM Reports) to the THECB to document the number of contact hours taught by the college in each semester. The formula for state funding involves multiplying the base period contact hours submitted by colleges by the applicable funding rates.

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
Communications/COO

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

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner

Lamar State College-Port Arthur

Ms. Mary Wickland, CPA, Vice President for Finance and Operations

Dr. Deborrah A. Hebert, Dean of Student Services

Mr. Samir Ghorayeb, Director of Information Technology Services

Ms. Petra M. Uzoruo, Coordinator of Institutional Research & Reporting

The Texas State University System

Mr. William F. Scott, Chairman, Board of Regents

Dr. Brian McCall, Ph.D., Chancellor

Ms. Carole Fox, CPA, Chief Audit Executive

Ms. Ramona Stricklan, CIA, CFE, Director, Office of Audits & Analysis
Lamar Components

Texas Council of Public University Presidents and Chancellors

Dr. Rissa McGuire, Executive Director

State Auditor's Office

Audit Coordinator

Sunset Advisory Commission

Ms. Jennifer Jones, Director

Office of the Governor-Budget and Policy Division

Mr. John Colyandro, Policy Director

Legislative Budget Board

Ms. Julie Ivie, Assistant Director



TEXAS HIGHER EDUCATION COORDINATING BOARD

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August 20, 2019

Stuart W. Stedman
CHAIR

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Web site:
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Dr. Mark Escamilla, President and CEO
Del Mar College
101 Baldwin Blvd
Corpus Christi, Texas 78404

Dear Dr. Escamilla:

Del Mar College implemented the recommendations in our prior report *A Compliance Audit of Formula Funding at Del Mar College*, issued May 14, 2018.

Management has implemented the audit recommendations by:

- Capturing and retaining student information system audit logs or change history for the critical data used for formula funding;
- Improving internal controls to ensure that the amounts reported on the CBM004 report are correct and supported by appropriate documentation; and
- Developing procedures to ensure that the date of birth reported on the CBM00A report are correct and appropriately documented.

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, if any, based on the audit objectives.

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

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist

CC:

THECB

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June 28, 2019

Dr. Ric Baser, President
Northwest Vista College
3535 N. Ellison Dr.
San Antonio, Texas 78251

Dear Dr. Baser,

I am attaching the final report on *A Compliance Audit of the Texas Educational Opportunity Grant (TEOG) at Northwest Vista College*, Report No. THECB-CM-FA-19-009. 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 2019.

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 written in a cursive style with a large, stylized "M" and "P".

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

EXECUTIVE SUMMARY

Northwest Vista College complied with relevant Coordinating Board (THECB) rules and regulations for the TEOG Program and with Chapter 19 Texas Administrative Code (TAC) Sections 22.225 – 22.242, 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.

We reviewed the following areas:

Award Amounts

No reportable findings were noted.

Student Eligibility

No reportable findings were noted.

Financial Need

No reportable findings were noted.

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 TEOG disbursements during fiscal year 2018 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 NVC'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 NVC accurately reported TEOG data.

Background

The purpose of the TEOG Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. During fiscal year 2018, there were 366 students who received award disbursements totaling \$952,130.

PERFORMED BY:

Mr. Bobby Lane, CFE, CICA, Compliance Specialist (Lead Auditor)

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

Northwest Vista College

Ms. Pamela Ansboury, Associate Vice Chancellor of Finance & Fiscal Services

Ms. Debi Gaitan, Vice President, Student Success

Mr. Patrick Vrba, Controller

Mr. Roger Castro, Information Technology Services District Director

Mr. Daniel Ayala, Director CSI

Dr. Harold Whitis, District Director of Student Financial Aid

Mr. Alan Ahmad, Director, Student Financial Aid

Alamo Colleges District

Dr. Mike Flores, Chancellor

Mr. Marcelo Casillas, Chair, Board of Trustees

Dr. Diane E. Snyder, CPA, MS, Vice Chancellor for Finance and Administration

Mr. Bill Wullenjohn, CIA, CFE, CMA, CRMA, CICA CBRA, CICP, District Director of Internal Audit

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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Agency Operations Committee

AGENDA ITEM VIII-A

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 and the General Counsel since these positions report directly to the Board

RECOMMENDATION: No action required