

TEXAS HIGHER EDUCATION COORDINATING BOARD

Agency Operations Committee

1200 EAST ANDERSON LANE, BOARD ROOM 1.170

AUSTIN, TEXAS

2:00 P.M., April 19, 2017

*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.

I. Welcome and Committee Chair's Opening Remarks

II. Consideration of Approval of the Minutes from January 25, 2017, Committee Meeting

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

IV. Agency Operations

- A. Report on Major IT Projects in Progress
- B. Report on grants and contracts, including those exceeding \$1 million
- C. Update on the Board's Budget Priorities for the 85th Texas Legislature

V. Finance

- A. Review of the Year to Date Fiscal Year 2017 Financial Report to the Board
- B. Consideration of adopting the Commissioner's recommendation to the Committee to extend the existing contract with the Financial Advisor for the agency's student loan program for one additional year
- C. Consideration of adopting the staff's recommendation to the Committee relating to a contract with Pitney Bowes for postage services

VI. Internal Audit

- A. Discussion of Statements on Auditing Standards No. 114, The Auditor's Communication with Those Charged with Governance
- B. Discussion of the State of Texas Federal Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2016, Report Number 17-314 issued February 2017 by the Texas State Auditor's Office

- C. Discussion of the State of Texas Financial Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2016, Report Number 17-555 issued February 2017 by the Texas State Auditor's Office
- D. Update on Internal Audit Reports and Activities

VII. Compliance Monitoring

- A. Update on Compliance Monitoring Reports and Activities

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

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

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

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

Committee on Agency Operations

AGENDA ITEM I

Welcome and Committee Chair's Opening Remarks

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

Committee on Agency Operations

AGENDA ITEM II

Consideration of Approval of the Minutes from January 25, 2017, Committee meeting

RECOMMENDATION: Approval

DRAFT

**TEXAS HIGHER EDUCATION COORDINATING BOARD
Agency Operations Committee**

**Wednesday, January 25, 2017
Board Room, 1st Floor
Room 1.170
2:00 p.m.
1200 East Anderson Lane, Austin, Texas**

The Committee on Agency Operations convened at 2:00 p.m. on January 25, 2017, with the following members present: John Steen; presiding; David Teuscher; Javaid Anwar; Fred Farias; Stuart Stedman; and Bobby Jenkins (Ex-Officio).

Committee members not present: Ricky Raven

Other Board Members present: Janelle Shepard

AGENDA ITEM	ACTION
I. Welcome and Committee Chair's Opening Remarks	Chair John Steen called the meeting of the Agency Operations Committee to order.
II. Consideration of Approval of the Minutes from October 19, 2016, Committee Meeting	On a motion by Dr. Teuscher, seconded by Dr. Farias, the Committee approved the October 19, 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. Consideration of adopting the Commissioner's recommendation to the Committee to amend the Charter for the Agency Operations Committee	On a motion by Dr. Teuscher, seconded by Mr. Anwar, the Committee approved the amendments to the Charter for the Agency Operations Committee.
B. Consideration of adopting the staff's recommendation to the Committee relating to the Board Operating Policies and Procedures	On a motion by Mr. Stedman, seconded by Dr. Teuscher, the Committee approved the Board Operating Policies and Procedures.

AGENDA ITEM	ACTION
C. Report on Major IT Projects in Progress	Ms. Zhenzhen Sun, Interim Assistant Commissioner, Information Solutions and Services, presented this item to the Committee. This item did not require any action.
D. Report on grants and contracts, including those exceeding \$1 million	No action required.
E. Update on the Board's Legislative Appropriations Request to the 85th Texas Legislature	Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer, provided the Board with an update on the agency's Legislative Appropriations Request. This item did not require any action.
V. Finance	
A. Review of the Year to Date Fiscal Year 2017 Financial Report to the Board	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee. This item did not require any action.
B. Update on the December 2016 Agency Loan Program Sale of General Obligation Bonds	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee. This item did not require any action.
C. Consideration of the staff's recommendation to the Committee relating to the authorization to enter into an agreement with the Office of the Attorney General (OAG) to continue to provide collection services for the agency's student loan program as well as contracts ancillary thereto	On a motion by Dr. Teuscher, seconded by Mr. Anwar, the Committee approved entering into an agreement with the OAG to continue to provide collection services for the agency's student loan program as well as contracts ancillary thereto. Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the committee. Mr. Ron Del Vento, Assistant Attorney General, Chief, Bankruptcy & Collections Division and Mr. William Franz, General Counsel were available for questions.

AGENDA ITEM	ACTION
D. Update on the Outcome of the Student Loan Program Review Performed by Weaver, L.L.P.	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO and Dr. Charles Puls, Deputy Assistant Commissioner for the Office of Student Financial Aid Programs presented this item to the Committee. This item did not require any action.
E. Consideration of adopting the Commissioner's recommendation to the Committee to amend the existing contract for Bond Counsel relating to the performance of legal services for the agency for the student loan bond program for an additional one year period	On a motion by Mr. Stedman, seconded by Dr. Teuscher, the Committee approved amending the existing contract for Bond Counsel relating to performance of legal services for the agency for the student loan bond program for an additional one year period.
VI. Internal Audit	
A. Update on Internal Audit Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
VII. Compliance Monitoring	
A. Update on Compliance Monitoring Reports and Activities	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.

With no further business, on a motion by Dr. David Teuscher, seconded by Dr. Farias, the meeting adjourned at approximately 4:10 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.

Agency Operations Committee

AGENDA ITEM IV-A

Report on Major IT Projects in Progress

RECOMMENDATION: No action required

Background Information:

Information Solutions and Services (ISS) provides a report to the Agency Operations Committee on major, high visibility IT projects. Below is a brief report on the two ongoing major projects. At this time both projects are on schedule.

Status:

Implementation of the new Student Loan System – ON SCHEDULE (Revised Launch Date: April 10th, 2017*)

**The original go-live date for this project was in January, 2017. A project status report and the explanation of the delay were presented at the January, 2017 AOC meeting. Based on the revised launch date, the project is on schedule.*

The goal of the project is to upgrade the student loan system, HELMS, to its latest platform. The system is used by the agency to manage origination and servicing of the \$1.5 Billion Student Loan portfolio.

The project team will go live with the new system on April 10th, 2017.

- **Accomplishments**

- New system passed the Security Penetration Test
- Infrastructure configuration complete
- Security roles for schools configured
- Validation of all the reports complete
- Started regression test on 2/18/2017

- **Upcoming Activities**

- System Performance Signoff – 03/2017
- Implementation Planning – 03/2017
- System Go-Live – 04/10/2017

- **Project Objectives**

- \$500K annual license savings
- Improved user experience
- More modern technical architecture
- Reduced IT support costs
- Improved reliability/uptime

Implementation of the CAPPs Financial/Purchasing/Contracts System - ON
SCHEDULE WITH MANAGEABLE RISKS (Mitigation Plan in Progress)

CAPPs Financials/Purchasing/Contracts system 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.

- **Risks**

- "One size fits all" solution doesn't meet all the business needs of the agency
- Limited reporting capabilities of the new system
- Short runway for testing and training due to the tight implementation schedule
- Governor's directive on hiring freeze; as a result, ISS was not able to fill the vacant contractor Business Analyst position needed by the project team

- **Risk Mitigation Plan**

- Subject matter experts are drafting contingency plans and putting together an Impact Analysis report to help quantify the impact to the agency's productivity and business continuity with the go-live of the CAPPs system
- CPA has offered to build up to 10 custom reports for our agency using Business Objects; at the same time ISS is exploring solutions outside the CAPPs system to help meet the reporting needs of the business users
- The project team will start working on the detailed training and testing plans in April
- The Business Relationship Manager and the Project Manager are performing the job duties originally assigned to the contractor Business Analyst

- **Accomplishments:**

- Work sessions are in progress for both Reports development and Workflow definitions
- A detailed project plan is being developed to cover all the change management needs for the go-live of the new system

- **Upcoming Activities:**

- Complete prototyping sessions – 03/2017
- Complete plans for training and testing – 04/2017 through 05/2017
- Start User Acceptance Testing – 06/2017
- Go-live – 09/2017

- **Project Budget:** \$750K provided by legislature

Zhenzhen Sun, Interim Assistant Commissioner for Information Solutions and Services, Ken Martin, Assistant Commissioner for Financial Services/CFO, and Bill Franz, General Counsel will present this item to the Committee.

Committee on Agency Operations

AGENDA ITEM IV-B

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 IV-C

Update on the Board's Budget Priorities for the 85th Texas Legislature

RECOMMENDATION: No action required

Background

By the time this agenda item is presented to the Agency Operations Committee, it is expected that both the House and the Senate will have adopted their version of the General Appropriations Act (GAA) for the 2018-19 biennium. The appointment of a conference committee composed of both House and Senate members to consider any differences between the bills will have been established. As of March 23, 2017, the House Appropriations Subcommittee made very few changes to the Board's budget from the introduced version of House Bill 1, which was presented at the January Agency Operations Committee meeting. In contrast, the Senate Finance Committee fully funded or partially funded most of the Board's Exceptional Item Requests, but also applied significant reductions to the agency's administrative budget.

Linda Battles, Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer, will provide the Board with the latest update on the Board's LAR and David Young, Senior Director of Funding will provide the latest update on higher education formula funding.

Committee on Agency Operations

AGENDA ITEM V-A

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

RECOMMENDATION: No action required

Background Information:

During each quarterly 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. Staff may revise this report periodically to present the most relevant information.

Key points:

- This report reflects data for the period of 9/1/16 through 2/1/17
- Enhanced loan reporting
- The report is distributed to agency executive management on a monthly basis
- Fiscal year 2017 is the last year in this biennium

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

Committee on Agency Operations

AGENDA ITEM V-B

Consideration of adopting the Commissioner's recommendation to the Committee to extend the existing contract with the Financial Advisor for the agency's student loan program for one additional year

RECOMMENDATION: Approval

Background information:

The Board retains a Financial Advisor to advise Board staff on the issuance of bonds that provide funds for the operation of the Student Loan Program. The Financial Advisor's role includes advising Board staff on matters pertinent to a proposed bond issue such as issue structure, timing, marketing, fairness of pricing, terms, and bond ratings. The Financial Advisor may also assist Board staff in preparing cash flows that model the Student Loan program's cash flows to ensure adequate liquidity to maintain program operations in the future. The current contract will expire on August 31, 2017.

- Due to bonding constraints and potential legislative actions, Finance will need to revise the bonding process this next year and maintaining continuity of our Financial Advisor will assist in this endeavor.
- The existing contract allows for a one year extension
- The current provider is First Southwest, a division of Hill Top Securities
- This is an extension for the period of 9/1/17-8/31/18 and will not change the original contract amount

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

Committee on Agency Operations

AGENDA ITEM V-C

Consideration of adopting the staff's recommendation to the Committee relating to a contract with Pitney Bowes for postage services

RECOMMENDATION: Approval

Background Information:

The Department of Information Resources (DIR) has a master service agreement (MSA) with Pitney Bowes to provide postage services for state agencies. The agency has leveraged this MSA in the past to support the postage needs of the agency with the highest utilization residing in the student loan program. Staff is requesting authority to expend up to \$400,000 for fiscal year 2018 under this MSA.

Key points:

- This does not require an RFQ due to the existing MSA.
- Ref: MSA (DIR-DCS-SCP-MSA-003).

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

Committee on Agency Operations

AGENDA ITEM VI-A

Discussion of Statements on Auditing Standards No. 114, The Auditor's Communication With Those Charged With Governance

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

In accordance with the requirements of the Statements on Auditing Standards No. 114, the Board's external auditor, KPMG, LLP will be discussing their responsibility under generally accepted auditing standards. The discussion will include the auditor's responsibility for forming and expressing an opinion on whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects and in conformity with generally accepted accounting principles.

The auditor will also communicate an overview of the planned scope and timing of the audit, as well as financial risk areas.

The Higher Education Audit Plan is attached.

Ms. Susan Warren with KPMG, LLP will present this item to the Committee.



Texas Higher Education Coordinating Board

Audit plan for the year ended August 31, 2016
April 19, 2017

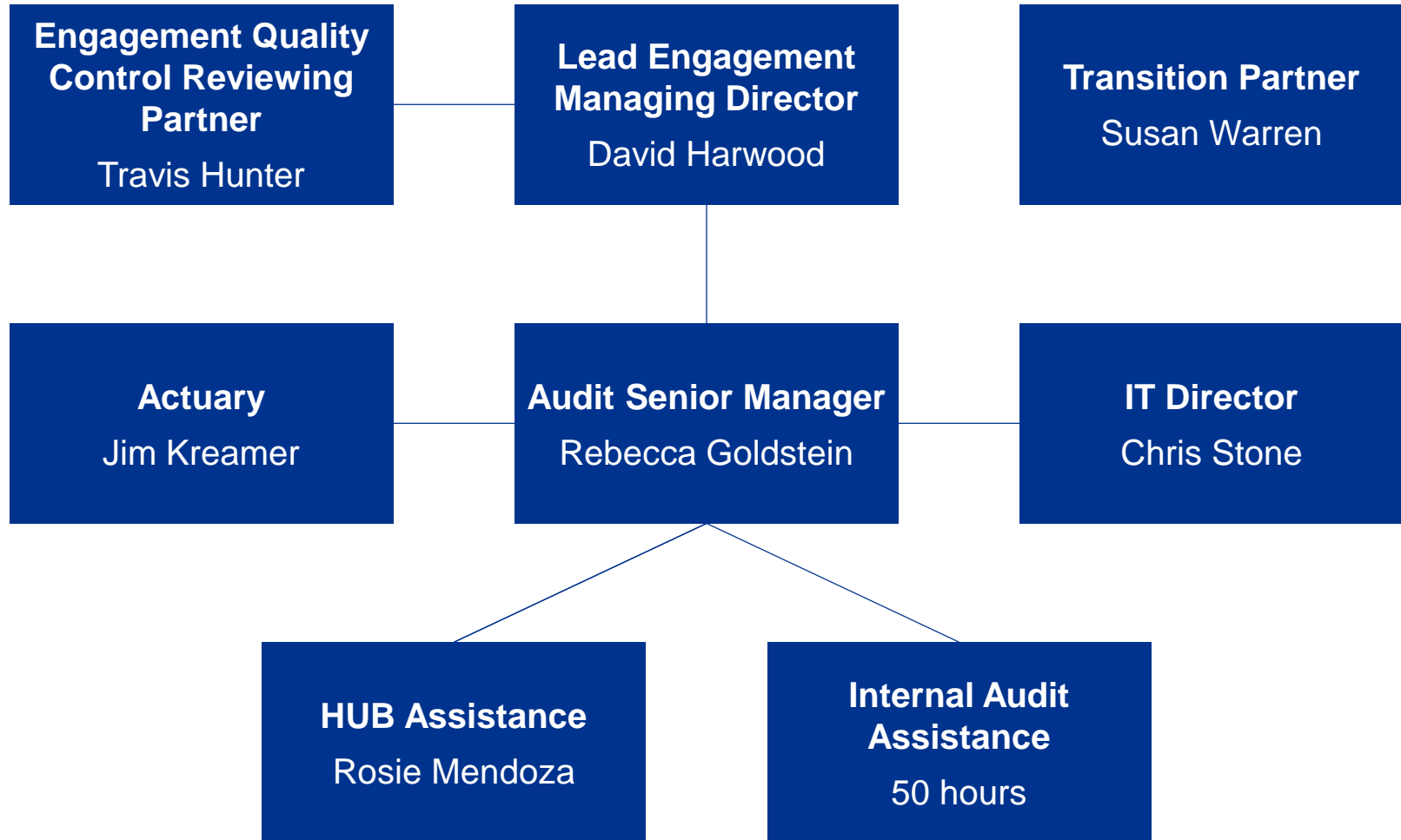
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Agenda

1. Client service team
2. Objective of an audit
3. Responsibilities
4. KPMG's audit approach and methodology
5. Risk assessment
6. Audit plan
 - Scope
 - Materiality
 - Deliverables and timeline
 - Auditing and accounting matters
7. 2016 Statewide Single Audit results

Client Service Team



Objective of an Audit

1. The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Agency Operations Committee are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).
2. We plan and perform the audit to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether from error or fraud.
3. Our audit includes:
 - Performing tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement to provide a reasonable basis for our opinion.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluating the overall financial statement presentation.

Management Responsibilities

1. Adopting sound accounting policies.
2. Fairly presenting the financial statements in conformity with GAAP.
3. Establishing and maintaining effective internal control over financial reporting (ICFR).
4. Identifying and confirming that THECB complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations.
5. Making all financial records and related information available to the auditor.
6. Providing unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.
7. Adjusting the financial statements to correct material misstatements.
8. Providing the auditor with a letter confirming certain representations made during the audit that includes, but are not limited to management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect THECB's financial reporting.
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent and detect fraud.
 - Affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate to the financial statements taken as a whole.

Agency Operations Committee Responsibilities

The Agency Operations Committee is responsible for:

1. Oversight of the financial reporting process and oversight of ICFR.
2. Oversight of the establishment and maintenance by management of programs and internal controls designed to prevent and detect fraud.

Management and the Agency Operations Committee is responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

The audit of the financial statements does not relieve management or Agency Operations Committee of their responsibilities.

KPMG Responsibilities

1. Forming and expressing an opinion about whether the financial statements that have been prepared by management, with the oversight of the Agency Operations Committee, are presented fairly, in all material respects, in conformity with GAAP.
2. Planning and performing the audit with an attitude of professional skepticism to obtain reasonable – not absolute – assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Because of the nature of audit evidence and the characteristics of fraud, we are able to obtain reasonable, but not absolute, assurance that material misstatements will be detected. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
3. Conducting the audit in accordance with professional standards and complying with the Code of Professional Conduct of the American Institute of Certified Public Accountants, and the ethical standards of relevant CPA societies and relevant state boards of accountancy.
4. Evaluating ICFR as a basis for designing audit procedures, but not for the purpose of expressing an opinion on the effectiveness of the entity's ICFR.
5. Communicating to management and the Agency Operations Committee all required information, including significant matters.
6. Communicating to the Agency Operations Committee and management in writing all significant deficiencies and material weaknesses in internal control identified in the audit and reporting to management all deficiencies noted during our audit that are of sufficient importance to merit management's attention.

Responsibilities for Other Information in Documents Containing Audited Financial Statements

The auditor's report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information. Other information includes Management's Discussion and Analysis (MDA) and the Schedule of Budgeted and Actual Revenues and Expenditures.

2. We are required to:
 - Read the other information to identify material inconsistencies or misstatement of facts, if any, with the audited financial statements, and
 - Make appropriate arrangements with management or the Agency Operations Committee to obtain the other information prior to the report release date.
3. Any material inconsistencies or misstatement of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.

KPMG's Audit Approach and Methodology

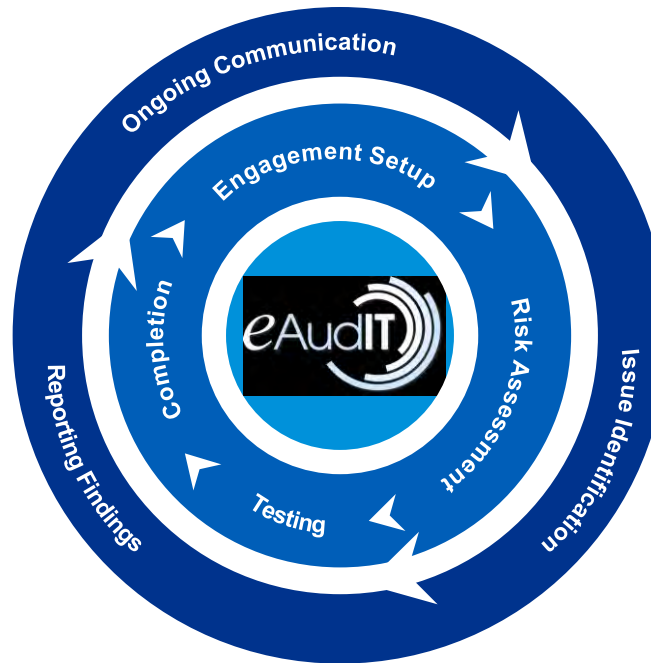
Technology enabled audit work flow

Engagement setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Update risk assessment
- Perform overall evaluation of results and the financial statements
- Form and issue audit opinion on the financial statements
- Obtain written representations from management
- Required Agency Operations Committee communications
- Debrief audit process



Risk assessment

- Understand your business and financial processes
- Identify significant risks
- Plan involvement of specialists and others including experts, and service organizations
- Determine audit approach
- Evaluate design and implementation of your internal controls

Testing

- Test effectiveness of internal controls, as applicable
- Perform substantive tests

Risk Assessment

Significant audit areas	Significant risk areas	Significant unusual transactions/other items	Information technology matters
<ul style="list-style-type: none"> ➤ Valuation and existence of student loans and related balances ➤ Valuation of debt and compliance with debt covenants ➤ Completeness, existence, and accuracy of appropriations and grant revenues and related balances ➤ Completeness, existence, and accuracy of financial assistance expenses and related balances 	<ul style="list-style-type: none"> ➤ Allowance for student loans and related balances ➤ Management override of controls 	<ul style="list-style-type: none"> ➤ Commitments and contingent liabilities 	<ul style="list-style-type: none"> ➤ General information technology environment ➤ Application level controls <ul style="list-style-type: none"> ➤ HELMS ➤ MIP ➤ CRS ➤ BMS

Scope

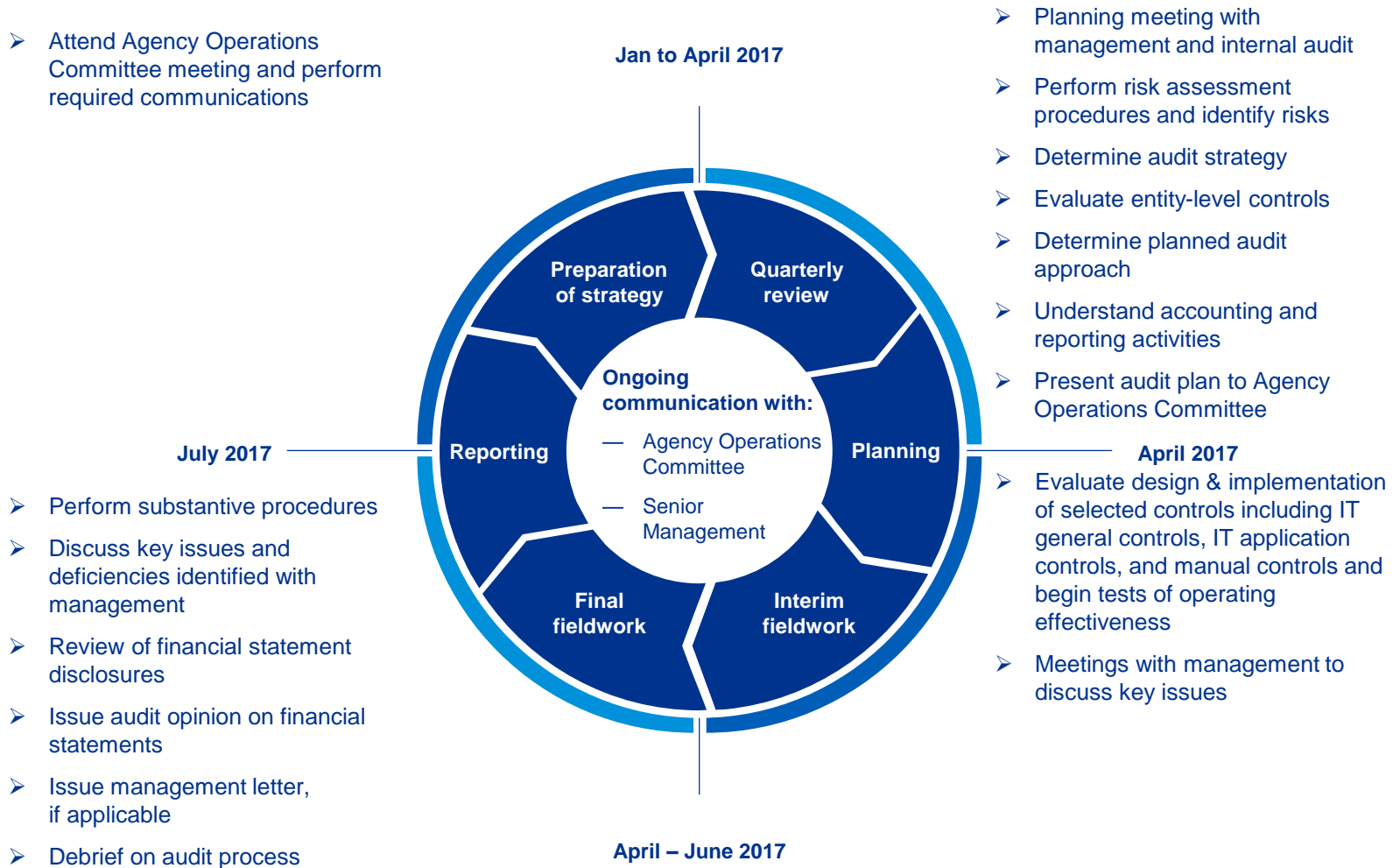
Scope of work	<i>Texas Higher Education Coordinating Board's financial statements for the year ended August 31, 2016</i>
Applicable financial reporting framework	<i>U.S. generally accepted accounting principles (GAAP) Government Auditing Standards (GAS) Government Accounting Standards Board (GASB)</i>
Applicable auditing standards	<i>Standards of the AICPA</i>
Other terms of engagement	<i>Management Letter, if applicable SAS 114 communication</i>

Materiality

1. Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
2. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
3. Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
4. Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Deliverables and Timeline

- Attend Agency Operations Committee meeting and perform required communications



Auditing and Accounting Matters

Other matters for discussion with the agency operations committee:

1. Is the Agency Operations Committee Chair the appropriate person for communication of audit matters during the audit?
2. Any changes to the allocation of responsibilities between management and the Agency Operations Committee?
3. Have there been any significant changes to THECB's objectives and strategies and related business risks?
4. Any additional areas that warrant particular attention during the audit?
5. Any significant communications with regulators?
6. What are the Committee's attitudes, awareness, and actions concerning (a) THECB's internal controls and its importance in THECB, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud?
7. Any matters relevant to the audit, including but not limited to, violations of possible violations of laws or regulations?
8. Any Committee actions in response to developments in law, accounting standards, corporate governance, and other related matters?

2016 Statewide Single Audit Results for THECB

Three written findings over the Federal Family Education Loan Program (FFELP) for the year ended August 31, 2016.

1. Special test compliance area for individual records and enrollment reports – Significant deficiency regarding controls over monitoring the reports prior to April 2016 when new procedures were implemented. Non-compliance for two files related to records not being able to be located and updates completed timely.
2. Special test compliance area for due diligence – Significant deficiency regarding controls over monitoring the performance of required procedures was not performed until September 2016. Non-compliance for five of forty files for not having the required telephone contacts completed.
3. Special test compliance area for interest benefits, special allowance payments and payment processing – Significant deficiency regarding controls over monitoring of the various calculations prior to March 2016 when new procedures were implemented.

2016 Statewide Single Audit Results for THECB (continued)

Two internal control deficiencies (verbal comments) were noted. These items were mitigated such that the threshold for inclusion in the written report was not met.

1. Certain password settings do not align with THECB general policies on HelmNet.
 - **Mitigation** – Users must first logon to the network and parameters for network were tested without exception. Administrative access tested without exception.
 - **Recommendation** – Update password settings and/or general policies for password setting exceptions which management has determined to be appropriate.
2. Two default claims were filed after the 90 day timeframe.
 - **Mitigation** – Common Manual does allow for a five day grace period for a mail allowance. Both claims were subsequently paid.
 - **Recommendation** – Continue to monitor filing of claims to ensure done timely.



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Committee on Agency Operations

AGENDA ITEM VI-B

Discussion of the State of Texas Federal Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2016, Report Number 17-314 issued February 2017 by the Texas State Auditor's Office

RECOMMENDATION: No Action Required

BACKGROUND INFORMATION:

The Federal Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2016, Report Number 17-314 identified three Coordinating Board findings. Two findings were classified as Significant Deficiencies and Non-Compliance and the third finding was classified as a Significant Deficiency. There were no questioned costs associated with these findings.

- A significant deficiency is a deficiency, or combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.
- A material weakness is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.
- Material Noncompliance is a failure to follow requirement that is material to program. Consider best estimate of total questioned costs (known and most likely). Determination is made in relation to type of compliance requirement for the major programs or an audit objective. (Not all major programs combined.) Also consider aggregation of similar findings.
- Noncompliance is noncompliance that is not considered material but is greater than \$25,000 in questioned costs.

Finding 2016-037 FFEL Enrollment Reports

For one out of 40 borrowers for individual records reviewed, the borrower's disclosure statement could not be located for the loan selected. For one of 40 manual status changes from enrollment reports, the borrower was not timely updated from deferment status for an enrollment change from half time to less than half time status. The report notes that the Coordinating Board implemented a new reporting control in April 2016 to more effectively monitor the manual enrollment status changes.

CB management response affirms that the corrective actions were implemented in April, 2016.

2016-038 FFEL Lender Due Diligence

For five of 40 delinquent borrower accounts reviewed, the required due diligence telephone contact efforts were not completed. The report notes that additional due diligence efforts were instituted during 2016.

CB management response affirms that additional due diligence efforts were implemented in August, 2016 and February, 2017.

2016-039 FFEL Interest Benefits and Special Allowance Payments

A review control to recalculate interest rate, average daily balance, and interest benefit amounts reported to the Department of Education were not performed for reports for quarters ending September, 2015 and December, 2015. The review control was performed for the quarter ended March, 2016, but not in a timely manner.

CB management response states that process enhancements have been implemented effective August, 2016.

The reported findings are provided on the following pages.

Susan Warren with KPMG, LLP will present this item to the Committee. KPMG, LLP performs this audit under contract with the Texas State Auditor's Office.

Texas Higher Education Coordinating Board

Reference No. 2016-037

Special Tests and Provisions – Individual Record Review**Special Tests and Provisions – Enrollment Reports****CFDA 84.032L – Federal Family Education Loans (FFEL)****Award year – July 1, 2015 to June 30, 2016****Award number – N/A****Statistically valid sample – no****Type of finding – Significant Deficiency and Non-Compliance**

Per 2 CFR 200.303, the Texas Higher Education Coordinating Board (THECB) must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Questioned Cost:	\$0
U.S. Department of Education	

For Individual Record Review, a lender is required to maintain current, complete, and accurate records of each loan that it holds. These loan records (files) form the basis for the information contained in the Lender's Interest and Special Allowance Request and Report (LaRS). The records must be maintained in a system that allows ready identification of each loan's status. Except for the loan application and the promissory note, these records may be stored in microform, computer file, optical disk, CD-ROM, or other media formats provided that the means of storage meets the requirements in 34 CFR Sections 668.24(d)(3)(i) through (iv) (34 CFR Section 682.414(a)).

For Enrollment Reporting, schools are required to confirm and report to the National Student Loan Data System (NSLDS) the enrollment status of students who receive Federal student loans. Enrollment information is used to determine the borrower's eligibility for in-school status, deferment, interest subsidy, and grace period. Enrollment changes, such as a change from full-time to half-time status, graduation, withdrawal, or an approved leave of absence, are changes that need to be reported. The enrollment information is merged into the NSLDS database and reported to guarantors, lenders, and servicers of student loans.

Lenders must use the NSLDS data to make adjustments for interest and special allowance billings on each loan. The billing for interest benefits and special allowance payments relies on the timely and proper processing of student enrollment information, including timely conversion to repayment status. The conversion of a loan to repayment status is subject to a number of conditions as defined in 34 CFR Section 682.209. Typically, Stafford loan borrowers begin repayment six months following the date on which the borrower is no longer enrolled on at least a half-time basis at a school. PLUS and consolidation loans go into repayment on the day the loan is disbursed, or if disbursed in multiple installments, on the date the loan is fully disbursed. The first payment is due within 60 days of the date the loan is fully disbursed (34 CFR Section 682.209).

Clearinghouse Report or NSLDS data should be updated in the lender's records within 60 days of notification (report date per NSLDS or Clearinghouse Reports). For student who are converting to repayment status, repayment date should be calculated based on the six month grace period or 30 day notice for students whose grace has already expired. If the borrower is in repayment status when the THECB is notified the first payment must be due no later than 75 days from notification (report date). (34 CFR section 628.209).

THECB downloads approximately two to three Clearinghouse files per week for processing. When the Clearinghouse reports are run through batch in THECB's loan system, there are two reports generated from these batch runs that contain information affecting the status of a student. One of these files is a listing of records that were automatically updated in THECB's loan system. The other is a listing of records that need to be manually reviewed and changed if deemed necessary.

Effective April 2016, THECB implemented a monthly control to monitor and sample the manual enrollment status update report processing to ensure borrower statuses were being updated completely and accurately. Prior to April 2016, there was no evidence of review of the manual enrollment status update report processing.

Audit procedures involved a review of 40 borrowers' individual records and 65 borrowers' status changes from enrollment reports. Of the 65 borrowers examined for enrollment report status changes, 40 were generated from manual update reports and 15 were generated from automated update reports. For one out of 40 borrowers for individual records reviewed, the borrower's disclosure statement could not be located for the loan selected. For one out of 40 manual status changes from enrollment reports, the borrower was not timely updated from deferment status as a half time student to repayment status as a less than half time student. The borrower dropped below half time enrollment status on July 10, 2015, and re-entered half time enrollment status on June, 6, 2016. The borrower remained in deferment status during this time. On July 18, 2016 a correction was made in the THECB's system to reverse interest billed to federal government of approximately \$736 during the ineligible deferment status. This correction was reported on the September 30, 2016 LaRS, therefore no questioned costs. All borrower status changes examined on automated update reports were timely and accurately updated in THECB's loan system.

Recommendation:

THECB should continue the monthly monitoring and sampling of the manual enrollment status update report processing begun in April 2016. THECB should also ensure retention of all required individual record review documentation.

Views of Responsible Officials:

Accepted. The Agency has already implemented significant process enhancements in this areas. Through analysis of the exceptions identified in the audit, the Agency will work to develop and implement corrective action to further improve the processes. See the corrective action plan for further details.

Corrective Action Plan:

Additional quality control and quality assurance measures have been put into place since April 2016 to ensure that borrower statuses are being updated completely and accurately, as noted below:

Quality Control

- The Manager of Account Services reviews the Clearinghouse folder weekly to ensure reports are started and completed in a timely manner.
- *The Manager reviews reports to ensure all TX and accounts reported as A, G, L or W have been reviewed and notated.*
- *If corrections are required, the Manager will send notification to the Account Representative who performed the initial review and follow-up to confirm the correction is complete.*
- *Once document has been determined complete, the Manager will notate on the document that Quality Control is complete, and the document will be moved to the current year folder, indicating it is ready for quality assurance review.*

Quality Assurance

- On a rotating monthly basis, a Team Lead in Account Services will select on NCS report and one TERP report for Quality Assurance review.
- Ten percent of the accounts reviewed by an Account Representative will be randomly selected for Quality Assurance review, not to exceed 10 accounts per Account Representative.
- If corrections are required, the Team Lead will send notification to the Account Representative who performed the initial review and follow-up to confirm the correction is completed.
- Accounts reviewed by the Team Lead will be documented and feedback provided to the Account Representative.
- The Team Lead will document accounts reviewed by highlighting the account to correspond with their highlighted initials on the document.

Implementation Dates: April 2016 and November 2016

Responsible Person: Ron Stroud

Reference No. 2016-038

Special Tests and Provisions – Due Diligence by Lenders in the Collection of Delinquent Loans

CFDA 84.032L – Federal Family Education Loans (FFEL)

Award year – July 1, 2015 to June 30, 2016

Award number – N/A

Statistically valid sample – no

Type of finding – Significant Deficiency and Non-Compliance

Per 2 CFR 200.303, Texas Higher Education Coordinating Board (THECB) must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Questioned Cost:	\$0
U.S. Department of Education	

Lenders are required to engage in specific collection activities and meet specific claim-filing deadlines on delinquent loans. In the case of a loan made to a borrower who is incarcerated, residing outside the United States or its Territories, Mexico, or Canada, or whose telephone number is unknown, the lender may send a forceful collection letter instead of each telephone effort described below. There are also specific collection activities that must be performed before a lender can file a default claim on a loan with an endorser. The due diligence provisions preempt any State law, including State statutes, regulations, or rules that would conflict with or hinder satisfaction of the requirements or frustrate the purposes of that section (34 CFR Section 682.411).

Collection activity with respect to a loan is defined as:

- a. Mailing or otherwise transmitting to the borrower at an address that the lender reasonably believes to be the borrower's current address, a collection letter or final demand letter that satisfies the timing and content requirements of 34 CFR Sections 682.411(c), (d), (e), or (f);
- b. Attempting telephone contact with the borrower;
- c. Conducting skip-tracing efforts, in accordance with 34 CFR Sections 682.411(h)(1) or (m)(1)(iii) to locate a borrower whose correct address or telephone number is unknown to the lender;
- d. Mailing or otherwise transmitting to the guaranty agency a request for default aversion assistance available from the agency on the loan at the time the request is transmitted; or
- e. Any telephone discussion or personal contact with the borrower as long as the borrower is apprised of the account's past-due status (34 CFR Section 682.411(l)(5)).

A lender/servicer may not permit the occurrence of a gap of more than 45 days (or 60 days in the case of a transfer) in collection activity on a loan (34 CFR Section 682.411(j)).

A lender is required to maintain complete and accurate records of each loan that it holds. In determining whether the lender met the due diligence compliance requirements pertaining to collection of delinquent loans, the documentation maintained must include a collection history showing the date and subject of each communication between the lender and the borrower or endorser relating to collection of a delinquent loan; each communication (other than regular reports by the lender showing that an account is current) between the lender and a credit bureau regarding the loan; each effort to locate a borrower whose address is unknown at any time; and each request by the lender for default aversion assistance on the loan (34 CFR Section 682.414(a)(4)).

Failure to comply with the Federal due-diligence regulations will result in the loss of reinsurance for the guaranty agency, the loss of a lender's right to receive an insurance payment from the guaranty agency's Federal Fund, and the lender's right to receive interest and special allowance (34 CFR Part 682, Appendix D, Paragraph I.B.3).

The required collection activities are described below. As part of one of the collection activities, the lender must provide the borrower with information on the availability of the Student Loan Ombudsman's office (34 CFR Section 682.411).

1 to 15 Days Delinquent: One written notice or collection letter should be sent to the borrower informing the borrower of the delinquency and urging the borrower to make payments sufficient to eliminate the delinquency (except in the case where a loan is brought into this period by a payment on the loan, expiration of an authorized deferment or forbearance period, or the lender's receipt from the drawee of a dishonored check submitted as a payment on the loan.) The notice or collection letter sent during this period must include, at a minimum, a lender contact, a telephone number, and a prominent statement informing the borrower that assistance may be available if he or she is experiencing difficulty in making a scheduled repayment.

16 to 180 Days Delinquent (16-240 days delinquent for a loan repayable in installments less frequently than monthly): Unless exempted as set forth in 34 CFR Section 682.411(d)(4), during this period the lender shall engage in the following:

- a. At least four diligent telephone contacts (see definition of a "diligent telephone contact" below) urging the borrower to make the required payments on the loan. At least one of the telephone contacts must occur on or before the 90th day of delinquency and another one must occur after the 90th day of delinquency.
- b. At least four collection letters – at least two of which must warn the borrower that if the loan is not paid, the lender will assign the loan to the guaranty agency that, in turn, will report the default to all national credit bureaus, and that the agency may institute proceedings to offset the borrower's State and Federal income tax refunds and other payments made by the Federal Government to the borrower, or to garnish the borrower's wages, or assign the loan to the Federal Government for litigation against the borrower.

Diligent efforts for telephone contact are defined in 34 CFR Section 682.411(m) as:

- a. A successful effort to contact the borrower by telephone;
- b. At least two unsuccessful attempts to contact the borrower by telephone at a number that the lender reasonably believes to be the borrower's correct telephone number; or
- c. An unsuccessful effort to ascertain the borrower's correct telephone number, including but not limited to, a directory assistance inquiry as to the borrower's telephone number and sending a letter to or making a diligent effort to contact each reference, relative, and individual identified in the most recent loan application or most recent school certification for that borrower that the lender holds. The lender may contact a school official other than the financial aid administrator who reasonably may be expected to know the borrower's address.

Skip-Tracing Requirements

Skip-tracing is the process by which lenders attempt to obtain corrected address or telephone information for borrowers for whom the lender does not have accurate information. Skip-tracing processes must meet regulatory time frames and minimum standards as outlined in 34 CFR Section 682.411(h).

Unless the final demand letter (as specified in the "Subsequent Payment or Information Obtained" section above) has already been sent, the lender shall begin to diligently attempt to locate the borrower through the use of effective commercial skip-tracing techniques within 10 days of its receipt of information indicating that it does not know the borrower's current address. These efforts must include, but are not limited to, sending a letter to or making a diligent effort to contact each endorser, relative, reference, individual, and entity identified in the borrower's loan file, including the schools the student attended. For this purpose, a lender's contact with a school official that might reasonably be expected to know the borrower's address may be with someone other than the financial aid administrator, and may be in writing or by telephone.

These efforts must be completed by the date of default with no gap of more than 45 days between attempts to contact those individuals or entities. Upon receipt of information indicating that it does not know the borrower's current address, the lender shall discontinue the collection efforts described in the "Subsequent Payment or Information Obtained" section.

If the lender is unable to ascertain the borrower's current address despite its performance of the activities described in the "Subsequent Payment or Information Obtained" section, the lender is excused thereafter from performance of the collection activities (with the exception of a request for default aversion assistance) unless it receives a communication indicating the borrower's address prior to the 241st day of delinquency (the 301st day for loans payable in less frequent installments than monthly).

For required phone calls, THECB relies on their loan system configuration to appropriately place a borrower in a call queue based on status/number of days past due. A manual review control for required due diligence procedures was put in place beginning with the June 30, 2016 Lender's Interest and Special Allowance Request and Report (LaRS). This control was not performed however for the LaRS for quarters ended September 30, 2015, December 31, 2015, or March 31, 2016. As of September 2016 a monthly control was put in place to review due diligence efforts for a sample of delinquent loans.

Additionally, a review control to ensure skip-tracing activities were done for borrowers with missing or incorrect telephone information was not implemented until July 2016. Prior to this date there was not a control in place.

Audit procedures involved a review of 40 delinquent borrower accounts. Five out of 40 borrowers selected did not have the required due diligence telephone contact efforts completed. Two accounts were over 90 days past due but less than 180 days past due and did not have at least one full due diligence call completed prior to going over 90 days past due; one of these calls had an invalid phone number which was not skip-traced prior to going over 90 days past due. Three accounts were over 180 days past due and did not have the required four due diligence calls completed prior to going over 180 days past due; one of these calls had an invalid phone number which was not skip traced prior to going over 180 days past due. No exceptions were noted regarding required collection letters. No questioned costs as four out of five of the accounts have since become current or they are still in default, but no claim filed. One out of five did have a default claim filed in September 2016 and was subsequently paid by the guarantor with an interest penalty.

Recommendation:

THECB should continue the monthly review of due diligence efforts and skip tracing activities begun during 2016.

Views of Responsible Officials:

Accepted. The Agency has already implemented significant process enhancements in this area. Through analysis of the exceptions identified in the audit, the Agency will work to develop and implement corrective action to further improve the processes. See the corrective action plan for further details.

Corrective Action Plan:

In August 2016 THECB modified its due diligence process for our FFEL portfolio. Collection calls for all FFEL accounts are attempted every other week, rotating between AM and PM calls and on varying days of the week. On alternating Monday mornings, a list of all guaranteed accounts 10 or more days delinquent is provided to a Senior Customer Service Representative. The Senior Representative will make a collection call for every account on the list in which (1) we have not spoken with the borrower in the previous two weeks or (2) there is not a documented promise to pay the delinquent amount. This approach ensures due diligence calls are made every two weeks (a minimum of 11 attempts for a new account reaching 180 days). This process exceeds the diligent efforts for telephone contacts requirement (34 CFR 682.411m) of 4 efforts (8 attempts) currently required.

Beginning in February 2017, we are expanding our collection efforts for FFEL accounts by attempting to contact the borrower's references if we have not had contact with the borrower during the first 90 days of delinquency.

Address Skip tracing is being completed by our Collection Specialist within 10 days of notification of the bad address for all FFEL accounts.

Bad telephone number skip tracing is being handled by the Senior Representative making the collection calls within 10 days of identifying a bad telephone number.

Implementation Dates: August 2016 and February 2017 (see above)

Responsible Person: Stephen Wessels

Reference No. 2016-039

Special Tests and Provisions – Interest Benefits

Special Tests and Provisions – Special Allowance Payments

Special Tests and Provisions – Payment Processing

CFDA 84.032L – Federal Family Education Loans (FFEL)

Award year – July 1, 2015 to June 30, 2016

Award number – N/A

Statistically valid sample – no

Type of finding – Significant Deficiency

Per 2 CFR 200.303, the Texas Higher Education Coordinating Board (THECB) must establish and maintain effective internal controls over Federal awards that provides reasonable assurance that they are managing Federal awards in compliance with Federal statutes, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

Questioned Cost:	\$0
U.S. Department of Education	

The Lender's Interest and Special Allowance Request and Report (LaRS) is used by ED to calculate interest subsidies, special allowance payments due to lenders, and excess interest owed to ED. It is also used to obtain information about the lender's Federal Family Education Loans (FFEL) program portfolio. For lenders to receive payments of interest benefits and special allowance payments, quarterly reports must be submitted to ED on the LaRS. The lender must submit fully completed quarterly LaRS to ED even if the lender is not owed, or does not wish to receive interest benefits or special allowance payments from ED.

ED pays the lender interest benefits (see 34 CFR Section 682.202(a) for applicable FFEL interest rates on eligible FFEL program loans (subsidized Stafford and certain consolidated loans) on behalf of a qualified borrower during certain loan statuses including:

- a. All periods prior to the beginning of the repayment period;
- b. Any period when the borrower has an authorized deferment (34 CFR Section 682.300); and
- c. During a period that does not exceed three consecutive years from the established repayment period start date on each loan under the income-based repayment plan and that excludes any period during which the borrower receives an economic hardship deferment, if the borrower's monthly payment amount is not sufficient to pay the accrued interest on the borrower's loan or on the qualifying portion of the borrower's Consolidation Loan.

In addition to interest benefits, ED pays a special allowance to the lender on the average daily outstanding balance of eligible FFEL loans. ED computes the special allowance payable to the lender based upon the average daily balance computed by the lender. The amount of each quarterly special allowance payment on a loan will vary according to the type of FFEL program loan, the date the loan was disbursed, the loan period, and the loan status. The lender reports in Part III of the LaRS the average daily principal balance of those loans in each category qualifying for the payment. In addition ED will calculate the amount of excess interest or negative special allowance owed to ED. ED computes the special allowance payment due to the lender during processing of the LaRS (34 CFR Sections 682.304 through 682.305).

Additionally, in regards to Payment Processing, except in the case of payments made under an income-based repayment plan, the lender may credit the entire payment amount first to any late charges accrued or collection costs, then to any outstanding interest, and then to any outstanding principal. A borrower may prepay all or part of a loan at

any time without a penalty. Unless the borrower requests otherwise, if a prepayment equals or exceeds the established monthly payment amount, the lender shall apply the prepayment to future installments and advance the next payment due date. The lender must (1) inform the borrower in advance that any additional full payment amounts submitted without instructions as to their handling will be applied to future scheduled payments with the borrower's next scheduled payment due date advanced, or (2) provide a notification after the payment is received stating that the payment has been so applied and the due date of the borrower's next scheduled payment. Information related to the next scheduled payment due date need not be provided to a borrower making prepayments while in an in-school, grace, deferment, or forbearance period when payments are not due (34 CFR Section 682.209(b)). Interest must be charged in accordance with 34 CFR Sections 682.202(a) and (b).

THECB relies on their loan system automated configurations for calculation of interest benefits, average daily balances for special allowance payments and correct payment application to ensure accurate recordkeeping and LaRS. However, manual quarterly review controls are in place to recalculate information on the LaRS to ensure the information reported to ED is accurate. The review involves a manual recalculation of a borrower from the LaRS to ensure correct reporting for interest rate, average daily balance, and interest benefit amount. An additional borrower is selected to recalculate payments processed during the quarter. A borrower is also selected from an income-based repayment plan. This review control was not performed for the LaRS reports for quarters ended September 30, 2015 and December 31, 2015. The review was performed for the quarter ended March 31, 2016, but not timely. No exceptions were noted for the review for the quarter ended June 30, 2016.

No compliance exceptions were noted related to testing for Interest Benefits, Special Allowance Payments, or Payment Processing.

Recommendation:

THECB should continue the quarterly review controls over the information reported in the LaRS.

Views of Responsible Officials:

Accepted. The Agency has already implemented significant process enhancements in this areas. Through analysis of the exceptions identified in the audit, the Agency will work to develop and implement corrective action to further improve the processes. See the corrective action plan for further details.

Corrective Action Plan:

Responsibility for the manual quarterly review ensuring the validity of data submitted to ED was transferred to the Assistant Director-Operations Center, and the Manager-Account Services, in August, 2016. Previously agreed-to procedures will be followed in a timely manner going forward.

Implementation Date: August 2016

Responsible Person: Ron Stroud

Committee on Agency Operations

AGENDA ITEM VI-C

Discussion of the State of Texas Financial Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2016, Report Number 17-555 issued February 2017 by the Texas State Auditor's Office

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

The Financial Portion of the Statewide Single Audit for the Fiscal Year Ended August 31, 2016, Report Number 17-555 identified one finding. This finding was classified as a Significant Deficiency.

- A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
- A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Finding 17-555-04 State Entities Should Strengthen the Preparation and Review of Their Schedules of Expenditures of Federal Awards

On its Schedule of Expenditure of Federal Awards (SEFA), the Coordinating Board:

- Incorrectly classified \$5,192,733 in pass-through expenditures as direct expenditures for 1 CFDA.
- Incorrectly classified \$496,957 in expenditures related to 2 CFDA's as part of the Research and Development cluster of federal programs.

The agency's management response indicates that significant process enhancements were made effective January, 2017 to validate and review reported amounts.

The reported finding is provided on the following pages.

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

Chapter 2-D

State Entities Should Strengthen the Preparation and Review of Their Schedules of Expenditures of Federal Awards

Reference No. 17-555-04

(Prior Audit Issues 16-555-04, 15-555-05, 14-555-07, 13-555-02, 12-555-05, 11-555-17, 10-555-26, and 09-555-19)

Type of finding: Significant Deficiency

Schedule of Expenditures of Federal Awards (SEFA)

Each state entity that expends federal awards is required to prepare a Schedule of Expenditures of Federal Awards (SEFA) and submit it to the Office of the Comptroller of Public Accounts (Comptroller's Office). The expenditures are to be presented in the SEFA on the same accounting basis as each state entity's fund financial statements.

Federal awards include federal financial assistance and federal cost-reimbursement contracts that non-federal entities receive directly from federal awarding agencies or indirectly from pass-through entities [Title 2, Code of Federal Regulations (CFR), Section 200.38].

Federal financial assistance includes any assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, non-cash contributions or donations of property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance [Title 2, CFR, Section 200.40].

Source: *Reporting Requirements for Annual Financial Reports of State Agencies and Universities*, Comptroller's Office.

The agencies and higher education institutions discussed below did not appropriately prepare or adequately review their fiscal year 2016 Schedule of Expenditures of Federal Awards (SEFAs) (see text box for additional information). Therefore, the SEFAs that they submitted to the Office of the Comptroller of Public Accounts (Comptroller's Office) contained errors.

The agencies and higher education institutions discussed below reported \$1,840,859,646 in federal expenditures, or 3 percent of the total federal expenditures the State of Texas reported for fiscal year 2016. The errors listed below were not material to the fiscal year 2016 SEFA for the State of Texas or to the fiscal year 2016 Comprehensive Annual Financial Report for the State of Texas. However, collectively, they represent control weaknesses that could be significant to the State's SEFA.

The University of Texas at Arlington

The University of Texas at Arlington (UT-Arlington) incorrectly excluded \$727,126 from the notes to its SEFA for the beginning balance of outstanding loans for the Federal Perkins Loan Program. As a result, UT-Arlington understated the beginning and ending balance of outstanding Federal Perkins Loans by \$727,126 in the notes to its SEFA.

Recommendation

UT-Arlington should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA beginning and ending balances correctly for the Federal Perkins Loan Program amounts that it reports in the notes to its SEFA.

to its SEFA and (2) understated the ending balance of outstanding Federal Perkins Loans by \$1,535,394 in the notes to its SEFA.

Recommendations

UNT should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate by:

- Including all federal expenditures for Student Financial Assistance CFDA's.
- Including the beginning and ending balances for its Federal Perkins Loans.

Views of Responsible Officials

The University of North Texas (UNT) acknowledges and agrees with the findings. During the audit, we determined there was an error in the report used and resulted in an exclusion of \$1,216,691 on the original certified SEFA. While both the general ledger and financial aid information is reconciled, the issue was in how UNT pulled the data for the reported balance. UNT corrected this error which resulted in the discovery of the variance from the amount certified and the amount that should have been on the report.

The exclusion of beginning and ending balances of outstanding Federal Perkins Loans in the notes resulted from a process change and should have been reported in the SEFA. UNT updated processes to ensure future reporting contains this balance appropriately.

Corrective Action Plan

The University has already implemented significant process enhancements in this area. The monitoring manual will be revised to include procedures for the attributes to be tested for each relevant compliance requirement and required documentation to retain to support the review.

Implementation Date: January 9, 2017

Responsible Person: Interim UNT Controller

Higher Education Coordinating Board

On its SEFA, the Higher Education Coordinating Board (Coordinating Board):

- Incorrectly classified \$5,192,733 in pass-through expenditures as direct expenditures for 1 CFDA.

- Incorrectly classified \$496,957 in expenditures related to 2 CFDA's as part of the Research and Development cluster of federal programs.

Recommendations

The Coordinating Board should strengthen its SEFA preparation and review process to help ensure that it prepares its SEFA correctly and that the SEFA it submits to the Comptroller's Office is complete and accurate by:

- Correctly classifying pass-through expenditures and direct expenditures.
- Correctly classifying expenditures in the appropriate clusters.

Views of Responsible Officials

Accepted. The Agency has already implemented significant process enhancements in this area. Through analysis of the exceptions identified in the audit, the Agency will work to develop and implement corrective actions to further improve the processes. See the corrective action plan for further details.

Corrective Action Plan

Texas Higher Education Coordinating Board agrees with the findings and will update work processes and strengthen reviews to ensure the SEFA is reported accurately. We will update internal processes to validate all research and development cluster designations are appropriately classified based on supporting documentation received from institutions during the Comptroller's required AFR pass-through coordination process. Additionally, SEFA work papers will be redesigned to facilitate the review and tie-out of balances reported on the face of the SEFA. This will include a comprehensive supervisor review of all balances presented on the SEFA as well as their appropriate groupings and classifications. Moreover, the preparer and supervisor will verify the SEFA figures and presentation from the hard copy AFR matches the Comptroller's web portal.

Implementation Date: January 1, 2017

Responsible Person: Director – Financial Reporting

Office of the Governor

The Office of the Governor (Governor's Office) incorrectly included on its SEFA \$137,400 in pass-through expenditures to a non-state entity for 1 CFDA. As a result, it overstated federal revenue by \$137,400 in note 2 to its SEFA.

Committee on Agency Operations

AGENDA ITEM VI-D

Update on Internal Audit Reports and Activities

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

The Internal Audit Department completed three projects since the last Agency Operations Committee meeting in January, 2017.

1. *Final Results Letter – SAO Complaint 17-0614 Regarding Alleged Misuse of Financial Aid and Personal Information at Texas A&M University - Kingsville;* This letter contains no observations.
2. *Final Results Letter – SAO Complaint 17-0769 Regarding Financial Aid and Other Alleged Improprieties at Texas Health and Science University;* This letter contains no observations.
3. *Final Report – A Follow Up Review of TEXAS Grant Administration;* This was a Category 1 Report with no observations.

Update on Internal Audit activities

Audits In Progress	Stage of Project
Texas Educational Opportunity Grant	Reporting
Data Administration and Governance	Fieldwork
Review of Payroll Administration	Planning
Review of Contract Administration	Planning

Other Internal Audit Activities

- Coordinated external audits – SAO, KPMG, etc.
- Facilitated root cause analysis of recurring external audit issues

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



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

January 12, 2017

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FILE

We have closed our inquiry into complaint # 17-0614. The complaint was referred to us from the State Auditor's Office.

The complainant alleged that their financial aid and personal information were misused by Texas A&M University-Kingsville and other institutions. Our efforts to obtain necessary personal information from the complainant, to further investigate the claims, were unsuccessful.

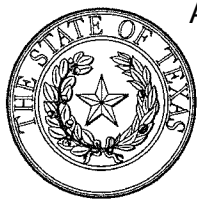
We plan no further action on this matter.

Sincerely,

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

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

Cc: Jennifer Weiderhold, SAO Investigations and Audit Support Manager



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March 1, 2017

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FILE

We have closed our inquiry into complaint # 17-0769. The complaint was referred to us from the State Auditor's Office.

The anonymous complainant alleges, among other things, issues related to misuse of federal financial aid and concerns about the condition of facilities at Texas Health and Science University. We were unable to substantiate the allegations, based on the information provided.

We plan no further action on this matter.

Sincerely,

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

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

Cc: Hillary Eckford, SAO Audit Manager



TEXAS HIGHER EDUCATION COORDINATING BOARD

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January 13, 2017

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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, *A Review of TEXAS Grant Administration*, issued August 26, 2014.

Management implemented all three outstanding audit recommendations by:

- Publishing TEXAS grant amounts timely and handling Reserve Officers Training Corps funds in accordance with statutory requirements.
- Strengthening access controls to TEXAS grant information by enhancing oversight, and limiting access to better protect the grant information.
- Strengthening processes to verify the accuracy of key performance data prior to submitting the information to the Legislative Budget Board.

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

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

Sincerely,

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

PERFORMED BY:

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

cc:

THECB

Board Members

Commissioner's Office

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

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

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services

Mr. Charles Puls, Deputy Assistant Commissioner for Student Financial Aid Programs

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Committee on Agency Operations

AGENDA ITEM VII-A

Update on Compliance Monitoring Reports and Activities

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

Update on Compliance Monitoring Reports

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

Formula Funding Engagements Completed

A Compliance Audit of Formula Funding at The University of Texas at Arlington (no findings)

A Follow-Up Audit of Formula Funding at Blinn College (1 finding)

A Follow-Up Audit of Formula Funding at Houston Community College System (no findings)

A Compliance Monitoring Audit of Formula Funding at North Central Texas College (1 finding)

Financial Aid Engagements Completed

A Compliance Monitoring Audit of the Texas Educational Opportunity Grant at Blinn College (no findings)

A Follow-Up Audit of College Access Loan at Abilene Christian University (no findings)

A Follow-Up Audit of the TEXAS Grant Program at Clarendon College (1 finding)

The University of Texas System – Joint Admissions Medical Program (JAMP) Memo (no findings)

Projects In Progress	Stage of Project
Houston Community College System – TEOG	Fieldwork
Prairie View A&M University – TEXAS Grant	Planning
Howard Payne University – TEG	Fieldwork
Texas Wesleyan University - TEG	Fieldwork

Other Compliance Monitoring Activities

- Filled second Compliance Specialist position before the hiring freeze
- Delivered informational briefing to Texas Association of Community Colleges – Chief Information Officers
- Delivered informational briefing to Texas Association of College and University Auditors Director’s Roundtable
- Delivered informational briefing to Texas Administrators of Continuing Education

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



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

January 27, 2017

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Dr. Vistasp M. Karbhari
President
The University of Texas at Arlington
321 Davis Hall
Box 19125
Arlington, TX 76019-0125

Dear Dr. Karbhari,

I am attaching the final report on *A Compliance Audit of Formula Funding at The University of Texas at Arlington*, Report No. THECB-CM-FF-17-005. There were no findings resulting from this engagement.

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

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

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

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

We reviewed the following areas:

Reported Semester Credit Hours Were Eligible for Formula Funding

No reportable findings were noted.

Student Tuition Payment was Received in Accordance with Requirements

No reportable findings were noted.

Reported Enrollment Was Eligible for Formula Funding

No reportable findings were noted.

Instructors of Record Met Applicable Requirements

No reportable findings were noted.

Audit Scope, Objective, and Methodology

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

- CBM001 (Student Report) – Summer semester 2014, Fall semester 2014, Spring semester 2015; and
- 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; and
- Reported enrollment was eligible for formula funding.

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 The University of Texas at Arlington 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.”

The University of Texas at Arlington received approximately \$254.1 million for the FY 2016-2017 biennium based on its percentage of weighted semester credit hours.

PERFORMED BY:

Mr. Keith Overton-Hadnot, Compliance Specialist

cc:

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

Dr. Raymund A. Paredes, Commissioner of Higher Education

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

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

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

The University of Texas at Arlington

Mr. Richard Jimmerson, Director, Administrative Services

Dr. Troy Johnson, Vice President, Enrollment Management

Mr. David A. Medrano, CPA, CFA, CIA, CFE, CCEP, FRM, CTP, CISA, Chief Audit Executive

The University of Texas System

Mr. Bill McRaven, Chancellor

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

Mr. Mike Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive

Texas Council of Public University Presidents and Chancellors

Dr. Rissa Potter, Executive Director

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Sunset Advisory Commission

Mr. Ken Levine, Director



Agend Item VII- A

TEXAS HIGHER EDUCATION COORDINATING BOARD

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January 30, 2017

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Dr. Mary Hensley, President
Blinn College
902 College Ave.
Brenham, TX 77833

Dear Dr. Hensley,

I am attaching the final report of our *Follow-Up Audit of Formula Funding at Blinn College*, Report No. THECB-CM-FF-17-001.

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

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

Sincerely,

A handwritten signature in black ink, reading "Mark A. Poehl".

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

EXECUTIVE SUMMARY

Actions taken by Blinn College addressed the two findings from our prior formula funding audit issued June 16, 2014. Blinn College took steps to improve documentation of contact hours for both continuing education and academic courses.

However, 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 (FERPA) requirements to protect enrollment and student data in the student 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.

Audit Scope, Objective, and Methodology

Compliance Monitoring performed *A Compliance Audit of Formula Funding at Blinn College* and issued a report dated June 16, 2014 which contained two recommendations. The objective and scope of our *Follow-Up Audit of Formula Funding at Blinn College* was to perform an assessment of the implementation status of management's action to address the risks disclosed in the original audit report. This included tests of enrollment data reported and certified by Blinn College for the following time periods:

- CBM004 (Class Report) - Summer semester 2014, Fall semester 2014, Spring semester 2015; and
- CBM00C (Continuing Education Class Report) – Summer semesters I and II 2014, Fall semester 2014 and Spring semester 2015.

Detailed Observation, Recommendation 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.

Numerous current employees were identified with access that did not match job responsibilities as noted below.

Banner Course Building Access (SCACRSE) (Compliance Monitoring Identified 36 Users with Access)	Users Noted	Percent Error
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.	18 of 36	50%

Over-broad modify access to course building data could result in unauthorized changes to course-related information.

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." Security standards (TAC 202) established by the Department of Information Resources (DIR) for institutions of higher education are also a good source of information to strengthen the information technology control environment.

Recommendation:

Ensure that the assignment of user access matches job responsibilities and complies with 34 CFR 99.31 (FERPA) requirements. Establish a formal, periodic review of user access to the Banner student information system.

Management Response:

- i. *Blinn College has removed access from the individuals whose job duties do not require the person to have access to screens that involve contact hours and state reporting information. Access removal was completed during the audit.*

- ii. *A form has been developed for users to complete when requesting access outside of their job description. This form was provided during the audit. The dean of admissions and records/registrar will review the form to determine if approval should be given. Access will only be granted on a need basis and for a specific length of time if access is given. Access will be removed at the completion of the job requiring the access. Documentation of why an individual needs access granted outside of their primary job duties will be kept with the form.*
- iii. *Each academic year the dean of admissions and records/registrar will work with the Director of Computing Services to audit access to determine if access still remains valid. This audit will include request submitted to the dean of admissions and records/registrar for temporary access outside of someone's primary job duties.*

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist, Lead Auditor

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education

Mrs. Linda Battles, Deputy Commissioner for Agency Operations and Communication

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

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

Blinn College District

Mrs. Andrea Liner, Dean of Admissions and Records/Registrar

Mr. David Sommer, Chairman of the Board of Trustees

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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March 8, 2017

Dr. Cesar Maldonado, Chancellor
Houston Community College System
555 Community College Dr.
Houston, TX 77013

Dear Dr. Maldonado:

Houston Community College System (HCCS) implemented the recommendation from our prior report *A Compliance Monitoring Audit of Formula Funding at Houston Community College* issued August 27, 2014. There were no findings resulting from our follow up engagement.

Management has implemented the audit recommendation by:

- Ensuring that contact hours reported for music classes on the CBM004 are correct and appropriately documented

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and recommendations based on our audit objectives. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, 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. David Mahoney, Compliance Specialist (Lead Auditor)
Ms. Jamyen Robinson-Hall, Compliance Specialist

cc:

THECB

Board Members

Commissioner's Office

Dr. Raymund Paredes, Commissioner of Higher Education
Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy
Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications
Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

Houston Community College System

Ms. Teri Zamora, Senior Vice Chancellor Finance & Administration & CFO
Dr. Athos Brewer, Vice Chancellor, Student Services
Dr. Kimberly Beatty, Vice Chancellor Instruction Services & Chief Academic Officer
Dr. William Carter, Vice Chancellor Information Technology
Ms. Shantay Grays, Associate Vice Chancellor, Enrollment Management
Ms. Mary Lemburg, Director Admissions and Registrar
Mr. Terrance Corrigan, Director Internal Auditing

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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March 6, 2017

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

Dr. Brent Wallace, President
North Central Texas College
1525 W. California St.
Gainesville, TX 76240

Dear Dr. Wallace,

I am attaching the final report on *A Compliance Monitoring Audit of Formula Funding at North Central Texas College*, Report No. THECB-CM-FF-17-007.

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

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

Sincerely,

A handwritten signature in black ink, reading "Mark A. Poehl".

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

EXECUTIVE SUMMARY

Information security controls over student enrollment information at North Central Texas College (NCTC) require improvement. Audit trails over key enrollment data such as class meeting days and times must be established to ensure the reliability and integrity of data used for formula funding decision making purposes. Therefore, our original review objectives, including a determination of the accuracy of contact hours reported by NCTC, were unable to be met. A follow up audit will be performed to evaluate NCTC's information security controls as a basis for future base period assessment of the accuracy of contact hours reported for formula funding purposes.

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 finding and recommendation based on the audit objectives.

Audit Scope, Objective, and Methodology

Our review included an examination of information security controls over enrollment data reported and certified by NCTC.

Our work included procedures to verify:

- Controls over accuracy and reliability of data in the student information system were adequate.

Due to weak information security controls, we were unable to verify:

- Contact hours/enrollment met reporting requirements; and
- Contact hours were eligible for formula funding.

The review methodology included objectively reviewing and analyzing various forms of documentation of controls necessary to achieve the objectives of the review.

Background

Fifty public community college districts receive state appropriations based on their student enrollment data. These institutions are governed by locally elected boards that have the authority to levy property taxes in their districts. The state appropriations the colleges receive are used to fund administrative

and instructional (education and general) services for post-secondary academic and vocational/technical education.

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

Detailed Observation, Recommendation and Management's Response

1. Information technology processes and controls over student information system enrollment data should be strengthened.

Information technology processes and controls over student information system enrollment data should be strengthened. Although NCTC has policies and procedures in place to limit access to information systems, the student information system does not provide audit logs or change history for critical formula funding data such as:

- Credit hours
- Lab hours
- Lab contact hours
- Instruction mode
- Meeting times
- Lecture hours
- Lecture contact hours
- Type of Instruction
- Meeting days
- Instructor of record

The lack of audit logs or change history limits the ability to rely upon the integrity of the data.

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." Security standards (TAC 202) established by the Department of Information Resources (DIR) for institutions of higher education are also a good source of information to strengthen the information technology control environment.

Recommendation:

Capture and retain student information system audit logs or change history for the critical data used for formula funding.

Management Response:

Through the audit process, North Central Texas College (NCTC) has identified areas of improvement as related to state reporting and internal audit log records. Although there are audit logs in place for student registration and billing transactions, North Central Texas College will proceed with the implementation of additional transactional audit logs for the following fields as identified within the audit report.

*Credit hours
Lecture hours
Lab hours
Lecture contact hours
Lab contact hours
Type of Instruction (Lecture/Lab/Clinical, etc..)
Instruction Mode (online, face to face, hybrid, etc..)
Meeting days
Meeting times
Instructor of Record*

The implementation will be led by Denise Cason, NCTC Chief Information Officer, and a request has been submitted to Jenzabar requesting the required upgrades to the NCTC Jenzabar EX system.

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 Communication

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

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

North Central Texas College

Ms. Melinda Carroll, Senior Director of Enrollment Management/Registrar

Ms. Denise Cason, Chief Information Officer

Ms. Karla Metzler, Board Chair

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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Sunset Advisory Commission

Mr. Ken Levine, Director



Agenda Item VII-A

TEXAS HIGHER EDUCATION COORDINATING BOARD

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January 20, 2017

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Fax 512/ 427-6127

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

Dr. Mary Hensley, President
Blinn College
902 College Ave.
Brenham, TX 77833

Dear Dr. Hensley,

I am attaching the final report on *A Compliance Monitoring Audit of the Texas Educational Opportunity Grant at Blinn College*, Report No. THECB-FA-17-008. There were no findings resulting from this engagement.

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

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

Sincerely,

A handwritten signature in cursive script that reads "Mark A. Poehl".

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

EXECUTIVE SUMMARY

Blinn College (BC) complied with relevant Coordinating Board (THECB) rules and regulations for the Texas Educational Opportunity Grant (TEOG) Program and with Texas Administrative Code (TAC) Sections 22.253 – 22.263, in the areas of eligibility and award amounts.

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

We reviewed the following areas:

Award Amounts

No reportable findings were noted.

Student Eligibility

No reportable findings were noted.

Financial Need

No reportable findings were noted.

Satisfactory Academic Progress

No reportable findings were noted.

Residency

No reportable findings were noted.

Selective Service Registration

No reportable findings were noted.

Scope, Objective, and Methodology

Our compliance audit included tests of TEOG disbursements during fiscal year 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 between the student information system data and payment records.

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

Background

The purpose of the Texas Educational Opportunity Grant (TEOG) Program is to provide grant aid to students with financial need that are enrolled in Texas public two-year colleges. During fiscal year 2016, 344 students received TEOG award disbursements from Blinn College totaling \$767,574.

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist, Lead Auditor
Ms. Carol Conner, Compliance Specialist

cc:

**THECB
Board Members**

Commissioner's Office

Dr. Raymund A. Paredes, Commissioner of Higher Education
Ms. Linda Battles, Deputy Commissioner for Agency Operations and
Communication/COO
Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy
Mr. William Franz, General Counsel
Mr. Ken Martin, Assistant Commissioner for Financial Services and Chief Financial
Officer

Student Financial Aid Programs

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

Blinn College

Mr. Brent Williford, Dean Financial Aid and Scholarships
Mr. David Sommer, Chairman, Board of Trustees
Mr. Dennis Crowson, Vice President, Student Services

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Dr. Reynaldo Garcia, President

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March 7, 2017

Dr. Phil Schubert, President
Abilene Christian University
1600 Campus Court
Abilene, TX 79699

Dear Dr. Schubert:

Abilene Christian University (ACU) implemented the recommendation in our prior report *Desk Review of College Access Loan at Abilene Christian University* issued September 18th, 2015.

Management has implemented the audit recommendation by:

- Improving the verification and documentation of Texas residency for College Access Loans.

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

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

Sincerely,

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

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

CC:

THECB

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Agenda Item VII-A

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March 13, 2017

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Dr. Robert K. Riza, President
Clarendon College
1122 College Drive
PO Box 968
Clarendon, Texas 79226

Dear Dr. Riza,

I am attaching the final report of *A Follow-Up Audit of the TEXAS Grant Program at Clarendon College*, Report No. THECB-CM-FA-17-003.

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

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

Actions taken by Clarendon College addressed the two findings from our prior *Desk Review of the TEXAS Grant Program at Clarendon College* issued May 14, 2015. Clarendon College took steps to improve documentation of student residency and eligibility.

However, 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 (FERPA) requirements to protect enrollment and student data in the student 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.

Audit Scope, Objective, and Methodology

Compliance Monitoring performed a *Desk Review of the TEXAS Grant Program at Clarendon College* and issued a report dated May 14, 2015 which contained two recommendations. The objective and scope of our *Follow-Up Audit of the TEXAS Grant Program at Clarendon College* was to perform an assessment of the implementation status of management's action to address the risks disclosed in the original audit report. This included tests of current residency and eligibility documentation.

Detailed Observation, Recommendation 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 data.

Nine of ten current employees were identified with accesses that did not match job responsibilities. Over-broad modify access to financial data such as tuition payments could result in unauthorized changes to financial information.

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." Security standards (TAC 202) established by the Department of Information Resources (DIR) for institutions of higher education are also a good source of information to strengthen the information technology control environment.

Recommendation:

Ensure that the assignment of user access matches job responsibilities and complies with 34 CFR 99.31 (FERPA) requirements. Establish a formal, periodic review of user access to the CAMS student information system.

Management Response:

Management concurs with the observation that technology processes and controls over security access to the student information system should be strengthened to protect confidential student data.

An annual review of all employees' job descriptions has been a standard procedure at Clarendon College (CC) for many years. A more thorough review which aligns job descriptions with employee access to the CAMS student information system to ensure compliance with 34 CFR 99.31 (FERPA) will be implemented and will be conducted on an annual basis. Updated job descriptions linked with CAMS Access will be posted in the Clarendon College Board of Regents approved Personnel Handbook annually. The new review is expected to be completed and approved by September 1, 2017.

Expected Completion Date:

*Job Description Review alignment with CAMS Student Information System
Access – September 1, 2017*

Responsible parties to ensure project completion:

*Executive Vice President for Academic and Student Affairs
Chief of Staff*



PERFORMED BY:

Mr. David Mahoney, Compliance Specialist, Lead Auditor

cc:

THECB

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Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services and CFO

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner

Clarendon College

Mr. Tex Buckhaults, Executive Vice President of Academics and Student Affairs

Mr. Will Thompson, Director of Information Technology

Mrs. Ashlee Estlack, Chief of Staff

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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January 25, 2017

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The FY 2017 Compliance Monitoring Plan included a review of the Joint Admissions Medical Program (JAMP) at The University of Texas System. During our audit planning process, we learned that controls over JAMP included:

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- An admissions process, including review of initial and renewal student eligibility by the JAMP Council. The Texas Education Code (TEC) Section §51.823(a) states the JAMP Council consists of "one faculty member employed by and representing each of the participating medical schools" and is responsible for duties listed under TEC Section §51.824.
- A disbursements process that includes reconciliation controls over the disbursement of JAMP awards to approved students.
- A governance process that includes ongoing, risk-based audits of JAMP expenditures at participating institutions.

Based on the level of program oversight, we plan no further audits of JAMP funds at this time.

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 distinguishable.

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

cc:

Mr. Mike Peppers, CIA, CRMA, CPA, FACHE, Chief Audit Executive, UT System
Administration

Dr. Jeff Rabek, Chairman, JAMP Council

Dr. Scott Wright, Executive Director, JAMP

Mr. Paul Hermesmeier, Director, JAMP