

## **TEXAS HIGHER EDUCATION COORDINATING BOARD**

### **Agency Operations Committee**

1200 EAST ANDERSON LANE, BOARD ROOM 1.170  
AUSTIN, TEXAS

**2:00 P.M., October 19, 2016**

*John T. Steen, Jr.,  
CHAIR  
David D. Teuscher, M.D.,  
Vice Chair  
S. Javaid Anwar  
Fred Farias III, O.D.  
Ricky A. Raven  
Stuart W. Stedman  
Haley R. DeLaGarza  
Student Representative,  
Ex-Officio  
Bobby Jenkins, Jr., Ex-  
Officio*

*PUBLIC TESTIMONY: The presiding chair shall designate whether public testimony will be taken at the beginning of the meeting, at the time the related item is taken up by the Board after staff has presented the item, or any other time. For procedures on testifying, please go to [http://www.theccb.state.tx.us/public\\_testimony](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 20, 2016, Committee Meeting**

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

#### **IV. Internal Audit**

A. Final Report on the External Quality Assessment of the Internal Audit Function at the Texas Higher Education Coordinating Board

#### **V. Compliance Monitoring**

A. Final Report on the External Quality Assessment of the Compliance Monitoring Function at the Texas Higher Education Coordinating Board

#### **VI. Agency Operations**

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

B. Report on Major IT Projects in Progress

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

#### **VII. Finance**

A. Consideration of adopting a resolution authorizing the issuance of State of Texas College Student Loan Bonds in one or more series; and delegating to the Commissioner the authority for the filing of one or more applications to obtain a portion of the state's allocation for private activity bonds

- B. Review of the Year to Date Fiscal Year 2016 Financial Report to the Board
- C. Update regarding the Loan Program Internal Audit Management Responses

#### **VIII. Internal Audit**

- A. Update on Internal Audit Reports and Activities

#### **IX. Compliance Monitoring**

- A. Update on Compliance Monitoring Reports and Activities
- B. Consideration of adopting the staff's recommendation to the Committee regarding South Texas College's proposal regarding the Board's determination that South Texas College not receive certain additional formula funding and repay formula funds rendered in error pursuant to the findings of a Compliance Monitoring report dated July 7, 2016

#### **X. Executive Session**

- A. Pursuant to Texas Government Code Section 551.071, Consultation with Attorney, the Agency Operations Committee will meet in closed session to receive its attorney's advice on legal matters relating to Agenda Item IX-B

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

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

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

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

## Committee on Agency Operations

### Agenda Item I

#### Welcome and Committee Chair's Opening Remarks

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

Committee on Agency Operations

Agenda Item II

Consideration of Approval of the Minutes from July 20, 2016, Committee meeting

RECOMMENDATION: Approval



# DRAFT

## TEXAS HIGHER EDUCATION COORDINATING BOARD Agency Operations Committee

Wednesday, July 20, 2016  
Board Room, 2nd Floor  
Room 1.170  
2:00 p.m.  
1200 East Anderson Lane, Austin, Texas

The Committee on Agency Operations convened at 2:00 p.m. on July 20, 2016, with the following members present: John Steen; presiding; David Teuscher; Fred Farias; Ricky Raven; Stuart Stedman; Bobby Jenkins (Ex-Officio); and Haley Delagarza (Ex-Officio).

Committee members not present: Javaid Anwar

Other Board Members present: Janelle Shepard

AGENDA ITEM	ACTION
I. <b>Welcome and Committee Chair's Opening</b> Remarks	Chair John Steen called the meeting of the Agency Operations Committee to order.
II. Consideration of Approval of the Minutes from April 27, 2016, Committee Meeting	On a motion by Dr. Fred Farias, seconded by Mr. Ricky Raven, the Committee approved the April 27, 2016, 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. <b>Consideration of adopting the Commissioner's recommendation to the Committee relating to the agency's Legislative Appropriation Request for Fiscal Years 2018 and 2019</b>	On a motion by Dr. David Teuscher, seconded by Mr. Stuart Stedman, the Committee approved the <b>agency's Legislative Appropriation Request for Fiscal Years 2018 and 2019</b> . Dr. Fred Farias expressed his concern and disagreed with the cuts to the Border Faculty Loan Repayment Program. Ms. Linda Battles, Deputy Commissioner presented this item to the Committee.

AGENDA ITEM	ACTION
B. Report on Major IT Projects in Progress	Sidney Hodgson, Assistant Commissioner, Information Solutions and Services presented this item to the committee. This item did not require any action.
C. <b>Consideration of adopting the Commissioner's</b> recommendation to the Committee relating to amendments to Chapter 25, Subchapter A, Sections 25.3 – 25.6 of Board rules, concerning the Optional Retirement Program	On a motion by Dr. David Teuscher, seconded by Mr. Ricky Raven, the Committee approved the amendments to Chapter 25 concerning the Optional Retirement Program. A copy of the rules as adopted may be found in the agenda materials.
D. Report on grants and contracts, including those exceeding \$1 million	This item did not require any action.
V. Finance	
A. Review of the Year to Date Fiscal Year 2016 Financial Report to the Board	Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee. This item did not require any action.
B. Update regarding the Loan Program Internal Audit Management Responses	Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee. This item did not require any action.
C. <b>Consideration of adopting the staff's recommendation</b> to the Committee relating to a contract with Pitney Bowes for postage services	On a motion by Mr. Stuart Stedman, seconded by Dr. David Teuscher, the Committee approved the contract with Pitney Bowes for postage services.
D. Consideration of adopting the <b>staff's</b> recommendation to the Committee relating to Student Loan Program support services	On a motion by Dr. David Teuscher, seconded by Mr. Ricky Raven, the Committee approved the Student Loan Program support services.

AGENDA ITEM	ACTION
E. Consideration of adopting the <b>staff's recommendation</b> to the Committee relating to invoking the option years of the contract with First Southwest, LLC to provide support for the arbitrage rebate and yield restriction liabilities of <b>the agency's student loan bonds</b>	On a motion by Dr. David Teuscher, seconded by Mr. Ricky Raven, the Committee approved invoking the option years of the contract with First Southwest, LLC to provide support for the arbitrage <b>rebate and yield restriction liabilities of the agency's</b> student loan bonds.
VI. Auditing	
A. Discussion of the Audit of the Agency-Wide Financial Statements for Fiscal Year Ended August 31, 2015 by KPMG, LLP	Susan Warren with KPMG, LLP presented the report to the Committee. This item did not require any action.
B. Discussion of the Texas Guaranteed Student Loan Corporation Audit of the Federal Family Education Loan Program (FFELP), including an Audit Report dated February 17, 2016 and a Closure Letter dated April 8, 2016	Mark Poehl, Director, Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
C. <b>Consideration of adopting the Commissioner's</b> recommendation to the Committee relating to the Annual Internal Audit Plan for 2017	On a motion by Mr. Ricky Raven, seconded by Dr. David Teuscher, the Committee approved the Annual Internal Audit Plan for 2017.
VII. Compliance	
A. Update on Compliance Monitoring Reports and Activities	Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
B. <b>Consideration of adopting the Commissioner's</b> recommendation to the Committee relating to the Annual Compliance Monitoring Plan for 2017	On a motion by Dr. David Teuscher, seconded by Mr. Stuart Stedman, the Committee approved the Annual Compliance Monitoring Plan for 2017.
C. <b>Consideration of adopting the Commissioner's</b> recommendation to the committee relating to the Final Report – An Audit of Formula Funding at South Texas College	On a motion by Dr. Teuscher, upon reconvening after executive session, seconded by Mr. Ricky Raven, the Committee approved that all future funding of the program described in the audit report regarding South Texas College cease and that recoupment of all funds previously rendered in error be obtained.

AGENDA ITEM	ACTION
D. Update on an Audit of Formula Funding at Weatherford College	Mark Poehl, Director of Internal Audit and Compliance provided an update on actions taken <b>since the Committee's decision in April.</b> This item did not require any action.
VIII. Executive Session	
A. Pursuant to Texas Government Code Section 551.071, Consultation with Attorney, the Agency Operations Committee will meet in closed session to receive its <b>attorney's advice on legal matters relating to Agenda Item VII-C</b>	The Committee went into closed session at 4:53p and reconvened at 5:20p. There was no action taken during this closed session.

With no further business, on a motion by Mr. Ricky Raven, seconded by Dr. Fred Farias, the meeting adjourned at approximately 5:25 p.m.

Committee on Agency Operations

Agenda Item III

Public Testimony on agenda items relating to the Agency Operations Committee

RECOMMENDATION: No action required

Background Information:

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

Committee on Agency Operations

AGENDA ITEM IV-A

Final Report on the External Quality Assessment of the Internal Audit Function at the Texas Higher Education Coordinating Board

RECOMMENDATION: No action required

Background Information:

**An External Quality Assurance Review of the agency's** Internal Audit Function was performed by G Shemo Consulting Inc. in September, 2016. A final report was issued on September 28, 2016 and is attached for your reference. The report contains four recommendations aimed at improving the **agency's Internal Audit Function.**

George J. Shemo is the President of G Shemo Consulting Inc., and he will be briefing the committee by phone regarding the results of the External Quality Assessment of the Internal Audit Function. Joining Mr. Shemo on the briefing will be Dave MacCabe, who assisted Mr. Shemo on the review. Mr. Shemo and Mr. MacCabe will be available to respond to questions.

Management responses to the report recommendations will be developed after the AOC meeting, to incorporate any feedback provided by Committee members.

See the attached report – External Quality Assessment of the Internal Audit Function at the Texas Higher Education Coordinating Board.

**G Shemo Consulting Inc.**  
**George J. Shemo, CPA, CGMA**  
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IIA



**REPORT ON THE EXTERNAL QUALITY ASSESSMENT OF**

**TEXAS HIGHER EDUCATION  
COORDINATING BOARD**

**INTERNAL AUDIT and COMPLIANCE DEPARTMENT**

**September 28, 2016**

## Overall Opinions on Conformance

September 20, 2016

Under a contractual agreement with the Texas Higher Education Coordinating Board (THECB), G Shemo Consulting Inc. (GSC) has conducted an independent External Quality Assessment (EQA) of the THECB Internal Audit activity (IA activity) in the Internal Audit and Compliance Department (IACD).

The review was conducted during the period of September 12, 2016 to September 20, 2016 at the offices of THECB in Austin, Texas. This EQA was conducted as required by the Institute of Internal Auditors' (IIA) *Standard 1312*, in accordance with the approach and procedures contained in the IIA "Quality Assessment Manual" (Issued August 1, 2013). Further, this EQA included a Peer Review of IA activity conformance with applicable GAO Standards, and was conducted according to the requirements contained in GAO Standards 3.96 to 3.107. Finally, this EQA included an assessment of IA activity compliance with the requirements of the Texas Internal Auditing Act.

GSC attests that it is fully qualified to conduct this EQA of the IA activity, and that GSC is independent in all respects to THECB and the IACD. Based on the results of this EQA, GSC has reached the following conclusions:

**In regard to the IIA Standards:**

It is our overall opinion that, as of September 15, 2016, the THECB IA activity "Generally Conforms" to the IIA *Standards*, the Code of Ethics, and Definition of Internal Auditing. "Generally Conforms" is the top rating provided within IIA QA 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 QA team has identified opportunities for further enhancing the IA activity, details of which are provided in this report.

**In regard to the GAO Standards:**

It is our overall opinion that the THECB IA activity's QAIP was suitably designed and complied with, for the year ended August 31, 2016, in order to provide reasonable assurance of performing and reporting in conformity with applicable GAO standards in all material respects. Accordingly, in our opinion, the appropriate Peer Review Rating for the IA activity is "Pass". This rating is the highest of the three ratings provided within 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.

**In regard to the Texas Internal Auditing Act:**

It is our overall opinion that, as of September 15, 2016, the IA activity conforms to all the requirements contained within the Texas Internal Auditing Act.



George J Shemo, CPA, CGMA  
President, G Shemo Consulting Inc.



## Table of Contents

Cover Page.....	1
Overall Opinion.....	2
Table of Contents.....	3
Executive Summary.....	4
Purpose.....	4
Scope and Methodology.....	4
Summary of Recommendations.....	5
Commendations.....	6
Recommendations for Enhancement.....	7
Director Response to Recommendations.....	11
Attachment A.....	12
Attachment B.....	14

## Executive Summary

### **Purpose**

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

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

### **Scope and Methodology**

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

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

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

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

## Executive Summary

### **Summary of Recommendations for Conformance**

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

### **Summary of Recommendations for Enhancement**

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

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



## Commendations

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

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

## Recommendations for Enhancement

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

**Implementing Stakeholders: Senior Management  
Agency Operations Committee  
IA activity**

**Associated Stakeholder: Operating Management**

**Successful Practice**

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

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

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

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



## Recommendations for Enhancement

### 2. Increase AOC involvement in evaluating performance of the DIAC

**Implementing Stakeholders:** Senior Management

Agency Operations Committee

**Associated Stakeholder:** DIAC

**Reference:** Practice Advisory 1110-1

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

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

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

**Implementing Stakeholder:** IA activity

**Associated Stakeholders:** Agency Operations Committee

Senior Management

Operating Management

**Practice Advisories:** 1311-1 and 1320-1

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

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

## Recommendations for Enhancement

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

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

### 4. Enhance the IA activity Annual Planning Process

**Implementing Stakeholder:** IA activity

**Associated Stakeholders:** Agency Operations Committee  
Senior Management  
Operating Management

#### Practice Advisory: 2020-1

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

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



## Recommendations for Enhancement

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

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

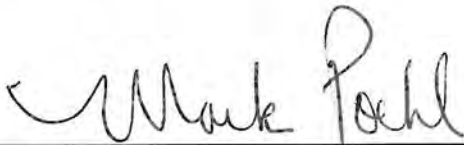
- Establishing frequency guides for each risk group. For example: extremely high risk entities audited annually; high risk entities audited over two years; moderate risk entities over four years; and low risk entities over five years. The frequency guides should be established with the agreement of the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

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



## Director Response

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



Mark Poehl

Director, Internal Audit and Compliance

THECB

## Attachment A

### IIA Standards

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



## Attachment A

### IIA STANDARDS

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

## Attachment B

### GAO STANDARDS

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

Committee on Agency Operations

AGENDA ITEM V-A

Final Report on the External Quality Assessment of the Compliance Monitoring Function at the Texas Higher Education Coordinating Board

RECOMMENDATION: No action required

Background Information:

**An External Quality Assurance Review of the agency's** Compliance Monitoring Function was performed by G Shemo Consulting Inc. in September, 2016. A final report was issued on September 28, 2016 and is attached for your reference. The report contains one recommendation aimed at **improving the agency's** Compliance Monitoring Function.

George J. Shemo is the President of G Shemo Consulting Inc., and he will be briefing the committee by phone regarding the results of the External Quality Assessment of the Compliance Monitoring Function. Joining Mr. Shemo on the briefing will be Dave MacCabe, who assisted Mr. Shemo on the review. Mr. Shemo and Mr. MacCabe will be available to respond to questions.

Management responses to the report recommendation will be developed after the AOC meeting, to incorporate any feedback provided by Committee members.

See the attached report – External Quality Assessment of the Compliance Monitoring Function at the Texas Higher Education Coordinating Board.

**G. Shemo Consulting, Inc.**

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**GAGAS External Peer Review**

**Texas Higher Education Coordinating Board  
Internal Audit & Compliance Department  
Compliance Monitoring Activity**

**For the Period Ended August 31, 2016**

**September 28, 2016**

**INDEPENDENT EXTERNAL PEER REVIEW REPORT**  
**Table of Contents**

Introduction.....	3
Background.....	3
Scope.....	3
Commendable Areas.....	4
Opinion.....	5

# **INDEPENDENT EXTERNAL PEER REVIEW REPORT**

## **Introduction**

The Texas Higher Education Coordinating Board (THECB) engaged G. Shemo Consulting, Inc. (GSC) to conduct an independent External Peer Review (review) of the management and engagement practices of the THECB Compliance Monitoring Activity (CMA). The CMA is located within THECB's Internal Audit & Compliance Department and has chosen to conduct its activities in accordance with the Generally Accepted Government Auditing Standards (GAGAS), issued by the Comptroller General of the United States.

The purpose of this review was to determine whether the CMA's internal quality control system was adequate, and whether its policies and procedures were complied with sufficiently to provide reasonable assurance that it conforms to GAGAS.

The review was based on the 2011 Revision of GAGAS, for the period of September 1, 2013 through August 31, 2016. The review was conducted from September 12-20, 2016 by a team of qualified independent audit professionals. The review was conducted in compliance with the sections of GAGAS applicable to conducting external peer reviews.

## **Background**

The mission of the CMA is to ensure the proper use of the agency's funding and the accuracy of data used for funding and policy making through a risk-based approach. This mission is accomplished by conducting desk reviews and site visits of higher education institutions of formula funding, financial aid, and other grant programs throughout the State of Texas.

The CMA was transferred from Financial Services to the Internal Audit and Compliance Monitoring Department in September 2013. This report represents the CMA's first external peer review in accordance with GAGAS requirements.

## **Scope**

CMA management has exercised its professional judgment in accordance with GAGAS, and elected to comply with the GAGAS Performance Audit Standards. Accordingly, the scope of the review included:

- Comparing the CMA's procedures with the applicable sections of the December, 2011 Revision of GAGAS, chapters 1 through 3, 6 and 7. These chapters include the General Standards for Independence, Personal and Organizational Impairments, Professional Judgment, Competence, and Quality Control and Assurance; and the Field Work and Reporting Standards for Performance Audits.
- Assessing the effectiveness and independence of the CMA's Quality Assurance function, including the documentation maintained.



- Interviewing the Director, Internal Audit and Compliance (DAIC) and all four CMA professional employees.
- Reviewing six CMA reports issued during the period of review for compliance with GAGAS.
- Reviewing four sets of engagement work papers of audits completed during the period of review for compliance with GAGAS.
- Assessing the CMA's process for preparing its annual plan.
- Verifying the educational backgrounds of those professional staff members, who were interviewed, for compliance with the CMA's established requirements.
- Validating the CMA's procedures for administering the Continuing Professional Education (CPE) program.
- Verifying CPE credits earned by individual professional staff members to ensure compliance with GAGAS requirements.
- Validating the CMA's procedures pertaining to assuring organizational and reviewer independence.
- Verifying that individual professional staff members complied with reviewer independence procedures.

## **Commendable Areas**

During the course of the review, several areas were noted for which the CMA team should be commended:

- The Compliance Monitoring Procedures Manual is well written and fully addresses the relevant aspects of GAGAS. The manual provides a reliable resource to help assure that all staff members comply with GAGAS on a consistent basis and properly utilize the recently obtained audit engagement software package.
- Quality control and assurance is effectively achieved within the CMA through the design of its organizational structure, the quality of the procedures manual, and a commitment by the Director of Internal Audit and the CMA staff members to comply with GAGAS.
- The CMA's engagement work papers provide documentation containing features such as cross-references, chronologies of audit steps performed, and evidence of peer member and supervisory review.
- Higher education institution management personnel commended CMA's staff members for their professionalism, knowledge, demeanor, and willingness to listen.

## Opinion

Based on the results of our External Peer Review, for the three year period ended August 31, 2016, we found that the CMA's system of quality control was suitably designed and provided reasonable assurance of performing and reporting in conformity with applicable professional standards with the exception of the issue identified below.

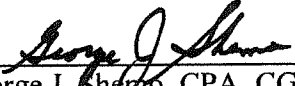
In our opinion, the Peer Review Rating for the CMA is "Pass." This rating is the highest of the three ratings provided within GAGAS, with the other ratings being "Pass With Deficiencies," and "Fail."

## Opportunity to Strengthen Conformance with GAGAS

One conformance issue was found pertaining to the periodic reporting of CMA's quality control system. This issue pertains to GAGAS Standards 3.95.

Standard 3.95 states in part *"The audit organization should analyze and summarize the results of its monitoring process at least annually with identification of any systemic or repetitive issues needing improvement along with recommendations for corrective action."*

We recommend CMA ensure GAGAS compliance by implementing procedures to ensure that the results of its monitoring process are reported at least annually to include the issues and recommendations noted above.

  
George J. Shemo, CPA, CGMA  
**Peer Review Team Leader and  
President, G. Shemo Consulting Inc.**

**Peer Review Team Member:**  
David J. MacCabe, CIA, CGAP, CRMA, MPA

Committee on Agency Operations

Agenda Item VI-A

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

RECOMMENDATION: Approval

Background Information:

At the direction of the Agency Operations Committee in 2014, Coordinating Board staff developed the Board Operating Policies and Procedures document, which was adopted by the Board in October of that year. This document includes the Board members' code of conduct, conflict of interest/ethics, duties/responsibilities, and protocol in communicating with the media, elected officials, institutional representatives, and students. Pursuant to Section XII, D, of the Board Operating Policies and Procedures, this document is to be reviewed by the Board in October of every even-numbered year. Staff is recommending changes to this document to better reflect how the current Board is operating in relation to protocols in communicating with staff, legislators and other stakeholders. Recommended changes to the document are noted in red.

Linda Battles and Bill Franz will be available to answer questions.

## Committee on Agency Operations

### Agenda Item VI-B

#### Status Report on Major IT Projects

RECOMMENDATION: No action required

#### Background Information:

Information Solutions and Services (ISS) is required to provide updates on major, high visibility IT projects at each AOC meeting.

#### Status:

#### New 60X30TX Accountability System – BEHIND SCHEDULE

The Accountability System provides institutions a way to track their performance and that of their peers on critical measures related to student and institutional success.

The schedule delay is necessary in order to accommodate the complexity of the Reporting Tool and the design changes to the user interface.

- Project Budget (internally funded from unexpended SPF balances):
  - - FY15 – Contract \$114,000 design/architecture
  - - FY 16 – Contract \$49K; Full-time ISS staff 1 PM, 3 developers;
  - - 3 Strategic Planning & Funding content-area staff assisting, as needed
- Project Objectives:
  - ✓ Enhance user experience
  - ✓ Allow users to create customized tables and graphics
  - ✓ Key areas of focus can be highlighted
  - ✓ Data from PREP system will be more readily available
  - ✓ SPF staff can manage data updates more efficiently
  - ✓ More modern architecture, reduced IT support demands
- Accomplishments
  - Admin Portal live in production
  - Public Portal deployed in production and ready to take data from the staff of Strategic Planning and Funding
- Upcoming Activities
  - Deploy and make the Institution Portal accessible to the institutions – December, 2016
  - Integration Testing, Training, Documentation complete – November, 2016
  - Post go-live support and maintenance
  - Feedback and enhancement requirements gathering

- Starting December, 2016 the Assistant Commissioner of Strategic Planning and Funding will be providing regular updates on the new system to the Committee on Affordability, Accountability and Planning (CAAP)

#### Implementation of the new Student Loan System - ON SCHEDULE (January 2017)

- Origination and servicing of THECB \$1.3 Billion Student Loan portfolio
- Project Budget (funding from Loan Program):
  - Contract value \$3.5 Million (4 years) – includes licenses, implementation, configurations, modifications, accessibility, litigation module – DCS - \$218,000 (net 4 years)
  - Project Team 18 ISS staff (6 full-time); 9 Borrower Services/Financial Services staff; 12 Nelnet (vendor) staff
- Project Objectives
  - ✓ \$500K annual license savings
  - ✓ More modern technical architecture
  - ✓ Reduced IT support costs
  - ✓ Improved reliability/uptime
- Accomplishments
  - Hardware/software infrastructure setup complete
  - Configured installation of HELMS.Net (internal) complete
  - Initial trial data migration complete
  - Initial delivery of HELMNet3 (external) complete
  - Train the Trainer Training complete
  - Interface testing complete
- Upcoming Activities
  - System and User Acceptance Testing – 09/06/2016 - 12/23/2016
  - System go-live – 01/16/2017

#### Implementation of the CAPPS Financials System - ON SCHEDULE (September 2017)

- Definition: CAPPS Financials is part of a state developed, Enterprise Resource Planning system, mandated by legislation and provided by the Comptroller of Public Accounts (CPA). The core system includes: Accounts Payable, Asset Management, General Ledger, and Purchasing/Procurement. Optional modules cover: Billing/Accounts Receivable, Customer Contracts, Grants, Inventory, and Project Costing.
- Project Budget: \$750K provided by legislature
- Project Team: Cross functional team consisting of ISS staff (Project manager, business analyst, quality assurance, 2 developers) and Financial Services staff
- Objectives:
  - Document agency As-Is processes to assist with gap analysis activities
  - Participate in Review sessions/online training to gain familiarity with CAPPS Fin functionality

- Identify THECB practices/procedures that can be modified to fit CAPPS system workflow
  - Work with CAPPS analysts to configure THECB CAPPS Fin prototype
  - Convert THECB financial data inputs/outputs to fully utilize CAPPS Fin offerings
  - Utilize User Acceptance Testing to identify and resolve issues
  - Successfully Go Live with new CAPPS Fin modules 09/01/2017
- Accomplishments:
  - THECB team members identified
  - Initial scoping documentation completed and returned to CPA 08/2016
- Upcoming Activities:
  - Official project kick off with CPA – 09/07/2016
  - Online training – 09/2016
  - Agency discovery and Gap Analysis – 10/2016 through 12/2016
  - Prototyping, Design & Build – 12/2016 through 03/2017
  - Conversion – 01/2017 through 03/2017

Implementation of the CAPPS HR/Payroll System\* – **IN PRODUCTION**

- Project Budget:
  - \$640K from legislature
  - Project team 12 ISS staff (4 Full-time); 6 (part-time) HR/Payroll staff
- Accomplishments
  - CAPPS deployment activities (including “Soft Launch” test) complete
  - System went live on 08/08/2016
  - RPA Redesign (PAL) now in production
  - Change management and staff training complete

\*CAPPS Talent Management Module is scheduled to go live on 01/31/17. The project is currently in planning phase.

Zhenzhen Sun, Interim Assistant Commissioner, Information Solutions and Services, will present this item to the committee.

Committee on Agency Operations

AGENDA ITEM VI-C

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

RECOMMENDATION: No action required

Background Information:

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

Bill Franz, General Counsel will be available for questions.

## Committee on Agency Operations

### Agenda Item VII-A

Consideration of adopting a resolution authorizing the issuance of State of Texas College Student Loan Bonds in one or more series; and delegating to the Commissioner the authority for the filing of one or more applications to obtain a portion of the state's allocation for private activity bonds.

RECOMMENDATION: Approval

#### Background Information:

Staff is requesting approval to issue up to \$180 million in aggregate principal amount of new money bonds in Fiscal Year 2017 to fund Hinson-Hazlewood loans to eligible students under Texas Education Code, Chapter 52, Subchapter C. The Coordinating Board staff has determined that it will be necessary to issue these bonds in one or more series to provide adequate funding for the Board to continue to disburse College Access Loans under the Hinson-Hazlewood program to eligible students during fiscal year 2016.

- Bonds are authorized under the Texas Constitution, Sections 50b-4-50b-7.
- The THECB has \$181M of remaining of bond authority with the Bond Review Board (BRB) and is required to submit a request to the BRB for approval to use this authority before issuance of bonds.
- Favorable interest rate environment continues to exist in the municipal bond market.

**A representative from the Board's bond counsel, McCall, Parkhurst & Horton**, is available to answer any questions regarding the proposed resolution authorizing the issuance of the bonds, the delegation to the Commissioner 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.



Committee on Agency Operations

Agenda Item VII-B

Review of the Year to Date Fiscal Year 2016 Financial Report to the Board

RECOMMENDATION: No action required

Background Information:

During each quarterly board meeting, the Finance Department provides a financial **report summarizing the agency's fiscal year to date budget and financial activities.** This is a financial management report that is developed for both agency and board use. We may revise this report periodically to present the most relevant information. This report reflects data for the full fiscal year 2016.

Key points:

- The data contained in the report reflects the fiscal year of 9/1/15 through 8/31/16
- The budget adjustments report contains all changes to the originally approved budget
- The report is distributed to agency executive management on a monthly basis
- Excess funds relating to the Autism program have the potential to lapse. The agency had sent a letter to the LBB requesting remediation but no response has been received.

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

Committee on Agency Operations

Agenda Item VII-C

Update regarding the Loan Program Internal Audit Management Responses

RECOMMENDATION: No action required

Background Information:

An audit was conducted by the Internal Audit department on the student loan program and a final report was issued in October 2015. The results of this audit were presented at the October 2015 AOC meeting. An initial management plan was reviewed at this meeting. **This item is to provide a continuing update as to the progress of management's resolution to the audit findings.**

- There were 7 audit recommendations
- 2 of these 7 items have been completed and 5 have been partially implemented.
- An external consultant was hired to perform a comprehensive review of the student loan program and make recommendations. A final report is expected in January 2017.
- Expected dates and detailed actions have been included in this report.

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

Response Report on  
*The Loan Program Administration Audit at the Texas Higher  
Education Coordinating Board, Report No. THECB-IA-WP-15-174  
and KPMG A-133*  
July 21, 2016

Recommendation #1

Develop a positive assurance control, such as FADS to HELMS reconciliation, to timely alert the Coordinating Board when an institution improperly retains loan funds intended for student borrowers. Enhance HELMSNET, or its successor, to provide complete information that better allows institutions to reconcile and research loan activity.

Status:

Action item 1.a:

Staff in Financial Aid Services and Borrower Services within the Office of Student Financial Aid Programs are currently in the process of identifying how agency data could be reconciled with HELMS in order to identify discrepancies from each institution. The agency will work with institutions on identifying the cause of any historical discrepancies and the execution of the necessary steps to correct any errors found.

Technological support will then be needed to develop an annual reconciliation process for institutions to confirm that the funds received through the loan programs balance with the funds disbursed to students. The technological support needed to require the reconciliation of agency data with HELMS as part of the FADS certification process is also being investigated.

- FY2010 – FY2014 BOT loan reconciliation between HELMS and FADS: scheduled completion May 31, 2016. (complete)
- FY2015 BOT and CAL loan reconciliation between HELMS and FADS implementing lessons learned: June 30, 2016. (notifications sent; institutional responses due Oct 10)
- Programming requests to further automate the reconciliation process: Submission to ISS July, 2016 Complete; no additional programming needs identified at this time
- FY2010 – FY2014 CAL loan reconciliation between HELMS and FADS: upon completion of programming requests (may require IT Steering Committee approval) (~3500 records identified; notifications will be sent to institutions after FY 2015 loans are reconciled)

Implemented	Partially Implemented	Not Implemented
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Action item 1.b: The agency is currently migrating the loan software (HELMS) and the borrower and institutional web portals (HelmNet2) to upgraded versions of the software product (HELMS .NET and HelmNet3). The upgrade is scheduled to be functional in January 2017. With

technological support, the agency can work with the software provider to strengthen the reports available to institutions, so that institutions have easier access to a greater level of detail in order to reconcile the loans the institution has certified to the funding the institution has received. This reporting would then allow the agency to expect institutions to complete internal reconciliation on a monthly basis, as is expected with federal financial aid programs.

- Institutional training on upgraded loan certification and reporting mechanisms: December, 2016
- Upgraded institutional web portal: planned launch January, 2017

Implemented	Partially Implemented	Not Implemented
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

## Recommendation #2

Train loan staff on risk identification and risk management practices. Review reporting mechanisms to ensure that exception reporting results in appropriate level of management oversight and involvement in non-routine events.

### Status:

Management agrees with these recommendations. In August, 2015, supervisory level staff in Borrower Services participated in an agency-wide training on risk management to strengthen staff knowledge and understanding of these principles and their application to agency operations. In September, 2015, a follow-up meeting was held with a broader set of leaders within Financial Services to further discuss the importance of risk identification and management. Additional meetings have been scheduled to bring these same concepts to staff throughout Student Financial Aid Programs.

- Redesign of managerial structure for Student Financial Aid Programs to provide for greater supervision and training of staff to increase understanding of risk identification and notification: complete.
- New Assistant Directors for the Call Center and Operation Center within Borrower Services: complete (over 50 years combined experience in loan operations and call center activities)
- SFAP Strategic Planning activities: December, 2015 – April, 2016: complete
- RFP for loan consultant issued: response period closed March, 2016: complete
- RFP response review: April, 2016: complete
- SFAP Strategic Plan launched, including compliance as primary goal: April, 2016: complete
- Restructuring of Financial Aid Services to accommodate integration of reviewing returned funds for timeliness: complete
- RFP contract execution: May, 2016: complete

- New Director of Borrower Services (following retirement of former director): expected hire date July, 2016. **complete**
- Training of FAS staff to assess returned funds for proper timeframes: **extended to fall, 2016, to integrate lessons learned from reconciliation process; training in progress**
- Loan consultant report delivery: ~~November~~ **December**, 2016

Implemented	Partially Implemented	Not Implemented
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

### Recommendation #3

Evaluate and clarify the records retention language in the Financial Aid MOU, in light of institutional loan related records.

#### Status:

Management agrees with these recommendations. The Memorandum of Understanding between the Coordinating Board and institutions of higher education is currently under review in preparation for the end of the current **multi-year period covered by the MOU's**. The MOU language will be revised to provide greater clarity regarding loan record retention as part of this process.

- Memoranda of Understanding that have been initiated since the audit: Includes updated records retention language.
- **One-year extension of current MOU's to include updated records retention language**  
Distributed May, 2016 with August, 2016 deadline: **complete**
- Administrative rule outlining the records retention requirements: Targeting the June 2016 CAAPs meeting. **Target date extended based on identification of the need to review internal records retention policy in conjunction with the administrative rule. December CAAPs meeting is now targeted.**

Implemented	Partially Implemented	Not Implemented
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

### Recommendation #4

The Coordinating Board Should align program guidance language with the language in the Education Code chapter 52 and TAC Title 19.

#### Status:

Management reviewed legislative intent and found that SB 81 of the 70<sup>th</sup> Legislature provided legislative intent to allow for loans to students who did not meet the federal financial need requirement and was intended to assist middle class students, as it does today.

#### 4a. Statute, rule, and CAL program guidance alignment

- Removal of conflicting language: complete
  - Note: discovered that Overview document referenced in the audit was an ER document used for legislative activity and not an SFAP document used as guidelines for institutions

#### 4b. Statute, rule, and CAL program time limits for return of funding

- Administrative rule implementing program time limits for returning funds: Targeting the June 2016 CAAPs meeting. Target date extended in order to allow for input from stakeholders. Input has been collected and December CAAPs is now targeted.
  - Reviewing rules for all financial aid programs, not just CAL.

Implemented	Partially Implemented	Not Implemented
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

#### Recommendation #5

Establish, publish and make available to students and institutions, forms and applications that contain information related to CAL as CB-administered loans to promote full understanding and identification of the loan by the borrower, cosigner and other parties.

#### Status:

Management agrees with these recommendations. Now that the number of borrowers in repayment holding both a FFELP and state-sponsored loan has been considerably reduced, the agency is reviewing all post-enrollment forms to develop forms specific to the agency-run loan programs. Analysis is currently occurring to identify the extent to which information regarding FFELP loans could be included on state-specific forms.

- SFAP has taken advantage of the necessary changes to the state-based loan forms to assess the overall structure of the materials we are providing to borrowers. As a result, the loan materials will be restructured so that information for federal loan materials are obtained through a link to the appropriate federal website, thus ensuring the borrower is taken to the most current information. State-based forms are currently being integrated and redesigned to improve the clarity of the information, while clearly delineating the fact that they are related solely to the state loan programs. These form changes are targeted to take effect in summer, 2016. complete

Implemented	Partially Implemented	Not Implemented
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<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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#### Recommendation #6

Establish comprehensive written procedures addressing all aspects of the CAL program administration including:

- Documentation of decision factors in granting forbearance
- Quality control review work

#### Status:

Management agrees with these recommendations. While the audit identifies that quality assurance activities do occur and that forbearance processing has been accurate, the lack of clear documentation of the process represents a risk for the agency. As part of the reorganization in the Office of Student Financial Aid Programs, responsibilities have been realigned to expand the quality assurance process. An additional Lead has been hired to expand Account Services quality control checks, and Account Services and Support Services have been separated so that the Manager of Account Services can focus specifically on those tasks, while a separate supervisor will focus on Support Services. Clear documentation of the quality assurance processes is occurring as part of this transition.

- SFAP Strategic Planning activities: December, 2015 – April, 2016: **complete**
- SFAP Strategic Plan launched, including compliance as primary goal, with documentation of QA activities as one of its strategies: April, 2016: **complete**
- Target for completion of QA documentation across SFAP: ~~October, 2016~~ **SFAP strategic plan incorporated a review of even greater detail, which is scheduled to be completed by December, 2016**

Implemented	Partially Implemented	Not Implemented
<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

#### Recommendation #7

Revamp procedures to administer access to HELMSNET to ensure that only authorized institutional personnel can access loan-related information.

#### Status:

Management agrees with these recommendations. As part of the reorganization of Student Financial Aid Programs, the approval and maintenance of institutional access to the system will transfer from Borrower Services to Financial Aid Services. This not only acknowledges the focus that Financial Aid Services has on institutional support, but also provides for a separation of duties between the unit providing access and the unit processing the loan certifications submitted via that access.

- Restructuring of Financial Aid Services to accommodate integration of HELMSNET access review and approval: **complete**
- Assessment of approval activities to improve review and approval: **complete**
- **Implementation of improvements which don't require significant commitment from ISS: complete**
- Submission of HelmsNet access review and approval changes requiring significant ISS commitment for IT Steering Committee consideration: **Complete; no additional programming needs identified at this time; will be revisited upon migration of HELMS software**
- Implementation of technological advances for HelmsNet access review and approval, pending implementation of HelmsNet3 and IT Steering Committee approval: **Complete; no additional programming needs identified at this time)**

Implemented	Partially Implemented	Not Implemented
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

#### Overall timeframe

Month	Task
Complete	Redesign of SFAP managerial structure
Complete	New Assistant Directors for Borrower Services
Complete	MOU's for new institutions include updated records retention language
Complete	Conflicting language regarding loan eligibility calculations removed where identified
<b>Complete</b>	SFAP Strategic Planning activities
<b>Complete</b>	RFP for loan consultant deadline
<b>Complete</b>	RFP review for loan consultant
<b>Cancelled</b>	Request for OAG opinion for guidance on CAL eligibility
<b>Complete</b>	SFAP Strategic Plan launched, including compliance as its primary goal, with a specific strategy focused on QA documentation
<b>Complete</b>	Staff hired for newly designed Financial Aid Services
<b>Complete</b>	Finalize loan consultant contract
<b>Complete</b>	FY2010-FY2014 BOT Reconciliation Complete
<b>Complete</b>	Assessment of HelmsNet access review and approval
June, 2016 <b>(underway)</b>	FY2015 BOT <b>and CAL</b> Reconciliation Complete
<del>June</del> <b>December,</b> 2016	Records Retention rule targeted for CAAPs approval
<del>June</del> <b>December,</b> 2016	Returning Funds rule targeted for CAAPs approval
<b>Unnecessary</b>	ISS Programming Requests Submitted for Review
<b>Complete</b>	Target hire date for new Director of Borrower Services
<b>Complete</b>	MOU extensions clarifying records retention language completed.
<b>Complete</b>	State-based Loan Forms launched
<del>Summer</del> <b>Fall,</b> 2016; <b>in progress</b>	Train FAS staff to handle review of returned loan funds



Complete	Implementation of HelmsNet access review and approval changes not requiring significant ISS commitment
Unnecessary	Submission of HelmsNet access review and approval changes requiring significant ISS commitment for IT Steering Committee consideration
Cancelled	Expected OAG response date
<del>October</del> December, 2016	Completion of QA documentation across SFAP
November December, 2016	Loan consultant final report due
December, 2016	Training and resource materials distributed to institutions regarding the enhanced reporting to assist with reconciling at the campus level
January, 2017	HelmsNet3 goes live with enhanced reporting for institutions.
Winter, 2017; Unnecessary in current software; will be reassessed after migration	Assessment of technological changes, if any, necessary in our loan application and origination software platforms
Winter, 2017; Unnecessary in current software; will be reassessed after migration	Implementation of technological advances for HelmsNet access review and approval, pending implementation of HelmsNet3 and IT Steering Committee approval.

#### Additional Comments:

Staff is evaluating the system requirements needed to comply with recommendations #1 and #4. Also, a consultant has been hired to perform a comprehensive review of the loan program. This review will include mapping and documenting all loan processes. Performing a time analysis to determine the appropriate staffing needs by function. Outsourcing opportunities will also be reviewed. Staffing has been held flat for the last 6 years with no additional technological support while the portfolio volume has increased by 25%.

#### Summary of Progress on Implementation of audit recommendations:

Implemented:	2
Partially implemented:	5
Not implemented:	0

Committee on Agency Operations

AGENDA ITEM VIII-A

Update on Internal Audit Reports and Activities

RECOMMENDATION: No action required

Background Information:

The Internal Audit Department completed four projects since the last Agency Operations Committee meeting in July, 2016.

1. *Review of Physical Security of Information Systems*; Category 2 Rating - This report contains some observations. While the noted observations require management attention, if addressed timely they do not pose a significant risk for negative reputational or financial consequences.
2. *Self-Assessment of Work Quality*; Category 1 Rating – This report contains no observations.
3. *A Review of Contract Administration at the Texas Higher Education Coordinating Board*; Category 1 Rating – This report contains no observations.
4. *An Internal Audit Follow Up of Contract Management*; Category 1 Rating – This report contains no observations.

Update on Internal Audit activities

Audits In Progress	Stage of Project
External Quality Assessment Review	Planning/Fieldwork

Other Internal Audit Activities

- Coordinated external audits – SAO, KPMG, etc.
- Began preparation of Internal Audit Annual Report



## TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

July 25, 2016

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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 *An Internal Audit of Physical Security of Information Systems* at the Texas Higher Education Coordinating Board, Report No. THECB-IA-WP-16-183. This report will be presented at the October, 2016 Agency Operations Committee meeting.

The issues presented in this report resulted in a Category 2 Report Rating. These reports contain some 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

Physical security of information systems is generally effective in ensuring that Coordinating Board data is protected from loss or compromise. However, issues that warrant attention to strengthen physical security processes and better protect the agency's information assets include:

- 1. A risk assessment of information systems for the prior fiscal year was not performed and documented in a timely manner.***
- 2. The TRAX tracking system is not effective in ensuring that all agency employees complete the annual FERPA (Family Educational Rights and Privacy Act) security awareness training.***
- 3. Confidential data are not always protected from disclosure to, or modification by, unauthorized individuals.***
- 4. Policy, procedures and oversight require improvement to better manage the risks of access to, and within, the building.***

### Audit Objective, Scope and Methodologies

Our audit objective was to review physical security controls of agency information systems. We examined physical security in the building, with an emphasis on access to information systems and information systems assets. Our audit included reviewing relevant statutes, rules and CB policies and procedures, manuals and documentation related to the audit area. We interviewed appropriate CB staff, collected data and performed various testing to address the audit objective.

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

In accordance with the approved Internal Audit Plan for fiscal year 2016, a review of the physical security of information systems was initiated. Significant risks exist for agencies who experience security breaches. Physical security of information systems includes access to the building housing Coordinating Board information systems. It also includes additional measures needed to protect sensitive information and the assets where this information resides.



## Detailed Observations, Recommendations, and Management Responses

### 1. A risk assessment of information systems for the prior fiscal year was not performed and documented in a timely manner.

The Coordinating Board did not perform and document the FY 2015 risk assessment of information systems in a timely manner. The prior year risk assessment was approved seven months past the end of the fiscal year 2015. Assessing and managing risks to information systems is vital to protect the mission and assets of the agency.

*Risk is the potential harm that may arise from some current process or from a future event.*

Texas Administration Code (TAC) 202 requires state agencies to annually perform and document a risk assessment of information systems with the approval of the state agency head. In addition, Department of Information Resources (DIR) security controls standards catalog provides state agencies specific guidance for implementing security controls. The catalog specifies the minimum information security requirements that state agencies must meet to provide the appropriate levels of information security according to assigned risk levels.

#### Recommendations:

Perform and document the annual risk assessment of information systems in a timely manner to comply with TAC 202.

#### Management Response:

Going forward, the annual risk assessment will more closely follow the Fiscal Year. The FY 16 and subsequent assessments will use DIR's SPECTRIM tool. SPECTRIM assessments were completed in July 2016. A summary report will be prepared for presentation to the Commissioner to comply with FY 16 requirements.

#### Implementation Date:

August 26, 2016

#### Responsible Party(ies):

John House, Information Security Officer, THECB

**2. The TRAX tracking system is not effective in ensuring that all agency employees complete the annual FERPA (Family Educational Rights and Privacy Act) security awareness training.**

The TRAX tracking system is not effective in ensuring that all agency employees complete the annual FERPA (Family Educational Rights and Privacy Act) security awareness training. During audit testing, we noted that 9 out of 247 employees did not complete the FERPA-Security Awareness Training as mandated. The past due dates ranged from 22 days to 168 days. The current TRAX system is not sophisticated enough to send automated reminders to HR (Human Resources) as well as to the employee to ensure that training is completed. Human Resources has not developed mitigating controls to track delinquent training and inform appropriate personnel.

**Recommendations:**

Strengthen the process through the TRAX improvements or other mitigating controls to ensure that the mandated security awareness training is completed by agency staff in a timely manner.

**Management Response:**

Centralized Accounting and Payroll/Personnel System (CAPPS) includes a training component that will not be available from the Comptroller's until January 2017. At this time it is not known whether this will assist in tracking compliance. The following process will be implemented to improve the training participation rate in the interim period.

The annual FERPA training will be updated with a questionnaire that supports frequent monitoring and review. The Information Security Officer (ISO) will develop a quarterly review procedure and prepare quarterly reports on FERPA training completion.

**Implementation Date:**

October 2016 – Awareness Training Questionnaire update with quarterly ISO monitoring

**Responsible Party(ies):**

John House, Information Security Officer, THECB





**3. Confidential data are not always protected from disclosure to, or modification by, unauthorized individuals.**

The Coordinating Board's confidential data are not always protected from disclosure to, or modification by, unauthorized individuals.

- A. Our audit results of 20 employees revealed that:
- i. Personal flash drives used for work purposes and work-related flash drives of four employees were not encrypted. The Confidential Information Encryption Procedures requires encryption of confidential information. However, the procedures do not clearly address the encryption requirements for portable devices.
  - ii. A work-related flash drive was lost but the employee did not notify his supervisor or Information Solutions and Services. Security policies and procedures included the actions to be taken in the event that a flash drive is lost or stolen. However, the employee did not report the loss to the appropriate personnel.
  - iii. The Coordination Board does not have a process in place to collect work-related flash drives when staff leave the agency.
  - iv. Nine out of 20 employees were not aware of agency information technology policies and procedures, including policy *HH-10 regarding Security Privacy and Data Stewardship*. This policy covers important physical security considerations such as maintaining a clean desk environment and printing documents containing confidential information.
- B. Observation at the Student Financial Aid and the Strategic Planning and Funding work areas revealed that several computer screens were unlocked while the employees were away from their desks. These departments routinely handle sensitive student information, placing increased importance on locking computer screens while desks are unattended.

The protection of confidential information in any form is paramount to comply with FERPA and other applicable laws.

**Recommendations:**

- A. Strengthen encryption policies and procedures for flash drives and develop processes to ensure the collection of flash drives when employees leave the agency.
- B. Ensure that staff are aware of, and comply with, agency IT-related policies and procedures regarding physical security of confidential or sensitive information.

**Management Response:**

- A. Technical controls to monitor movement of data to removable storage devices will be deployed and reviewed on a monthly basis.
- B. Employee Transition procedures and notification will be updated to include collection of removable storage devices and return of any Agency data.



**C. Awareness and training**

1. Confidential Information Encryption Procedures will be updated to clearly state the encryption requirements. The removable device policy will be updated with clarification including employee and management regarding portable storage.
2. Security Awareness Training will be updated with additional emphasis on removable storage practices and the requirement for encryption.
3. Specific training will be provided regarding removable storage encryption procedures.

**Implementation Date:**

- A. August 31, 2016 – Removable storage technical controls
- B. September 30, 2016 – Updated employee transition notification
- C.1. September 30, 2016 - Updates to Confidential Information Encryption Procedures
- C.2. October 28, 2016 - Updated Security Awareness Training
- C.3. October 28, 2016 - Deliver training specific to removable storage and encryption

**Responsible Party(ies):**

John House, Information Security Officer, THECB





4. **Policy, procedures and oversight require improvement to better manage the risks of access to, and within, the building.**

Policy, procedures and oversight require improvement to better manage the risks of access to, and within, the building.

A. Visitor's Log and Identification (ID) Badges

Agency Security Policies and Procedures do not require proof of identity for visitors entering the building. Other state agencies that handle sensitive information, such as the Attorney General's Office and the Department of Family Protective Services, require that building visitors provide a form of photo identification before entering facilities. In addition, many agencies carefully track the issuance and return of visitor badges by having security personnel log visitors in and out, or by accounting for numbered badges.

Auditor observation of visitors entering the building noted that front desk security staff do not require any form of identification from visitors. During a five day observation period of visitors entering the building, the auditor noted visitors routinely not logging their arrival, departure, or both their arrival and departure. Since visitor badges are not numbered, are generic ("Visitor" versus the visitor's name) and are paper, they may create a perception of informality regarding visitor access.

B. Employee Identification (ID) Badges

Agency Security Policies and Procedures require employees, temporary employees, and contractors to wear their agency issued photo ID badge in a visible location at all times when in the building. Auditor observation of the front entrance to the building for a 15 minute time period noted 10 agency staff and the daytime custodial staff entered the building without having their ID badge visible.

C. Back Door Building Access by Employees

Agency Security Policies and Procedures for securing the building require that the back door to the building be locked from 5:31 p.m. to 5:59 a.m. On several occasions, the back door to the building was observed unlocked during the time period that it should have been locked.

D. Building Access by Contractors or Temporary Employees

Agency Security Policies and Procedures do not address important aspects of monitoring contractor and temporary employee building access. The current process to issue or cancel contractor and temporary employee access is informal and often verbal.

E. Monitoring the Coordinating Board Server Room

The server room housing agency servers that contain sensitive information is currently monitored by key fob access and a still picture camera that captures an image of personnel entering the server room. Video surveillance, as opposed to still image entry surveillance, would provide a more robust mechanism for monitoring server room activity, including the activity of janitorial or other contract personnel.

**Recommendations:**

- A. Consider visitor entry procedures used by other state agencies to enhance Coordinating Board policy and procedures governing visitor access.
- B. Enforce Agency Security Policies and Procedures that require employees, contractors and temporary employees to wear badges in a visible location while in the building.
- C. Secure the back door to the building according to Agency Security Policies and Procedures.
- D. Enhance Agency Security Policies and Procedures to address important aspects of monitoring contractor and temporary employee building access.
- E. Evaluate the cost and benefit of upgrading the surveillance system for the server room.

**Management Response:**

- A. Visitor access procedures will be modified to include a more detailed log in sheet. Security will require a form of identification when signing in/out and badges will be numbered. A new sign was purchased and displayed to remind visitors exiting the building to sign out with security.
- B. When the new visitor access procedures are implemented, an agency-wide email will be sent to remind staff to display badges clearly and visible at all times.
- C. Confirmed that the system unlocks and locks the doors automatically at 6:00 a.m. and 5:30 p.m. The 400 lb. magnetic lock used on the back door has been replaced with a 1200 lb. magnetic lock to prevent anyone from using force to open the back door.
- D. The new Personnel Actions & Logistics systems will automatically send a written notice to facilities staff when a contractor or temporary employee's end date is approaching and again on the end date.
- E. Network Cameras have been installed in the server room that are triggered by motion to record entry, exit and activity in the room.

**Implementation Date:**

- A. August 1, 2016
- B. August 1, 2016
- C. Completed June 14, 2016
- D. August 8, 2016
- E. Completed June 24, 2016

**Responsible Party(ies):**

- A. Finance Office, THECB
- B. Finance Office, THECB
- C. Finance Office, THECB
- D. Finance Office, THECB
- E. John House, Information Security Officer, THECB



**PERFORMED BY:**

Ms. Aporajita Ahmed, CPA, CFE, CGMA, CICA, CITP, CSM, Financial/Performance Auditor (Project 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 and Chief Operating Officer

Mr. William Franz, General Counsel

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

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

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**Governor's Office of Budget & Planning**

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**State Auditor's Office**

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Mr. Ken Levine



# TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

September 1, 2016

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

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

Dear Dr. Paredes:

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

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

Our self-assessment of internal audit work quality was based on an evaluation of the audit project *An Internal Audit of Tuition Equalization Grant (TEG) Administration Report No. THECB IA-WP-16-182*, issued in June 2016. We conducted our review using the self-assessment tool outlined by the *State Agency Internal Audit Forum* in their Peer Review Process Manual.

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

Sincerely,

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

**PERFORMED BY:**

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

cc:

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**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

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Mr. Ken Levine





## TEXAS HIGHER EDUCATION COORDINATING BOARD

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September 23, 2016

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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 *A Review of Contract Administration at the Texas Higher Education Coordinating Board*, Report No. THECB-IA-WP-16-184. This report will be presented at the October, 2016 Agency Operations Committee meeting.

This is a category 1 report and contains no reportable observations.

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

Sincerely,

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

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



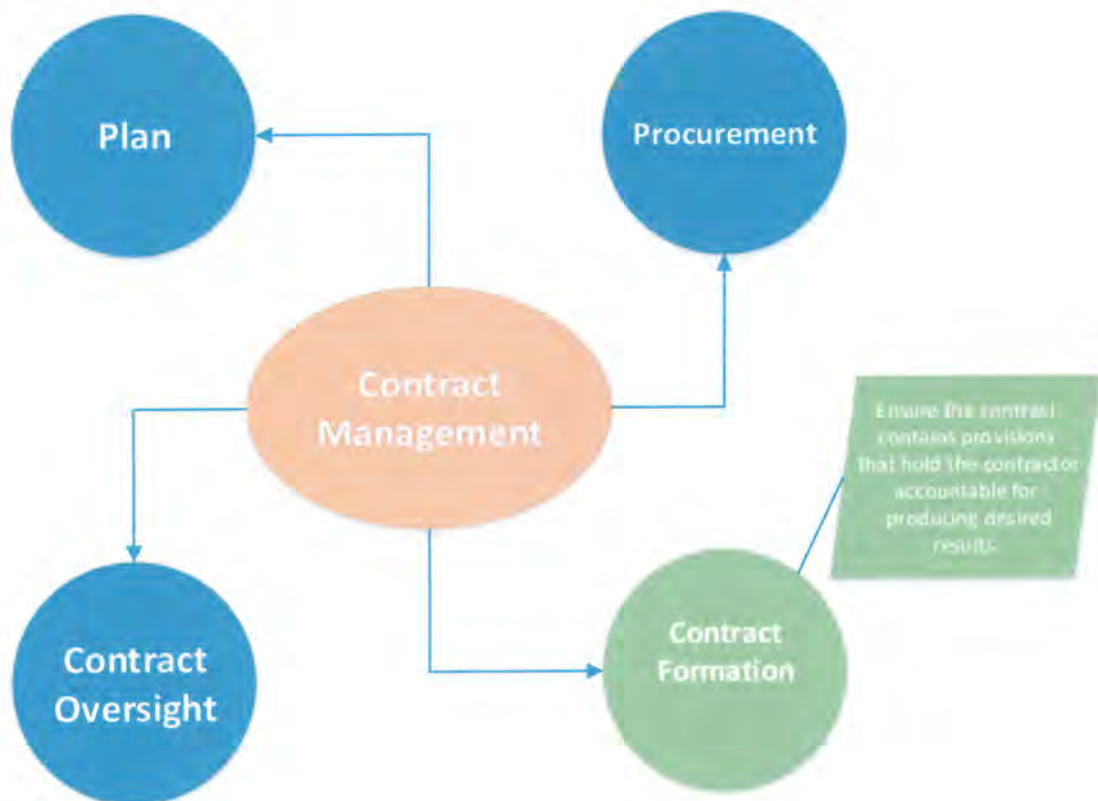
## EXECUTIVE SUMMARY

Processes over contract formation as well as controls over recently enacted disclosure and reporting provisions of House Bill (HB) 1295 and Senate Bill (SB) 20 have been effectively implemented at the Texas Higher Education Coordinating Board. There were no findings resulting from this review.

### Audit Objective and Scope

Our audit objective was to review the formation phase of the contract management cycle to evaluate compliance with established criteria. Additionally, we reviewed agency disclosure and reporting provisions of HB 1295 and SB 20. Our audit covered current contract formation processes for compliance with HB 1295, SB 20, and other applicable rules and statutes.

### Contract Management Phases





The audit included reviewing relevant statutes, rules and CB policies and procedures. We interviewed agency staff, selected samples, and performed testing to address the audit objective.

### **Summary of Recently Enacted Legislation**

House Bill 1295	A governmental entity or state agencies may not enter into certain contracts with a business entity unless the business entity submits a disclosure of interested parties to the governmental entity or state agency at the time the business entity submits the signed contract to the governmental entity or state agency. The disclosure requirement applies to a contract entered into on or after January 1, 2016.
Senate Bill 20	<p>The purpose of this bill is to reform state agency contracting by clarifying accountability, increasing transparency, and ensuring a fair competitive process. Several provisions were incorporated into this bill, including:</p> <ul style="list-style-type: none"> <li>• Public disclosure of all no-bid contracts and public justification for using such a procurement method;</li> <li>• Disclosure of agency employees' involvement in procurement or contract management regarding conflicts of interest;</li> <li>• Prohibition of contracts with business entities with which high-level agency leadership or staff have a financial interest;</li> <li>• Requirement for agency's board chair on signing any contract valued at more than \$1 million or delegation of signature authority to the agency head.</li> </ul>

We conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Additionally, we conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings, if any, and conclusions based on our audit objectives.

## **Background**

The contract management process is centralized and is automated with the use of The Business Management System (BMS), which is an enterprise database system customized and administered by THECB. An Agency reorganization that occurred in early fiscal year 2015, moved the contract administration function from Financial Services to the Office of General Counsel. This reorganization placed renewed emphasis on contract administration. Internal Audit previously reviewed the Oversight phase of the Contract Management Cycle in its report issued April 23, 2015.

## **PERFORMED BY:**

Ms. Aporajita Ahmed, CPA, CFE, CGMA, CICA, CITP, CSM, 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  
and Chief Operating Officer

Mr. William Franz, General Counsel

## **STATUTORY DISTRIBUTION REQUIREMENTS**

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Mr. Ken Levine





## TEXAS HIGHER EDUCATION COORDINATING BOARD

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September 23, 2016

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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 the recommendations in our prior report, Review of Contract Management at the Higher Education Coordinating Board, Report No. THECB-IA-WP-14-173, issued April 23, 2015. There were no findings resulting from this follow up. This report will be presented at the October, 2016 Agency Operations Committee meeting.

Management implemented all three outstanding audit recommendations by strengthening the Business Management System (BMS) governance, reporting vendor performance as required by The Office of the Comptroller of Public Accounts, and by informing staff of the comprehensive policies and procedures on monitoring contracts.

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

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

Sincerely,

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

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

**PERFORMED BY:**

Ms. Aporajita Ahmed, CPA, CFE, CGMA, CICA, CITP, CSM, Internal Audit Lead  
(Project 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  
and Chief Operating Officer

Mr. William Franz, General Counsel

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

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Mr. Ken Levine

## Committee on Agency Operations

### Agenda Item IX-A

#### Update on Compliance Monitoring Reports and Activities

RECOMMENDATION: No action required

Background Information:

#### Update on Compliance Monitoring Reports

The Compliance Monitoring team completed **fourteen** projects during the reporting period since the July 2016 Agency Operations Committee meeting. The final reports are attached and those projects with reportable conditions are shown in bold.

#### Formula Funding Engagements Completed

- A Compliance Audit of Formula Funding at Texas Southern University
- A Compliance Desk Review of Formula Funding at Baylor College of Medicine
- A Follow-Up Audit of Formula Funding at Central Texas College District
- A Compliance Audit of Formula Funding at Texas Tech University
- Memo Regarding Audit of Formula Funding at Del Mar College
- A Follow-Up Audit of Formula Funding at Howard College

#### Financial Aid Engagements Completed

- A Compliance Audit of TEXAS Grant at Tarleton State University
- A Compliance Desk Review of Tuition Equalization Grant at East Texas Baptist University
- A Compliance Desk Review of Tuition Equalization Grant at Jacksonville College
- A Compliance Desk Review of Tuition Equalization Grant at the University of St. Thomas
- A Compliance Desk Review of TEXAS Grant at The University of Texas Rio Grande Valley
- A Follow Up Compliance Review of TEXAS Grant at Angelo State University
- A Compliance Audit of Texas Grant at Texas State Technical College Waco
- FAFSA Initiative Review

Projects In Progress	Stage of Project
Notification and initial preparatory work for projects on FY 17 Compliance Monitoring Plan	Planning

#### Other Compliance Monitoring Activities

- Preparation and data gathering for external quality assessment review.
- Community and Technical College Leadership Council presentation.
- Engagement notification emails sent to all institutions on the FY 17 Compliance Monitoring Plan.





# TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

June 23, 2016

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

Dr. Austin A. Lane, President  
Texas Southern University  
3100 Cleburne St.  
Houston, TX 77004

Dear Dr. Lane,

I am attaching the final report of our *Compliance Audit of Formula Funding at Texas Southern University*, Report No. THECB-CM-FF-16-004.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on October 19, 2016.

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**

Texas Southern University generally complied with relevant Coordinating Board (THECB) rules and regulations for enrollment data used for formula funding and with Texas Education Code Section 61.

Improvement is needed to ensure the accuracy and integrity of data reported to THECB. Information technology processes and controls over security access to the student information system should be enhanced to ensure compliance with Family Educational Rights and Privacy Act Regulations (FERPA) requirements to protect enrollment and student data in the information system.

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 based on the audit objectives.

### **Information Security Controls over Formula Funding**

- Controls over access to data in the student information system should be strengthened to ensure access is restricted to authorized users with a business need.
- Periodic reviews of assigned user security level permissions should be established and formalized.

### **Reporting of Formula Funding Enrollment Information**

(CBM004 Class Report and CBM001 Student Report)

- 5 out of 91 instances were noted where the enrollment count reported was not correct and could not be reconciled against documented class roster information.
- 1 out of 20 students reported were not eligible for formula funding because the student did not submit payment in accordance with requirements.

### **Instructor of Record Requirements**

(CBM004 Class Report)

Documentation for 3 of 30 (10%) instructor credentials tested was insufficient to establish that the instructors satisfied the requirements of TAC Rule §5.45 that the instructor have, at minimum, a master's degree in the teaching discipline.



## **Audit Scope, Objective, and Methodology**

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

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

Our work included procedures to verify:

- Controls over access to data in the student information system were adequate<sup>1</sup>;
- Reported enrollment met reporting requirements;
- Reported semester credit hours were eligible for formula funding;
- Student tuition payment was received in accordance with requirements; and
- Instructor of record met applicable requirements.

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 Texas Southern 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

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<sup>1</sup> Auditors were able to test formula funding information after analyzing the nature and effect of noted information security weaknesses.

deemed most appropriate; the formula models include enrollment as a major driver; and not all appropriations are made through the formulas. Texas Southern University received \$72.5 million for the FY 2016-2017 biennium based on its percentage of weighted semester credit hours.

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."



## Detailed Observations, Recommendations and Management's Response

### 1. Information technology processes and controls over security access to the student information system should be strengthened.

Information technology processes and controls over security access to the student information system should be strengthened to protect confidential student records<sup>2</sup>.

- A. No formal process exists to periodically review user permissions subsequent to access granted at initial employment. We noted 581 users including contract, information technology support, current and former employees with over-broad modify access to critical system screens.

#### Recommendation:

Establish a formal, periodic review of Banner user access. Ensure that the assignment of user access matches job responsibilities and complies with TAC §202 DIR security standards and 34 CFR 99.31 (FERPA) requirements.

#### Management Response

*In FY2015, a security review was conducted with each Banner module owner. The University went live with the Banner system in the 1994-1995 academic year. From that point until 2011, when the University went live with Banner 8.x, the Banner system did not link system user names with employee names within the system. That changed with Banner 8. New user accounts are now linked to employee names in the system as part of the onboarding process. Efforts to remediate and link user names with employee names created within the period from 1994 to 2010 have occurred but were incomplete at the onset of this audit.*

*During the working period of this audit, the 581 accounts that were identified as having over-broad modify access were largely remediated before the conclusion of the audit. (None of these accounts have been specifically tied to Banner Course Building or*

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<sup>2</sup> Prior IT audit findings were noted in the 2013 draft General Computing Controls Review by TEXAS SOUTHERN UNIVERSITY Internal Audit, the 2013 draft Information Security University Assessment by Ellucian Company L.P., and the 2012 High Level IT Infrastructure and Operations Assessment by Gartner, Inc.

*Banner Accounting Access which is the scope of this audit.)*

*There are now only 47 accounts where the user-name must be linked to an employee name according to Banner human resource records. Those that are definitively identified will be updated with the employee's name in the Banner security module. This is the breakdown of the identified 581 accounts:*

- 47 accounts remain to be reviewed*
- 11 were identified as Ellucian Technology Management employees*
- 07 were identified as temporary accounts; they are now deactivated*
- 04 were identified as state or federal auditors; they are now deactivated*
- 42 were identified as Banner Service Accounts and are required to run various third party systems or modifications*
- Of the remaining 470; 117 employee names were researched and linked to identified accounts*
- Of the remaining 353; 353 accounts had Banner system generated Expiry Dates that will force the user to change the password upon entry into the system. To mitigate any system breaches; each of these accounts have been manually deactivated and locked. The employee will have to reach out to the Helpdesk to have the password unlocked and changed. Those tickets will be routed to the Enterprise Applications team for review with the module owners before the account is re-instated.*

*Again, the identification of these accounts have not been specifically linked to any of the accounts noted in Section B. below.*

*Additionally, in response to Endnote 2, the 2012 and 2013 internal and external reports referenced in the endnote focused on technical infrastructure and network security. These reviews led, in part, to an organizational restructuring of the Information Technology and respective findings from these assessments are being systematically addressed in areas including governance, strategy, security, and change management.*

*Implementation Date: Q3 FY2016*

*Responsible Party: Mr. L. Villarreal, Chief Information Officer*



- B. Numerous current employees were identified with access that did not match job responsibilities as noted in Table 1 below.

**Table 1**

	<b>Banner Course Building Access (Identified 29 Users with Access)</b>	<b>Users Noted</b>	<b>Percent Error</b>
B(i)	User security level profile(s) contained permissions that were not required for the user's job functions; user is not functionally involved in the course building business process granted by the access.	$\frac{26}{29}$	90%
B(ii)	User's last modified activity history date, in the student information system, indicates user made changes to the student course building screen.	$\frac{2}{26}$	8%
	<b>Banner Accounting Access (Identified 46 users with Access )</b>	<b>Users Noted</b>	<b>Percent Error</b>
B(iii)	User security level profile(s) contained permissions that were not required for the user's job functions; user is not functionally involved in the student accounting business process granted by the access.	$\frac{41}{46}$	89%
B(iv)	User's last modified activity history date, in the student information system, indicates user made changes to the student accounting screen. We observed 3 of the 41 users, that had permissions that were not required for their job functions, processed manual (source "T") transactions in the Banner student information system.	$\frac{29}{41}$	71%

Over-broad modify access to the course building or to the student accounting screen could result in unauthorized changes.

Texas Southern University should comply with security standards established by the Department of Information Resources (DIR) for institutions of higher education to strengthen the information technology control environment. TAC § 202.71(b)(8) requires "developing and recommending policies and establishing procedures and practices ... necessary to ensure the security of information and information resources against unauthorized or accidental modification, destruction, or disclosure." Additionally, FERPA 34 CFR 99.31(a)(1)(ii) requires that "An educational agency or institution must use reasonable methods to ensure that school officials obtain access to only those education records in which they have legitimate educational interests."

## **Recommendation:**

Establish a formal, periodic review of Banner user access. Ensure that the assignment of user access matches job responsibilities and comply with TAC §202 DIR security standards and 34 CFR 99.31 (FERPA) requirements.

## **Management Response**

*For observation B, Management acknowledges the following:*

- i) That maintenance access to the course building process was over-broad but also that there was no maintenance activity performed by users who were not functionally involved in the course building process. Meetings were held immediately with the Module Owner (Office of the Registrar) to review the users identified in the audit. Maintenance access was immediately removed from security classes that did not require this access. Note: Maintenance access to SCACRSE had been previously included in Banner security classes that were developed and issued prior to implementation of Banner 8 in 2011; each class' object has been changed to query. Immediate action has been taken and deficiency corrected.*
- ii) The two (2) exceptions indicated have had their maintenance access to SCACRSE removed during the course of the audit.*
- iii) In reviewing this finding it was determined that no maintenance activity was performed by users who were not functionally involved in the Student Accounting process. The Office of Information Technology facilitated meetings during the course of fieldwork with the module owner (Office of Student Accounting) to review the users identified in the audit. Maintenance access was removed and changed to query access. Note: Maintenance access to TSAAREV had been included in the BANNER security classes that were developed and issued prior to implementation of BANNER 8 in 2011; each class' object has been changed to query. Immediate action has been taken and the deficiency corrected.*

## **Auditor Follow-Up Comment**

*As noted in Table 1, Compliance Monitoring observed 3 of 41 users processed manual transactions in the Banner student*



*information system. These users had permissions that were not required for their job functions.*

- iv) The three (3) exceptions indicated have had their maintenance access to TSAAREV removed during the course of the audit.*

*We concur with this finding; a security review with each Banner module owner was conducted in FY2015. This review process will be strengthened and formalized to review all access across all modules with the appropriate data owners on a quarterly basis. Findings will be documented and access modifications made based on those findings.*

*Implementation Date: May 31, 2016*

*Responsible Party: Ms. K. Booker, Director BANNER Enterprise Application*

2. Formula funding information should be accurate, compliant with reporting requirements, and supported by sufficient documentation.

- A. Reported enrollment on the Class Report (CBM004) for 5 of 91 (6%) classes tested were not correct as follows:

Table 2

Academic Quarter/Year	Subject Prefix	Course No.	Section No.	Course CRN	Enrollment Reported	Enrollment Verified	Enrollment Over-reported
Spring 2015	BADM	234	4	20107	49	47	2
Spring 2015	BIOL	454	L0001	20298	20	19	1
Spring 2015	COUN	876	00002	22316	14	13	1
Spring 2015	ELET	422	1	20355	24	22	2
Spring 2015	MATH	138	00WE1	22224	49	47	2

The university processed administrative voids to cancel enrollment for the over-reported students in the courses listed in Table 2.

Administrative voids eliminated the audit trail and while the university manually identified the voided students, the student enrollment count reported on the CBM004 could not be reconciled against the number of students listed on the 20<sup>th</sup> day class roster from Banner, Texas Southern University's official system of record. The reporting method used by Texas Southern University did not preserve reported amounts as of the 20<sup>th</sup> class day.

Reporting and Procedures Manual for Texas Public Universities, Class Report CBM004

To be counted for state aid, a student must be registered as of the official census date, and the institution must collect tuition and fees in full from the student (or have a valid accounts receivable on record) by the 20<sup>th</sup> class day. Students are required to have a fully operational installment contract (in accordance with Chapter 54, Section 54.007 of the Texas Education Code) by the payment due date, which includes receipt of a first installment payment prior to their first date of attendance.

Texas Administrative Code (TAC) Section 13.103(a) requires that institutions not submit excess hours to the Board for the purposes of formula funding unless those hours are exempt.

**Recommendation:**

Ensure that accurate and complete class enrollment records are preserved and only eligible students are reported for formula funding.



Improve internal controls to ensure that the amounts reported on the CBM004 are correct and supported by documentation.

**Management Response:**

*While we concur with the controls element of this recommendation, the audit screens and supporting documentation are utilized to preserve the audit trail for any manually identified voided students; various selective supporting documents were provided to reconcile the mismatches, where enrollment numbers differ due to the manual purging of students that may be ultimately reinstated. Processes will be further refined to ensure the accuracy and completeness of class enrollment records supported by documentation.*

*Implementation Date: August 2016*

*Responsible Party: Dr. R. Crockem, Executive Director  
Institutional Assessment, Planning and Effectiveness*

*Ms. M. Square, University Registrar*

- B. Documentation for 3 of 30 (10 %) instructor credentials tested was insufficient to establish that the instructor satisfied the requirements of TAC Rule §5.45 that the instructor have at minimum a master's degree in the teaching discipline. Without sufficient documentation to establish the minimum required credentials, the 8 courses taught by these three instructors would not qualify for formula funding.

*Instructor Qualifications Requirements*

- *Texas Administrative Code (TAC) Rule Section 5.45 requires, with few exceptions, the master's degree to be minimum educational attainment for faculty teaching in baccalaureate programs.*
- *Southern Association of Colleges and Schools (SACS) Principles of Accreditation, Comprehensive Standard 3.7.1 Faculty Credentials requires an institution to employ competent faculty members with a doctorate, master's degree or 18 hours in the teaching discipline.*



Table 3

	Academic Quarter/Year	Subject Prefix	Course Number	Section Number	SCH Value	Instructor	Exception
i.	Fall 2014	AVST	371	1	3	A	Instructor has a master's degree in transportation planning, which does not contain graduate level coursework in aviation, the field of instruction taught.
	Spring 2015	AVST	351	1	3		
	Spring 2015	AVST	352	1	3		
	Spring 2015	AVST	381	1	3		
	Spring 2015	AVST	409	1	3		
ii.	Summer 2014	LAW	858	1	2	B	University does not have record of the instructor's transcript containing completed coursework and the award of the instructor's Juris Doctor degree.
iii.	Summer 2014	PA	321	00O1A	3	C	University did not have record of the instructor's master's degree transcript containing completed coursework. The information was later provided prior to report finalization.
	Fall 2014	PA	410	000O1	3		

The institution is responsible for documenting the qualifications of its faculty. Sufficient documentation should demonstrate that instructors are adequately qualified to support subject matter expertise in their field of instruction per the Southern Association of Colleges and Schools Commission on Colleges comprehensive standard for faculty qualifications and TAC Rule Section 5.45 Criteria for Baccalaureate and Master's Degree Programs.

#### Recommendation:

Ensure that instructors reported on the CBM004 are adequately qualified and that credentials are supported by sufficient documentation.

#### Management Response:

*The university has reviewed the findings of the audit and concur with the recommendation of ensuring that instructors are both adequately qualified with documented supporting credentials; adequate supporting documentation was obtained and provided during the course of fieldwork where it was found to be unofficial at the time of initial testing.*

Management acknowledges the following:

- i. *The Instructor has an undergraduate degree in Aviation and Computer Science and a master's degree in Transportation Planning; Aviation is a subcomponent/unit within Transportation Planning.*
- ii. *A copy of the instructor's transcript was obtained and provided for the purposes of the audit.*
- iii. *A copy of the instructor's transcript containing completed coursework was obtained and provided for the purposes of the audit.*

Auditor Follow-Up Comment

*Documentation to support instructor qualifications was insufficient as follows:*

- i. *The university provided no documentation to substantiate the claim that Aviation is a sub-component within the Transportation Planning Department.*
- ii. *The university provided an incomplete academic transcript for the instructor that did not contain the award date of the Instructor's Juris Doctor Degree.*
- iii. *Compliance Monitoring acknowledges receipt of the instructor's transcript; however, the documentation was not provided in a timely manner.*

- C. Semester credit hours reported on the Student Report (CBM001) for 1 of 20 (5%) students tested were not correct as noted below. Only students that satisfy eligibility and tuition payment requirements should be reported for formula funding.

**Table 4**

Academic Quarter/Year	SCH Reported	Unpaid Tuition Balance	Exception
Fall 2014	15	\$4,665.00	Student ineligible for formula funding

The student was admitted to Texas Southern University in fall 2014 and registered for courses, but did not submit full tuition payment or



establish an installment payment plan by the 20<sup>th</sup> class day. The student notified the university after the 20<sup>th</sup> class day that they had withdrawn. The university processed an administrative void to cancel the student's enrollment. Administrative voids eliminate the audit trail and create comparability challenges among reports and corresponding data. The student's courses were voided, a transcript was not issued and no grades were earned, however, the student was incorrectly reported for formula funding purposes.

Texas Southern University did not comply with Chapter 54, Section 54.007 of the Texas Education Code and Coordinating Board reporting requirements which both require that a student submit full or installment payments for tuition and mandatory fees to be reported for state aid. The Coordinating Board requirements state that in order to be reported for formula funding a student must enroll by the 12<sup>th</sup> class day and submit payment in full or set up an installment payment plan by the 20<sup>th</sup> class day. Additionally, Texas Southern University did not adhere to its internal student withdrawal policy, which requires that a withdrawal is posted to the student information system with a code of "AW" and the grade of "W" will be posted to the student's academic record.

**Recommendation:**

Ensure that accurate and complete student records are maintained and only eligible students are reported for formula funding.

**Management Response:**

*We concur with the recommendation. Processes will be further refined to ensure that only eligible students are reported for formula funding, and that student records are accurate and complete.*

*Implementation Date: August 2016*

*Responsible Parties: Ms. M. Square, University Registrar*

*Mr. E. J. Thomas, Director of Student Accounting*

**PERFORMED BY:**

Ms. Priscilla Suggs, MBA, CFE, Compliance Specialist

cc:

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Dr. Paul Klotman, President  
Baylor College of Medicine  
One Baylor Plaza,  
Houston, Texas 77030

RE: A Compliance Desk Review of Formula Funding at Baylor College of Medicine

Dear Dr. Klotman:

Baylor College of Medicine complied with relevant Coordinating Board (THECB) rules and regulations for enrollment data used for formula funding and with Texas Administrative Code (TAC) Section 13, in the areas of resident eligibility and enrollment.

## Summary

Our review included tests of relevant enrollment data reported and certified by Baylor College of Medicine for accuracy and completeness in accordance with TAC Section 13. Our desk review focused on the following enrollment data and time periods:

- Enrollment on the Health Related Institution Residents/Fellows Report (CBM00R) during fall 2014.

Our work included procedures to verify:

- Reported enrollment was eligible for formula funding.

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

Sincerely,

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



**PERFORMED BY:**

Ms. Priscilla Suggs, MBA, CFE; Compliance Specialist

cc:

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Mr. Jim Yeonopolus, Chancellor  
Central Texas College  
P.O. Box 1800  
Killeen, TX 76540-1800

Dear Mr. Yeonopolus,

The Central Texas College District (CTCD), implemented the two recommendations in our prior audit report, A Compliance Audit of Formula Funding at Central Texas College District, issued January 23<sup>rd</sup>, 2015.

Management has implemented the audit recommendations by:

- Performing a detailed review of the institution's information security policies, procedures and controls over the student information system that aligns with the Department of Information Resources (DIR) security standards.
- Establishing the Security Access Internal Audit System, a quality assurance process used to ensure user permissions to the student information system are periodically reviewed.

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 based on the audit objectives.

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. Priscilla Suggs, MBA, CFE, Compliance Specialist

cc:

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June 15, 2016

Dr. John Opperman  
Interim President  
Texas Tech University  
Office of the President  
2500 Broadway  
Lubbock, Texas 79409

Dear Dr. Opperman:

I am attaching a copy of the final report of *A Compliance Audit of Formula Funding at Texas Tech University*, Report No. THECB CM-FF-16-017.

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

Texas Tech University 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 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 Texas Tech University. Our audit focused on the following enrollment data and time periods:

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

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

Our work included procedures to verify:

- Reported semester credit hours were eligible for formula funding;
- Student tuition payment was received in accordance with requirements;
- Reported enrollment was eligible for formula funding; and
- Instructors of record were qualified to teach courses

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 Texas Tech 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.”

Texas Tech University received \$262.2 million for the FY 2016-2017 biennium based on its percentage of weighted semester credit hours.

**PERFORMED BY:**

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

cc:

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August 5, 2016

Dr. Mark Escamilla, President  
Del Mar College  
101 Baldwin Blvd  
Corpus Christi, TX 78404-3897

RE: Memo Regarding Audit of Formula Funding at Del Mar College

Dear Dr. Escamilla:

The purpose of this letter is to inform you that we will delay our audit of formula funding (THECB CM-FF-16-019), originally scheduled for the 2016 fiscal year, until a later date, due to the scope and findings of the internal audit that has been partially completed by Weaver and Tidwell, L.L.P.

Our review of the internal audit report over admissions and registrar indicated that there were significant findings regarding effectiveness of user access controls that could materially impact the reliability of formula funding data. Our ability to test formula funding information in light of the nature and effect of these noted information security weaknesses is questionable. Therefore, we have chosen to delay our audit of formula funding until after the information security weaknesses are corrected.

Please provide updates on the status of corrective actions taken with regard to the recommendations for the report over admissions and registrar, as well as other reports from the Weaver and Tidwell audit, as they become available.

Thank you for informing us of the ongoing audit so that we could coordinate our work. If you have any questions or comments, please let me know.

Sincerely,

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



**SUBMITTED BY:**

Mr. Paul Maeyaert, JD, MBA, CIA, Compliance Specialist

cc:

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Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

**Del Mar College**

Ms. Leona Keas, Interim Provost and Vice President of Instruction and Student  
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Dr. Cheryl T. Sparks  
President  
Howard County Junior College District  
1001 Birdwell Lane,  
Big Spring, TX 79720

Dear Dr. Sparks:

Howard College implemented the recommendations in our prior report *A Compliance Audit of Formula Funding at Howard College*, Report No. THECB-CM-FF-15-019, issued May 13, 2015.

Management has implemented the audit recommendations by:

- Performing a detailed review of the institution's information security policies, procedures and controls over the student information system that aligns with the Department of Information Resources (DIR) security standards; and
- Establishing an Internal Control Plan to strengthen access controls over user security permissions to prevent unauthorized access and better protect both enrollment and student data in the information system.

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 based on the audit objectives.

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:**

Mr. Keith Overton-Hadnot, MBA, Compliance Specialist (Lead Auditor)

cc:

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August 31, 2016

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Dr. F. Dominic Dottavio, President  
Tarleton State University  
1333 W Washington St.  
Stephenville, TX 76401

Dear Dr. Dottavio,

I am attaching the final report of *A Compliance Audit of TEXAS Grant at Tarleton State University*, Report No. THECB-CM-FA-16-018.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on October 19, 2016.

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

Sincerely,

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



## **EXECUTIVE SUMMARY**

Tarleton State University (TSU) generally complied with relevant Coordinating Board (THECB) rules and regulations for the Toward EXcellence, Access, and Success (TEXAS) Grant Program and with Texas Administrative Code (TAC) Sections 22.225 – 22.240, in the areas of eligibility and award amounts. However, TSU's reconciliation process requires improvement to ensure the accuracy and completeness of award disbursements and refunds.

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 based on the audit objectives.

The following observations were noted during our review:

### **Award Amounts**

No reportable findings were noted.

### **Student Eligibility**

No reportable findings were noted.

### **Financial Need**

No reportable findings were noted.

### **Satisfactory Academic Progress**

No reportable findings were noted.

### **Residency**

No reportable findings were noted.

### **Selective Service Registration**

No reportable findings were noted.



## **Scope, Objective, and Methodology**

Our compliance audit included tests of TEXAS Grant disbursements during fiscal year 2015 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 Tarleton State University's Banner student data system and payment records.

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

## **Background**

The purpose of the Toward EXcellence, Access, & Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. During fiscal year 2015, 943 students received award disbursements totaling \$5,187,013.

## Detailed Observations, Recommendations and Management's Response

### 1. Tarleton State University's reconciliation process requires improvement.

Tarleton State University's reconciliation process requires improvement. Tarleton State University (TSU) was unable to provide documentation to justify \$57 that was neither attributed to a student's account nor refunded to THECB. For FY15 TEXAS Grant awards, TSU requested a total of \$5,187,013 for 431 initial year and 512 renewal year students. According to the Banner student data system, TSU distributed \$5,186,956 in total awards to eligible students.

Any dollar amount of discrepancy indicates ineffective reconciliation controls. The award amounts requested by and allocated to TSU and distributed to students are not properly and completely reconciled.

#### Overview of Awarding Process:

TSU has several Structured Query Language statements that have been created to identify the students who potentially will qualify for a TEXAS Grant award. This report is forwarded to the Director of Financial Aid who reviews them individually and checks the final eligibility. The Director of Financial Aid is also responsible for making the award.

Thereafter, Business Services is responsible for further processing, payment posting, accounting and adjustments.

#### Recommendation:

Ensure that requested TEXAS Grant award amounts are timely reconciled to the Banner student information distribution totals. Repay the \$57 that has not been attributed to a student account.

#### Management's Response:

*A request has been submitted to accounting to return \$57.00 to the Coordinating Board TEXAS Grant account for the 2014-2015 academic year for the unused portion. We received confirmation from Mr. Rafael Villarreal IV, The Coordinating Board that the funds have been received and we are working on re-certifying the EOY report.*

*We have already created a daily audit to review any Texas Grant Daily Activity. All activity with regard to the TEXAS Grant and the recipients will be reviewed.*

*Monthly, as we do with our Pell Grant and other Federal Programs, we will be conducting an overall TEXAS Grant reconciliation.*

*After we have submitted our request for final funding in February, the TEXAS Grant will be locked in Banner. This means that only limited individuals in the office may make any changes to the awards. This will be limited to the Executive Director, Director of Financial Aid and Associate Director. This will ensure that awards are not being adjusted once we have put in the request for the funding.*

*As always, when we begin the final report that is submitted to The Coordinating Board in July, we will continue that process and more reconciliation will occur during that time.*

*The 2015/16 TEXAS Grant awards have been reconciled to show that we have made changes since the 2014/15 award year.*



**PERFORMED BY:**

Mr. Keith Overton-Hadnot, MBA, 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  
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**The Texas A&M University System**

Mr. Cliff Thomas, Chairman, Board of Regents

Mr. John Sharp, Chancellor

Mr. Charlie Hrnccir, Chief Auditor

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July 8, 2016

Dr. J. Blair Blackburn  
President  
East Texas Baptist University  
One Tiger Drive  
Marshall, Texas 75670

Dear Dr. Blackburn:

I am attaching the final report on *A Compliance Desk Review of Tuition Equalization Grant at East Texas Baptist University*, Report No. THECB CM-FA-16-011.

This Compliance Monitoring report will be presented to THECB Committee on Agency Operations, a standing committee of THECB Board, in October 2016.

The cooperation of your staff during this review is appreciated.

Sincerely,

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

## EXECUTIVE SUMMARY

East Texas Baptist University (ETBU) generally complied with relevant Coordinating Board (THECB) rules and regulations regarding Tuition Equalization Grant (TEG) and with Texas Administrative Code (TAC) §22.21 through 22.32.

In the course of the review we noted 13 students out of 523 (2.5%) that did not adhere to Texas Administrative Code (TAC) §22.24 (a) (5) regarding ineligible awards for a student "... in a degree plan that leads to ordination, licensure to preach or a career in church work".

Our desk review included tests of relevant financial aid data reported and certified by ETBU for award year 2014-2015. We believe the evidence obtained provides a reasonable basis for the findings and recommendations based on the desk review objectives.

Our work included procedures to verify:

- Students demonstrated financial need;
- TEG award amounts met criteria;
- TEG recipients and non-recipients aligned with ETBU's methodology;
- TEG award amounts adhered to ETBU's policies;
- TEG degree plan/major requirements were met; and
- TEG funds were reconciled.

The desk review methodology included objectively reviewing and analyzing various forms of documentation, and performing other tests of controls necessary to achieve the objectives of this desk review. THECB used judgmental sampling to determine the extent to which ETBU accurately reported and certified relevant TEG data.

### Background

The Tuition Equalization Grant was authorized by Chapter 61, Subchapter F of the Texas Education Code. Rules establishing procedures to administer the subchapter can be found in Chapter 22, Subchapter B of the Texas Administrative Code. The program is funded by appropriations by the Texas Legislature. The purpose of the TEG program is to promote the best use of existing educational resources and facilities within Texas, both public and private, by promoting need-based grants to Texas residents and certain out-

of-state National Merit Scholarship Finalists enrolled in approved private or independent Texas colleges or universities.

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... (A) funds allocated by the board to institutions of higher education, private or independent institutions of higher education, and other entities, including student financial assistance funds, academic support grants, and any other grants, to ensure that those funds are distributed in accordance with applicable law and board rule."

East Texas Baptist University was awarded \$1.6 million in TEGs for the financial aid year 2014-2015.



## Detailed Observation, Recommendation and Management's Response

No reportable findings were noted in the areas of:

- Financial need;
- TEG award amounts;
- TEG recipients and non-recipients;
- ETBU TEG award policies; and
- TEG reconciliation.

### TEG Degree Plan/Major

According to Texas Administrative Code (TAC) §22.24 (a) (5), "To receive an award through the TEG Program, a 2006 Revised TEG Program student must be enrolled in an approved institution in an individual degree plan...but not in a degree plan that leads to ordination, licensure to preach or a career in church work." ETBU did not have sufficient procedures to ensure compliance with TAC §22.24 (a) (5). In our review we noted the following:

No. of Students	Degree Plan/Major	Award Amount
5	Music and Worship in Ministry	\$13,330
3	Religion/Missions Concentration	\$9,615
2	Religion/Pastoral Ministry Concentration	\$3,231
2	Religion/Youth & Discipleship Ministry Concentration	\$5,165
1	Religion/Youth & Christian Education Concentration	\$2,750
13	Totals	\$34,091

### **Recommendation:**

Submit a documented plan to THECB as to how ETBU will enforce TAC §22.28 (a)-(c). If acceptable, THECB will grant an extension in accordance with TAC §22.28 (d). If ETBU cannot fully comply with TAC §22.28 (a)-(c), it must refund the \$34,091 in TEG awarded for the above students to the Texas Higher Education Coordinating Board. ETBU should also develop procedures to ensure compliance with TAC §22.24 (a) (5).



### **Management Response:**

*ETBU will take the following action.*

#### *Return of Funds*

- 1. ETBU will remove the TEG award from the 13 students and replace with institutional funds*
- 2. ETBU will identify ant students that met Rule §22.28 (a)(1)-"Owes funds to the institution for the period of enrollment for which the award is being made" and apply TEG award to their account*
- 3. Any funds that cannot be applied to a student account will be returned to the THECB*

#### *Implementation Plan:*

*The ETBU Financial Aid Office has immediately implemented the following measures when awarding TEG:*

- 1. Students receiving the ministry scholarship are still not eligible to receive TEG*
- 2. Identify the student's declared major when awarding TEG each academic year. Students majoring in any program of church ministry or pastoral studies or a career in church work, will not be eligible to receive TEG.*
- 3. Run a report just before TEG funds are requested each fall and spring semester to see if a student has changed majors after TEG awards were made. Students receiving TEG who have changed their major to any program of church ministry or pastoral studies or in a career in church work, will have the TEG award removed.*
- 4. Run a report just before the TEG year-end report is completed. Students receiving TEG who have changed their major to any program of church ministry or pastoral studies or in a career in church work, will have the TEG award removed.*

**PERFORMED BY:**

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

cc:

**THECB**

**Board Members**

**Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education

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

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

Mr. William Franz, General Counsel

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

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Dr. Charles Puls, Deputy Assistant Commissioner

**East Texas Baptist University**

Mr. Tommy Young, Financial Aid Director

Mr. Ben Raimer, Chairman of the Board

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June 30, 2016

Dr. Mike Smith  
President  
Jacksonville College  
105 BJ Albritton Dr.  
Jacksonville, Texas 7576

Dear Dr. Smith:

I am attaching the final report on *A Compliance Desk Review of Tuition Equalization Grant at Jacksonville College*, Report No. THECB CM-FA-16-012.

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**

Jacksonville College (JC) complied with relevant Coordinating Board (THECB) rules and regulations regarding Tuition Equalization Grant (TEG) and with Texas Administrative Code (TAC) §22.21 through 22.32.

Our desk review included tests of relevant financial aid data reported and certified by JC for award year 2014-2015. We believe the evidence obtained provides a reasonable basis for the findings and recommendations based on the desk review objectives.

Our work included procedures to verify:

- TEG students demonstrated financial need;
- TEG award amounts met criteria;
- TEG recipients and non-recipients aligned with JC's methodology;
- TEG award amounts adhered to JC's policies;
- TEG degree plan/major requirements were met; and
- TEG funds were reconciled.

The desk review methodology included objectively reviewing and analyzing various forms of documentation, and performing other tests of controls necessary to achieve the objectives of this desk review. THECB used judgmental sampling to determine the extent to which JC accurately reported and certified relevant TEG data.

### **Background**

The Tuition Equalization Grant was authorized by Chapter 61, Subchapter F of the Texas Education Code. Rules establishing procedures to administer the subchapter can be found in Chapter 22, Subchapter B of the Texas Administrative Code. The program is funded by appropriations by the Texas Legislature. The purpose of the TEG program is to promote the best use of existing educational resources and facilities within Texas, both public and private, by promoting need-based grants to Texas residents and certain out-of-state National Merit Scholarship Finalists enrolled in approved private or independent Texas colleges or universities.

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... (A) funds allocated by the board to institutions of higher education, private or independent institutions of higher education, and other entities, including student financial assistance funds, academic support grants, and any other grants, to ensure that those funds are distributed in accordance with applicable law and board rule.”

Jacksonville College was awarded \$394,267 in TEGs for the financial aid year 2014-2015.

**PERFORMED BY:**

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

CC:

**THECB**

**Board Members**

**Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education

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

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

Mr. William Franz, General Counsel

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

**Student Financial Aid Programs**

Dr. Charles Puls, Deputy Assistant Commissioner

**Jacksonville College**

Mr. Paul Galyean, Financial Aid Director

Mr. Richard Smith, Chairman of the Board

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Agenda Item IX-A **TEXAS HIGHER EDUCATION  
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July 15, 2016

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Dr. Robert Ivany  
President  
University of St. Thomas  
3800 Montrose  
Houston, Texas 77006-4626

Dear Dr. Ivany:

I am attaching a copy of the final report on *A Compliance Desk Review of Tuition Equalization Grant at the University of St. Thomas*, Report No. THECB CM-FA-16-013.

This Compliance Monitoring report will be presented to THECB Committee on Agency Operations, a standing committee of THECB Board, in October 2016.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Mark A. Poehl".

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



## EXECUTIVE SUMMARY

The University of St. Thomas (UST) generally complied with relevant Coordinating Board (THECB) rules and regulations regarding Tuition Equalization Grant (TEG) and with Texas Administrative Code (TAC) §22.21 through 22.32.

In the course of the review we noted 3 students out of 1,012 (0.3%) that did not adhere to Texas Administrative Code (TAC) §22.24 (a) (5) regarding ineligible awards for a student "... in a degree plan that leads to ordination, licensure to preach or a career in church work". We also noted 5 students out of 1,012 (0.5%) that did not adhere to Texas Administrative Code (TAC) §22.24 (a) (1) regarding ineligible awards for a student "...enrolled on at least a three-fourths of full-time enrollment."

Our desk review included tests of relevant financial aid data reported and certified by UST for award year 2014-2015. We believe the evidence obtained provides a reasonable basis for the findings and recommendations based on the desk review objectives.

Our work included procedures to verify:

- Students demonstrated financial need;
- TEG award amounts met criteria;
- TEG recipients and non-recipients aligned with UST's methodology;
- TEG award amounts adhered to UST's policies;
- TEG degree plan/major requirements were met; and
- TEG funds were reconciled.

The desk review methodology included objectively reviewing and analyzing various forms of documentation, and performing other tests of controls necessary to achieve the objectives of this desk review. THECB used judgmental sampling to determine the extent to which UST accurately reported and certified relevant TEG data.

### Background

The Tuition Equalization Grant was authorized by Chapter 61, Subchapter F of the Texas Education Code. Rules establishing procedures to administer the subchapter can be found in Chapter 22, Subchapter B of the Texas Administrative Code. The program is funded by appropriations by the Texas Legislature. The purpose of the TEG program is to promote the best use of existing educational resources and facilities within Texas, both public and private, by promoting need-based grants to Texas residents and certain out-of-state National Merit Scholarship Finalists enrolled in approved private or independent Texas colleges or universities.



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... (A) funds allocated by the board to institutions of higher education, private or independent institutions of higher education, and other entities, including student financial assistance funds, academic support grants, and any other grants, to ensure that those funds are distributed in accordance with applicable law and board rule."

The University of St. Thomas was awarded \$2.9 million in TEGs for the financial aid year 2014-2015.

## Detailed Observation, Recommendation and Management's Response

No reportable findings were noted in the areas of:

- Financial need;
- TEG recipients and non-recipients; and
- TEG reconciliation.

### TEG Degree Plan/Major

According to Texas Administrative Code (TAC) §22.24 (a) (5), "To receive an award through the TEG Program, a 2006 Revised TEG Program student must be enrolled in an approved institution in an individual degree plan....but not in a degree plan that leads to ordination, licensure to preach or a career in church work." UST did not have sufficient procedures to ensure compliance with TAC §22.24 (a) (5). In our review we noted the following:

No. of Students	Degree Plan/Major	Award Amount
3	Theology-Masters	\$4,875

### **Recommendation:**

Refund the \$4,875 in TEG awarded for the above students to the Texas Higher Education Coordinating Board. Develop procedures to ensure compliance with TAC §22.24 (a) (5).

### **Management Response:**

*UST agrees that the 3 students in Master's Theology program were not eligible for TEG awards totaling \$4,875. UST will refund the TEG awards for those students to THECB. The Office of Scholarships and Financial Aid will develop reports that are run at the census date each semester to verify students awarded TEG are in eligible programs going forward to avoid future mistakes.*

### TEG Award Amounts/Policies

According to Texas Administrative Code (TAC) §22.24 (a) (1), "To receive an award through the TEG Program, a 2006 Revised TEG Program student must be enrolled on at least a three-fourths of full-time enrollment." UST did not have sufficient procedures to ensure compliance with TAC §22.24 (a) (1). In our review we noted the following:

Student	TEG Received	Semester	Hours Enrolled	Total Hours
1	\$1,219	Fall 2014	7	71
2	\$813	Spring 2015	6	52
3	\$813	Spring 2015	7	61
4	\$1,219	Spring 2015	6	64
5	\$1,625	Fall 2014	6	77
Total	\$5,689			

**Recommendation:**

Refund the \$5,689 in TEG awarded for the above students to the Texas Higher Education Coordinating Board. Develop procedures to ensure compliance with TAC §22.24 (a) (1).

**Management Response:**

*UST agrees that the 5 students who received disbursements but were less than three-quarter time enrolled were not eligible for TEG awards totaling \$5,689. UST will refund the TEG awarded for those students to the THECB. The Office of Scholarships and Financial Aid will utilize disbursement rules in our financial aid management system, PeopleSoft, to ensure such disbursements do not occur going forward.*

**PERFORMED BY:**

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

CC:

**THECB**

**Board Members**

**Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education

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

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

Mr. William Franz, General Counsel

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

**Student Financial Aid Programs**

Dr. Charles Puls, Deputy Assistant Commissioner

**University of St. Thomas**

Ms. Lynda McKendree, Financial Aid Director

Dr. Herbert P. Edmundson, Chairman of the Board

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Mr. Ray Martinez, III, President

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Dr. Guy Bailey, President  
The University of Texas Rio Grande Valley  
2102 Treasure Hills Blvd.  
Harlingen, TX 78550

Dear Dr. Bailey,

I am attaching a copy of the final report of *A Compliance Desk Review of TEXAS Grant at The University of Texas Rio Grande Valley*, Report No. THECB-CM-FA-16-021. There were no reportable issues noted during this review.

This Compliance Monitoring report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on October 19, 2016.

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

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is fluid and cursive, with the first name "Mark" and last name "Poehl" clearly legible.

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 the Toward EXcellence, Access, and Success (TEXAS) Grant Program and with Texas Administrative Code (TAC) Sections 22.225 – 22.240, in the areas of eligibility and award amounts.

Our desk review included tests of relevant TEXAS Grant financial aid data reported and certified by UTRGV for award year 2015-2016. We believe the evidence obtained provides a reasonable basis for the desk review objectives.

The following observations were noted during our review:

### **Award Amounts**

No reportable findings were noted.

### **Student Eligibility**

No reportable findings were noted.

### **Financial Need**

No reportable findings were noted.

### **Satisfactory Academic Progress**

No reportable findings were noted.

### **Residency**

No reportable findings were noted.

### **Selective Service Registration**

No reportable findings were noted.

## **Scope, Objective, and Methodology**

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

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

Our work included procedures to verify:

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

The 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 review. THECB used random and judgmental sampling to determine the extent to which The University of Texas Rio Grande Valley accurately reported TEXAS Grant data.

## **Background**

The purpose of the Toward EXcellence, Access, & Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. During fiscal year 2016, 4,467 students received award disbursements totaling \$40,919,060.

**PERFORMED BY:**

Mr. David Mahoney, Compliance Specialist

cc:

**THECB**

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**Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education

Ms. Linda Battles, Deputy Commissioner for Agency Operations and  
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Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy

Mr. William Franz, General Counsel

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

**Student Financial Aid Programs**

Dr. Charles Puls, Deputy Assistant Commissioner

**The University of Texas at Rio Grande Valley**

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**The University of Texas System**

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

Mr. Bill McRaven, Chancellor

Mr. Michael J. Peppers, Chief Audit Executive

**Texas Council of Public University Presidents and Chancellors**

Dr. Rissa Potter, Executive Director

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Mr. Ken Levine, Director





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September 6, 2016

Dr. Brian J. May  
President  
Angelo State University  
2601 W. Avenue N  
San Angelo, Texas 76909

Dear Dr. May:

Angelo State University implemented the recommendations in our prior report *A Compliance Desk Review of the TEXAS Grant at Angelo State University*, (THECB-CM-FA-15-010), issued December 22, 2015.

Management has implemented the audit recommendations by:

- Developing mechanisms to accurately and timely report student information for the TEXAS grant end of year report; and
- Updating and implementing internal policy and procedures for TEXAS grant reporting so that priority students are correctly identified and reported.

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 based on the audit objectives.

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:**

Mr. Paul Maeyaert, JD, MBA, CIA Compliance Specialist (Lead Auditor)

CC:

**THECB**

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Ms. DeCha Reid, Director Financial Aid Services

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Ms. Emily A. Knopp, Audit Director

Mr. William Bloom, Director of Financial Aid

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# TEXAS HIGHER EDUCATION COORDINATING BOARD

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August 31, 2016

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Mr. Michael Reeser, Chancellor  
Texas State Technical College - Waco  
3801 Campus Drive  
Waco, Texas 76705

RE: A Compliance Audit of TEXAS Grant at Texas State Technical College - Waco

Dear Mr. Reeser:

I am attaching the final report of *A Compliance Audit of TEXAS Grant at Texas State Technical College - Waco*, Report No. THECB-CM-FA-16-010.

This Compliance Monitoring audit report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on October 19, 2016.

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

Sincerely,

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



## **EXECUTIVE SUMMARY**

Texas State Technical College - Waco (TSTC) has not performed an information security review biennially, as required by Texas Administrative Code Section §202.76 (c) Security Control Standards Catalog. The last full review was conducted in 2008, but other reviews have indicated user access security weaknesses. TSTC has, however, performed quarterly follow up reviews on known deficiencies from the 2008 review. Information technology processes and controls over security access to the student information system, such as the monitoring control provided by biennial TAC 202 information security reviews, should be enhanced to also ensure compliance with Family Educational Rights and Privacy Act Regulations (FERPA) requirements to protect enrollment and student data in the information system.

TEXAS Grant compliance was not tested due to a lack of a formalized, comprehensive evaluation of student information security upon which to base our work. TSTC intends to perform a TAC 202 information security review in fiscal year 2017, at which time our evaluation of TEXAS Grant compliance, or its successor program, will be completed.

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 based on the audit objectives.

### **Audit Scope, Objective, and Methodology**

Our audit included review of information security controls over financial aid data reported and certified by TSTC.

Our work included procedures to verify:

- Controls over access to student information were sufficient upon which to further evaluate TEXAS Grant compliance attributes

Our evaluation of TEXAS Grant compliance, or its successor program, will be completed, at a later date, by evaluating:

- Students were eligible for TEXAS Grant awards and disbursements;
- TEXAS Grant program financial aid data met reporting requirements; and
- Reported disbursement amounts reconciled with TSTC's student information system and payment records.



The audit methodology included objectively reviewing and analyzing various forms of documentation, and conducting interviews and observations.

## **Background**

The purpose of the Toward EXcellence, Access, & Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. In fall 2014, the Texas legislature required community colleges to begin phasing out the TEXAS Grant Program and only fulfill remaining continuation awards. During fiscal year 2016, 15 students received continuation award disbursements totaling \$52,146.

Texas Administrative Code Section 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... (A) funds allocated by the board to institutions of higher education, private or independent institutions of higher education, and other entities, including student financial assistance funds, academic support grants, and any other grants, to ensure that those funds are distributed in accordance with applicable law and board rule."

## **Detailed Observations, Recommendations and Management's Response**

### **1. Information technology processes and controls over security access to the student information system should be strengthened to ensure compliance with the Texas Administrative Code Section 202.70 - 202.78 and FERPA 34 CFR 99.31**

The last comprehensive or formalized information security audit performed at TSTC over the student information system was conducted in 2008. TSTC has conducted follow up reviews on implementation of recommendations from the 2008 review and has scheduled a full review in 2017. TSTC's system contains the institution's confidential data and records, including financial aid information used to determine and award financial aid. Without biennial formalized, comprehensive information security reviews, TSTC cannot ensure that there are adequate monitoring controls to protect student information.

TSTC has not met the security standards requirement established by the Department of Information Resources (DIR) for institutions of higher education to conduct biennial reviews. Texas Administrative Code RULE §202.76 (c) Security Control Standards Catalog states, "A review of the institution of higher education's information security program for compliance with these standards will be performed at least biennially, based on business risk management decisions, by individual(s) independent of the information security program and designated by the institution of higher education head or his or her designated representative(s)." TSTC has, however, performed quarterly follow up reviews on known deficiencies from the last TAC 202 information security review conducted in 2008.

In addition, information technology processes and controls over security access to the student information system, such as the monitoring control provided by biennial TAC 202 information security reviews, should be enhanced to ensure compliance with Family Educational Rights and Privacy Act Regulations (FERPA) requirements to protect student data in the information system. FERPA 34 CFR 99.31(a)(1)(ii) requires that "An educational agency or institution must use reasonable methods to ensure that school officials obtain access to only those education records in which they have legitimate educational interests."

Oversight of the College's student information system and compliance with statutory requirements provides greater assurance that student information security and integrity is achieved.

#### **Recommendation:**

Provide action steps that will be taken by the college, the scheduled time line for implementation, and the person(s) responsible for implementation to ensure



that the institution will take corrective action to ensure compliance with TAC §202 DIR security standards and 34 CFR 99.31 (FERPA) requirements.

**Management Response:**

*As stated in the auditor's observation, on a quarterly basis TSTC Internal Audit monitored TAC 202 compliance through its audit follow-up process through the fall of FY 2015. This quarterly review was documented on their follow-up schedule, and discussed at management and Board meetings. We feel our organization more than satisfied the biennial review requirements of TAC 202 since our review was performed even more frequently. We also do not feel the format of the biennial review is prescribed by the regulation, as is implied by the finding. Finally, recent audit reports that were shared with the auditor (Cybersecurity Audit, Internal Penetration Test, External Penetration Test, A-133, Back-up and Recovery test), and the questionnaire we answered, sufficiently demonstrate that our organization is actively monitoring IT security and controls, and addressing gaps as they are identified. We intend for the TAC 202 review scheduled for FY 2017 to be comprehensive in nature due to the increased requirements of the regulation. Our FY 2017 Audit Plan reflects that review, with the new control catalog to be the primary focus of that audit.*

*We anticipate the TAC 202 audit to be completed no later than July 2017 by our internal audit staff so that THECB auditors can utilize it during their audit of the TEXAS Grant audit. The work performed in that audit should eliminate the need to duplicate audit tests, will be more efficient for them, and will demonstrate our continued commitment to complying with TAC 202, including its biennial review requirement.*

**PERFORMED BY:**

Mr. Paul Maeyaert, JD, MBA, CIA, Compliance Specialist (Lead Auditor)

CC:

**THECB**

**Board Members**

**Commissioner's Office**

Dr. Raymund A. Paredes, Commissioner of Higher Education

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

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

Mr. William Franz, General Counsel

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

**Student Financial Aid Programs**

Dr. Charles Puls, Deputy Assistant Commissioner

**Texas State Technical College**

Mr. Keith Honey, Chairman of the Board

Mr. Adam Hutchinson, Provost

Mr. Jason Mallory, Director of Internal Audits

Ms. Jackie Alder, Executive Director of Financial Aid

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Mr. Ken Levine, Director





# TEXAS HIGHER EDUCATION COORDINATING BOARD

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September 15, 2016

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Dr. Raymund A. Paredes  
Commissioner of Higher Education  
P.O. Box 12788  
Austin, TX 78711

Dear Dr. Paredes,

I am attaching a copy of the final report of *A Review of the Free Application for Federal Student Aid (FAFSA) Completion Initiative*, Report No. THECB CM-SP-16-023. There were no reportable conditions resulting from this review.

The cooperation of your staff during this review was 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**

Controls are in place to ensure that high school student data used in the ApplyTX Counselor Suite as part of the Free Application for Federal Student Aid (FAFSA) Completion Initiative is properly safeguarded in accordance with Family Educational Rights and Privacy Act (FERPA) requirements.

Our review included a test of authorization and access to the ApplyTX Counselor Suite. The ApplyTX Counselor Suite is a data base which allows high school counselors or advisors limited access to FAFSA filing information of senior students in their districts.

Procedures were performed to review controls over compliance with FERPA safeguarding of FAFSA initiative data by the Coordinating Board, The University of Texas, and participating Texas Independent School Districts.

The methodology included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and performing a test of controls necessary to achieve the objectives of the review.

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

### **Background**

The Department of Education launched the FAFSA completion initiative in an effort to allow state grant agencies such as the Coordinating Board to provide participating secondary school districts with limited data about students' progress in completing and filing the FAFSA form. Because the timely completion of a FAFSA form is an essential step for many families in obtaining financial aid to pursue a secondary education, the FAFSA completion initiative will enable state grant agencies and their school district partners to identify those students who have not filed a FAFSA form.

The THECB contracts with the University of Texas to develop and maintain the ApplyTX Counselor Suite for the approximately 1,249 school districts in Texas.

**PERFORMED BY:**

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

Mr. William Franz, General Counsel

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

**College Readiness and Success**

Mr. Jerel Booker, Assistant Commissioner, College Readiness and Success

Ms. Jane Caldwell, Director, Student Support

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Mr. Ken Levine, Director

Committee on Agency Operations

AGENDA ITEM IX-B

Consideration of adopting the staff's recommendation to the Committee regarding South Texas College's proposal regarding the Board's determination that South Texas College not receive certain additional formula funding and repay formula funds rendered in error pursuant to the findings of a Compliance Monitoring report dated July 7, 2016.

RECOMMENDATION: Discussion and consideration of a proposal dated September 16, 2016, by South Texas College signed by President Shirley Reed to Commissioner Raymund A. Paredes, and entitled *Request for Board Reconsideration of South Texas College Compliance Monitoring Audit*.

Background Information:

The final report of *An Audit of Formula Funding at South Texas College*, Report No. THECB-CM-FF-16-014 was issued on July 7, 2016. The audit found that South Texas College over reported 438,107 hours in continuing education formula funding for the 2014 base period that resulted in over allocating formula funding to South Texas College of \$2,270,206 for the FY16-17 biennium.

The audit report was presented to the Board's Agency Operations Committee on July 20, 2016. A presentation was also made by South Texas College officials on that date. The Agency Operations Committee passed a motion to, in essence, recover inappropriate funding of this program to South Texas College and cease future funding of said program. At the full Board meeting the following day, the motion was restated and the full Board passed the motion.

On August 2, 2016, Commissioner Paredes sent a letter (Attachment A) to South Texas College stating that the Board would immediately reduce the remaining FY16-17 biennium formula funding payments by \$1,157,805 to account for unallowable contact hours, leaving \$1,112,401 of already paid amounts to be recouped at a yet to be determined repayment schedule. Commissioner Paredes invited South Texas College to discuss a repayment schedule at their earliest convenience.

South Texas College retained legal counsel and requested a meeting with the Commissioner and Coordinating Board staff to discuss the Board's action of July 21, 2016. A meeting with South Texas College was held on August 30, with Commissioner Paredes and Coordinating Board staff, a representative from the Attorney General's office, Dr. Reed and several South Texas College Board Trustees, Senator Juan "Chuy" Hinojosa, and South Texas College legal counsel.

Subsequent to the meeting and pursuant to discussions at the meeting, South Texas College proposed a compromise by letter (Attachment B) dated September 16, 2016, such that no further appropriations for the questioned contact hours would be paid for the remainder of the biennium. In effect, South Texas College proposed that the Coordinating Board not recoup



the \$1,112,401 of already paid amounts but rather reduce formula funding payments for this fiscal year by a total amount of \$1,157,805.

Commissioner Paredes agreed that he would support bringing this matter to the Board, with the understanding that it is solely up to the Board to consider modifying its July 21, 2016 determination.



# TEXAS HIGHER EDUCATION COORDINATING BOARD

*P.O. Box 12788 Austin, Texas 78711*

August 2, 2016

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Shirley A. Reed, Ed.D.  
President, South Texas College  
P.O. Box 9701  
McAllen, Texas 78502-9701

RE: South Texas College/Adjustment of Formula Funding

Dear Dr. Reed:

As you are aware, the Compliance Monitoring division of the Texas Higher Education Coordinating Board issued a final report on "An Audit of Formula Funding at South Texas College" dated July 7, 2016. The audit report concluded that South Texas College had not complied with State law and Coordinating Board rules for enrollment data used for formula funding in the area of continuing education contact hours. The audit determined that South Texas College did not meet the "immediate employment" requirements of 19 Texas Administrative Code §9.1(5) for continuing education contact hours reported for students 17 years of age and under. The audit also found that South Texas College violated Texas Education Code §130.003, which requires tuition and fees be charged and collected for continuing education contact hours reported for formula funding.

As a result, South Texas College received or is scheduled to receive certain formula funding for the 2016-2017 biennium for which it was not eligible. South Texas College disagreed with this conclusion and with the audit recommendations regarding limitations related to immediate employability, age, and paid tuition for continuing education contact hours reported for formula funding. You and several members of your staff made a presentation to the Coordinating Board members on July 20 explaining why South Texas College should be permitted to retain the funding for the continuing education in issue. Given the differing viewpoints between the College and Coordinating Board, including your questioning of the Coordinating Board's interpretations of its rules, some background discussion is appropriate.

## **Background**

The key areas of non-compliant reporting found by Coordinating Board audit staff relate to the juvenile age of the students reported by South Texas College and the failure by South Texas College to assess tuition and fees for these courses and the corresponding contact hours.

First, significant numbers of students reported for contact hour funding were under the age of 18. These included, for example, 1,961 15-year-olds, 703 14-year-olds,

9 13-year-olds, and 3 students under the age of 13. "Continuing education" in the Texas Education Code refers to "continuing *adult* education for occupational or cultural upgrading," and the Coordinating Board rule further specifies that such continuing education is to prepare students for immediate employment. Federal and State labor laws impose various restrictions on employing juveniles. There is no provision in the Education Code or the Board's rules for "continuing juvenile education."

The vast majority of the contact hours in question were for continuing education "employability courses" specifically directed at high school students. These courses were "developed" by South Texas College finding existing high school courses that seemed suitable for modification so that both high school requirements (TEKS) and continuing education requirements (WECM) could be fulfilled with the same course. The courses are taught at high schools by high school teachers and consist of the following courses: Employability Skills - Professional Workforce Preparation (POFT 1013); Leadership Skills -Intro to Supervision (BMGT 1010); Professionalism in the Workplace (BUSG 1012); Basic Supervision (Frontline Supervisor) (BMGT 1018); and Customer Service (MRKG 1000). These courses were designed to meet the target students' identified challenges, such as poor communication skills, poor basic academic skills, and lack of work ethic.

Second, South Texas College did not charge or collect tuition and fees for the contact hours in issue. Although receiving formula funding while waiving tuition is available for dual *credit* courses, it is not available for these continuing education courses. South Texas College chose not to collect tuition because the agreements that South Texas College entered into with local school districts to teach these continuing education courses placed substantially all of the costs on the school districts. This arrangement places the State of Texas in position to pay the school districts for these courses as part of average daily attendance funding while at the same time paying South Texas College the full contact hour formula funding rate for the exact same courses. Although this practice is statutorily allowable specifically for dual *credit* courses (which these are not), the State makes some very important distinctions regarding dual credit courses, limiting such applicability to specifically qualified students and to certain credit-based courses that would allow the open transferability of those credit hours.

Finally, when confronted with the results of the audit, South Texas College contended that it relied upon a mid-level Coordinating Board employee's guidance, which was inaccurate, regarding how to report continuing education contact hours for formula funding. The specific facts surrounding that contention are set forth in the final report on "An Audit of Formula Funding at South Texas College." The Coordinating Board's response is likewise set forth in that report. Even if overall

Coordinating Board staff guidance could have been interpreted differently than the requirements of Texas Education Code § 130.003 and Texas Administrative Code §21.4, and even if it was relied upon by South Texas College initially, any such reliance on that guidance should have ceased no later than July 2015 with publication of the revised Guidelines for Instructional Programs in Workforce Education, which specifically superseded and replaced the previous guidance.

The way South Texas College reported its data is inconsistent with the claim that the erroneous data reported was the result of following a Coordinating Board staff member's inaccurate information. Its reporting practices for enrollment data used for formula funding remained unchanged after publication of the revised Guidelines in July 2015. Had South Texas College relied upon Coordinating Board guidance, its reporting practices would have changed consistent with the updated guidance. Moreover, you advised the Coordinating Board members as part of your presentation that South Texas College should be permitted to retain *all* the formula funding for the continuing education in issue – not just the portion attributable to the period of time before publication of the revised Guidelines.

#### **Discussion of Statutes, Rules, and the Facts**

State financing of higher education programs for public community colleges is provided from the State's General Revenue Fund. The Coordinating Board and the Comptroller of Public Accounts distribute these appropriations to colleges based on allocations and performance measures. Each college submits enrollment reports (called CBM Reports) to the Coordinating Board 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.

The Coordinating Board is authorized to review the accuracy of the contact hour data reported to it by community college districts. In the event of data reporting errors, the Coordinating Board is authorized to adjust a fiscal year's formula appropriations as necessary to reflect the corrected data elements. (*See Rider 7, Adjustment of Contact Hours, p. III-211, General Appropriations Act, 84th Legislature; Texas Education Code, §61.035(g); General Appropriations Act FY 2014-15 biennium, page III-203; and General Appropriations Act FY 2016-17 biennium, page III-204*). Although staff considered a different approach, the Coordinating Board has treated this as a data reporting error.

Continuing education funding generally is designed for furthering the education of adults and to provide job training for immediate employment. Texas Education Code §130.003(e)(4) refers to continuing education programs as "continuing *adult* education programs for occupational or cultural upgrading." (Emphasis added.)



Workforce education, as a part of continuing education, is designed to train adults for immediate employment after they have left secondary education. 19 Texas Administrative Code §9.1(31) defines a workforce continuing education course as a course "with an occupationally specific objective...." 19 Texas Administrative Code §9.1(5) defines a career technical/workforce program as "intended to prepare students for *immediate employment* or a job upgrade in a specific occupation." (Emphasis added.) These types of education are, as noted, reflective of career improvement training after one leaves secondary education.

Importantly, in order to qualify for formula funding, tuition must be collected. South Texas College generally does not charge or collect tuition and fees from high school students enrolled in continuing education or dual credit courses. Although tuition is allowed to be waived for dual credit, there is no corresponding allowance for such a waiver for high school students taking continuing education courses outside of the dual credit course pathway. Texas Education Code §130.003 states that in order for contact hours to be eligible for formula funding, the college must "collect, from each full-time and part-time student enrolled, matriculation and other session fees...." In addition, Texas Education Code §54.051(b) provides that each institution of higher education "shall cause to be collected from students registering at the institution tuition or registration fees at the rates prescribed," with minimum rates prescribed in the Texas Education Code. *See also* Texas Education Code §§54.051(n) and 130.003(b)(4); 19 Texas Administrative Code §§9.113(a) and 21.4.

With regard to waiver, Texas Education Code §130.008(b) provides that "The junior college may waive all or part of the tuition and fees for a high school student enrolled in a course for which the student may receive joint credit under this section." The continuing education courses under review do not provide for "joint credit" and, therefore, are not eligible for a tuition waiver.

### **Conclusion**

As a result of the aforementioned non-compliance, South Texas College has received or is scheduled to receive nearly \$2.3 million of formula funding for the 2016-2017 biennium that it was not eligible to receive.

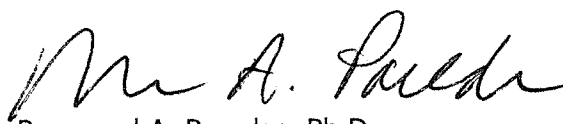
As you know, the Texas Higher Education Coordinating Board voted (1) to immediately cease all future funding (\$1,157,805) to South Texas College for these high school continuing education courses and (2) to recoup funds previously expended in error based on data provided by South Texas College. As a result, the future funding amount (yet unpaid amounts on unallowable contact hours) of \$1,157,805 will be deducted, and the \$1,112,401 adjustment (recoupment of already paid amounts on unallowable contact hours) will also be deducted, from

South Texas College Letter  
August 2, 2016  
Page 5

payments otherwise scheduled to be transferred to South Texas College pursuant to Chapter 130 of the Texas Education Code.

We are available at your earliest convenience to discuss a repayment schedule that takes into account not only State interests but the welfare of students at South Texas College. Should you have any questions or require additional information, please advise.

Sincerely,



Raymund A. Paredes, Ph.D.

Cc: Dr. Alejo Salinas, Jr., Chair  
Board of Trustees, South Texas College  
P.O. Box 9701  
McAllen, Texas 78502-9701



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September 16, 2016

Raymund A. Paredes, Ph.D.  
Commissioner of Higher Education  
Texas Higher Education Coordinating Board  
1200 E. Anderson Lane  
Austin, Texas

**RE: Request for Board Reconsideration of South Texas College Compliance  
Monitoring Audit**

Dear Commissioner Paredes:

Thank you for meeting with me and representatives of the College on August 30, 2016 to discuss the Monitoring Compliance Audit regarding South Texas College's Continuing Education Program. I appreciate your willingness to discuss the issues raised by the Audit, and your perspective of trying to find a resolution on the matter that limits the impact on students.

In our meeting, we discussed a possible compromise that takes into consideration the time period audited; the THECB rules, regulations, publications, and communications in effect during the base time period of the audit; and the timing and impact of the clarifications published by THECB.

As we noted, the time period audited runs from the beginning of the third quarter of 2014 to the end of the second quarter of 2015. During this entire time period, there were THECB publications, such as the GIPWE, which expressly permitted local college boards to set tuition in continuing education programs below the minimum tuition for semester credit hours set out in Texas Education Code § 54.051(n).

We also discussed that this language was taken out in the July 2015 amendments to the GIPWE, and we acknowledge that through its auditors' interpretation and application of the law and THECB rules and regulations, and the action of the Board in this matter, the THECB has now made clear its position that tuition for continuing education programs that will be submitted for state contact hour appropriations must at least meet the minimum set out in §54.051(n), or a pro rata percentage of that minimum for classes lasting less than a semester.

Additionally, we exchanged views on whether current state law or THECB rules, regulations, or publications clearly define a minimum age for students to participate in continuing education workforce training programs that are eligible for state appropriations. I understand fully your position that there must be some minimum age, and I agree with your stated position that the THECB should work cooperatively with community colleges to arrive at a defined minimum age, perhaps in a further amendment to the GIPWE that would be submitted in the near future to community colleges for comment and input.



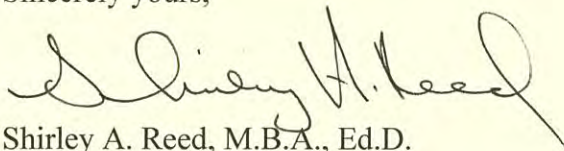
Because the THECB's current position was not clearly reflected in the 2010 GIPWE that was in effect for the time period under audit, South Texas College believes a fair compromise of the audit outcome would be that the appropriations made to the College for its continuing education program prior to July 2015 would be allowed, but that no further state appropriations for the continuing education programs identified in the Audit would be permitted for the remainder of the biennium.

In our meeting, you suggested that this would be a reasonable compromise, and that you would support bringing this matter to the attention of the Board at its October, 2016 meeting. However, you noted that because the Board has already taken action on this matter at its July 21, 2016 meeting, it is up to the Board's discretion to take action to reconsider its determination and to modify it.

I have discussed this matter with the South Texas College Board, and with their approval I hereby request that this matter be added to the THECB agenda for the October meeting. We understand that it might be presented to the Agency Operations Committee before the full Board meeting, and we stand ready to attend any meetings necessary to present this compromise and seek Board approval.

Again, we at South Texas College appreciate your willingness to meet and discuss a possible compromise, and further appreciate your willingness to recommend the compromise set out above. I can be reached at (956) 872-8366 or via email at [sareed@southtexascollege.edu](mailto:sareed@southtexascollege.edu), should you wish to contact me.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Shirley A. Reed". The signature is fluid and cursive, with the first name being the most prominent.

Shirley A. Reed, M.B.A., Ed.D.  
President