

TEXAS HIGHER EDUCATION COORDINATING BOARD

Agency Operations Committee

1200 EAST ANDERSON LANE, BOARD ROOM 1.170
AUSTIN, TEXAS
2:00 P.M., July 26, 2017

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

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

I. Welcome and Committee Chair's Opening Remarks

II. Consideration of Approval of the Minutes from April 19, 2017, Committee Meeting

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

IV. Agency Operations

- A. Report on grants and contracts, including those exceeding \$1 million
- B. Report on Major IT Projects in Progress
- C. Consideration of adopting the staff's recommendation to the Committee relating to a contract with Department of Information Resources (DIR) for upgrading the agency's legacy phone system
- D. Consideration of adopting the staff's recommendation to the Committee relating to a contract with GlobalScope for upgrading the agency's Interactive Voice Response (IVR) and Automated Call Distribution (ACD) systems
- E. Consideration of adopting the staff's recommendation to the Committee relating to a contract for managed print services
- F. Overview of the Board's Legislative Appropriation's Request as approved by the 85th Texas Legislature, Regular Session

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 relating to the agency's operating budget for Fiscal Year 2018
- C. Consideration of adopting a resolution authorizing the issuance of State of Texas College Student Loan Bonds in one or more series; and delegating to the Commissioner the authority for the filing of one or more applications to obtain a portion of the state's allocation for private activity bonds

VI. Internal Audit

- A. Discussion of the Audit of the Agency-Wide Financial Statements for Fiscal Year Ended August 31, 2016 by KPMG, LLP
- B. Consideration of adopting the staff's recommendation to the Committee relating to the Annual Internal Audit Plan for Fiscal Year 2018
- C. Update on Internal Audit Reports and Activities

VII. Compliance Monitoring

- A. Consideration of adopting the staff's recommendation to the Committee relating to the Annual Compliance Monitoring Plan for Fiscal Year 2018
- B. Update on Compliance Monitoring Reports and Activities
- C. Consideration of adopting the Commissioner's recommendation to the Committee relating to the Final Report – An Audit of Formula Funding at Tyler Junior College

VIII. Executive Session

- A. Pursuant to Texas Government Code Section 551.071, Consultation with Attorney, the Agency Operations Committee will meet in closed session to discuss and receive its attorney's advice on legal matters relating to Agenda Item VII-C.
- B. Pursuant to Texas Government Code Section 551.074, the Agency Operations Committee will meet in closed session to discuss the performance evaluation of the Internal Auditor since that position, by statute, reports directly to the Board.

IX. Emergency Rule

- A. Consideration of adopting, on an emergency basis, proposed amendments to Chapter 25, Subchapter A, Section 25.4, of Board rules, concerning the Optional Retirement Program (*SB 1954, 85th Texas Legislature, R.S.*), per the Commissioner's recommendation

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 April 19, 2017, Committee meeting

RECOMMENDATION: Approval

DRAFT

TEXAS HIGHER EDUCATION COORDINATING BOARD Agency Operations Committee

Wednesday, April 19, 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 April 19, 2017, with the following members present: John Steen; presiding; David Teuscher; Javaid Anwar; Fred Farias; Ricky Raven; Stuart Stedman; and Bobby Jenkins (Ex-Officio).

Other Board Members present: Arcilia Acosta and 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 January 25, 2017, Committee Meeting	On a motion by Mr. Raven, seconded by Dr. Farias, the Committee approved the January 25, 2017, Agency Operations Committee meeting minutes.
III. Public Testimony on Agenda Items Relating to the Committee on Agency Operations	No action required
IV. Agency Operations	
A. Report on Major IT Projects in Progress	Ms. Zhenzhen Sun, Interim Assistant Commissioner, Information Solutions and Services, Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO, and Mr. Bill Franz, General Counsel presented this item to the Committee. This item did not require any action.

AGENDA ITEM	ACTION
B. Report on grants and contracts, including those exceeding \$1 million	No action required.
C. Update on the Board's Budget Priorities for the 85th Texas Legislature	Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer, provided the Board with the latest update on the Board's LAR. Mr. David Young, Senior Director of Funding provided the latest update on higher education formula funding. This item did not require any action.
V. Finance	
A. Review of the Year to Date Fiscal Year 2017 Financial Report to the Board	Mr. Ken Martin, Assistant Commissioner for Financial Services/CFO presented this item to the Committee. This item did not require any action.
B. Consideration of the adopting the Commissioner's recommendation to the Committee to extend the existing contract with the Financial Advisor for the agency's student loan program for one additional year	On a motion by Mr. Stedman, seconded by Mr. Anwar, the Committee approved the extension of 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	On a motion by Dr. Teuscher, seconded by Mr. Stedman, the Committee approved the 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	Ms. Susan Warren with KPMG, LLP presented this item to the Committee. This item did not require any action.
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	Ms. Susan Warren with KPMG, LLP presented this item to the Committee. KPMG, LLP performed this audit under contract with the Texas State Auditor's Office. This item did not require any action.

AGENDA ITEM	ACTION
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	Mr. Mark Poehl, Director of Internal Audit and Compliance presented this item to the Committee. This item did not require any action.
D. 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 Mr. Anwar, seconded by Dr. Teuscher, the meeting adjourned at approximately 3:36 p.m.

Committee on Agency Operations

AGENDA ITEM III

Public Testimony on agenda items relating to the Agency Operations Committee

RECOMMENDATION: No action required

Background Information:

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

Committee on Agency Operations

AGENDA ITEM IV-A

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

RECOMMENDATION: No action required

Background Information:

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

Bill Franz, General Counsel will be available for questions.

Agency Operations Committee

Agenda Item IV-B

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 Implementation of the CAPPs Financial/Purchasing/Contracts System. At this time the project is on schedule with manageable risks.

Status:

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.

- **Accomplishments:**

- New business end-to-end processes established and documented
- Technical design and implementation strategy formalized for both reports and interface development
- Security matrix documentation compiled and submitted to CPA
- User Acceptance Testing plan for Phase I completed
- Communication Leads designated for all the business units to support a smooth transition to the new environment on 9/1

- **Upcoming Activities:**

- Complete plans for training and testing – 04/2017 through 06/2017
- Start User Acceptance Testing – 06/2017
- Start User Training – 07/2017
- Work with the Communication Leads on the transition and address agency wide communication needs – 06/2017 through 08/2017

- Handle all the fiscal year end activities and data conversion needs – 06/2017 through 08/2017
- Go-live – 09/2017
- **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 gained access to the new system on June 1st. The project team will continue to update the Impact Analysis report during the User Acceptance Testing and work with the Internal Audit team to verify and validate each proposed risk mitigation control
 - CPA has delivered the 10 custom reports for our agency using Business Objects; reports generated by WebFOCUS will stay contingent on CPA’s ability to establish a daily extract process to allow our agency to download a copy of our production data from the CAPPs Financials system
 - The detailed training and testing plans are being developed, and Communication Leads have been designated to help provide user support during the transition
 - The Business Relationship Manager and the Project Manager are performing the job duties originally assigned to the contractor Business Analyst
- **Project Budget:** \$750K provided by legislature

John McKenzie, Interim Deputy Assistant Commissioner, Information Solutions and Services, will be available for any questions.

Committee on Agency Operations

Agenda Item IV-C

Consideration of adopting the staff's recommendation to the Committee relating to a contract with Department of Information Resources (DIR) for upgrading the agency's legacy phone system

RECOMMENDATION: Approval

Background Information:

On April 14th, 2017 the agency received approval from the Legislative Budget Board to use Student Loan Program funds to procure a managed phone service. This would allow the agency to procure a fully functional and supported service without the capital cost.

The Capitol Complex Telephone System (CCTS) offered by the Texas Department of Information Resources (DIR) is a modern Voice over Internet Protocol (VoIP) system from CISCO. Since the system supports the Capitol Complex and other state agencies, it is fully redundant by design with 2 physically separated call processing centers. DIR fully supports and maintains the system. DIR offers the phone line, voice mail, phone device (Physical or Softphone) and system license for a flat monthly cost per device on a 5-year term.

The estimated cost per fiscal year is \$55,000. A 5-year lease will cost \$275,000. This will provide the agency with 240 phones with full support and redundancy.

Staff is requesting authority to enter into a 5-year lease contract with a total amount of \$275,000 with DIR.

John McKenzie, Interim Deputy Assistant Commissioner, Information Solutions and Services will present this item to the committee.

Committee on Agency Operations

Agenda Item IV-D

Consideration of adopting the staff's recommendation to the Committee relating to a contract with GlobalScope for upgrading the agency's Interactive Voice Response (IVR) and Automated Call Distribution (ACD) systems

RECOMMENDATION: Approval

Background Information:

On April 14th, 2017 the agency received approval from the Legislative Budget Board to use Student Loan Program funds to procure a managed IVR and ACD service. This would allow the agency to procure a fully functional and supported service without the capital cost.

The Statement of Work (SOW) was sent to 6 Texas Department of Information Resources (DIR) contracted vendors. Two vendors responded with proposals that addressed all of the agency's requirements. Based on the functionality and the value of the solution, the agency selected GlobalScope, a HUB vendor.

The estimated 5-year costs are \$133,000 with the subsequent annual costs estimated at \$85,000, an estimated total of \$473,000 for a 5-year contract. This will provide support and maintenance for 30 agents, 30 concurrent IVR callers and the automation of high volume/ low risk transactions.

Staff is requesting authority to enter into a 5-year contract with a total amount of \$558,000 with GlobalScope.

John McKenzie, Interim Deputy Assistant Commissioner, Information Solutions and Services will present this item to the committee.

Committee on Agency Operations

Agenda Item IV-E

Consideration of adopting the staff's recommendation to the Committee relating to a contract for managed print services

RECOMMENDATION: Approval

Background Information:

The agency is in the final year of a 4-year contract with Hewett Packard (HP) for managed print services. The current contract ends on August 31st, 2017. As part of the agency's efforts to reduce overall costs of producing printed materials, the agency submitted a new Statement of Work (SOW) to Department of Information Resources (DIR) approved vendors for managed print services.

The goal is to deploy the new multifunctional network printers and services before August 31, 2017, and the agency will retain only 2 desktop printers in the future.

The SOW was sent to 6 Original Equipment Manufacturers (OEM) that are approved DIR vendors with approved HUB resellers on June 6, 2017. The OEMs were asked to leverage their HUB resellers in their proposals.

Staff is requesting authority to enter into a 4-year contract with a total amount up to \$345,000 with an approved vendor.

John McKenzie, Interim Deputy Assistant Commissioner, Information Solutions and Services will present this item to the committee.

Committee on Agency Operations

Agenda Item IV-F

Overview of the Board's Legislative Appropriations Request as approved by the 85th Texas Legislature, Regular Session

RECOMMENDATION: No action required

Background

The 85th Texas Legislature adjourned the Regular Session on May 30, 2017 after adopting the General Appropriations Act for the 2018-19 biennium. While the Legislature funded six out of nine of the Board's highest priority budget requests as submitted in the Legislative Appropriations Request (LAR), the agency's administrative budget took a significant reduction of nearly \$1 million.

Linda Battles, Deputy Commissioner for Agency Operations and Communications/Chief Operating Officer, will provide the Board with a brief overview of the Board's LAR as approved by the 85th Texas Legislature, Regular Session.

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. We 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 5/31/17
- 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
- We have added this page and it reflects the loan collection activity that we have discussed in previous meetings. This provides you with trending in total defaulted loan collections and the average monthly collections.

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

Agency Operations Committee

Agenda Item V-B

Consideration of adopting the Commissioner's recommendation to the Committee relating to the agency's operating budget for Fiscal Year 2018.

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

The General Appropriations Act (GAA) is approved after each legislative session. This act funds both years of the biennium. The agency develops an operating budget before the start of each fiscal year and submits the budget for Board approval. The budget that is being presented today is aligned with the General Appropriations Act (GAA) of the 85th Legislature. This item requires approval.

Key points:

- This budget is for fiscal year 2018.
- The budget delineates funding by administration and program (Trusted) specific funding.
- The total administrative budget is \$30.5M and the total trusted budget is \$1,676M.
- Administration is 1.4% of the total budget.
- This budget includes estimated unexpended balances from FY17.
- This budget has been reviewed and approved by the Commissioner and Chief Financial Officer.

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

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

Staff is requesting approval to issue up to \$200 million in aggregate principal amount of new money bonds in Fiscal Year 2018 to fund Hinson-Hazlewood loans to eligible students under Texas Education Code, Chapter 52, Subchapter C. The Coordinating Board staff has determined that it will be necessary to issue these bonds in one or more series to provide adequate funding for the Board to continue to disburse College Access Loans under the Hinson-Hazlewood program to eligible students.

- Bonds are authorized under the Texas Constitution, Sections 50b-4 through 50b-7.
- Debt outstanding is \$1,078M.
- The THECB has \$1,056M of bond authority remaining before the issuance of new bonds.
- 8% of state volume cap is reserved for state voter issuers. (Tx Gov. Code, Sec. 1372)
- These bonds are backed by the credit of the State (AAA rating December 2016).
- An application to the Bond Review Board will be submitted for approval.
- The office of Attorney General is required to approve the final sale.
- A process improvement was developed and implemented to the student loan software (Helms) that will reduce first year bond interest by \$2M-\$4M for each issue.
- 5 year historical bond sales are par.

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

* Excludes refundings

- College Access Loan (CAL) disbursement history

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

A representative from the Board's bond counsel, McCall, Parkhurst & Horton, is available to answer any questions regarding the proposed resolution authorizing the issuance of the bonds, the delegation to the Commissioner the authority to approve all final terms of the bonds, or the delegation of authority to file for the state's allocation of private activity volume cap.

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

Committee on Agency Operations

Agenda Item VI-A

Discussion of the Audit of the Agency-Wide Financial Statements for Fiscal Year ended August 31, 2016 by KPMG, LLP

RECOMMENDATION: No action required.

Background Information:

The Board contracted with KPMG, LLP to conduct the agency-wide financial statement audit for fiscal year ended August 31, 2016. The contract was executed with KPMG for a not-to-exceed amount of \$190,180.

KPMG, LLP has conducted the agency-wide financial statement audit for fiscal year ended August 31, 2016. The auditors rendered an unqualified or "clean" opinion on the financial statements, noting no material weaknesses or significant deficiencies identified during the audit. KPMG's presentation also includes "verbal comments" that are considered internal control deficiencies.

A hard copy of the auditor's reports will be available at the meeting. Representatives from KPMG will present the report to the committee.

Committee on Agency Operations

Agenda Item VI-B

Consideration of adopting the staff's recommendation to the Committee relating to the Annual Internal Audit Plan for Fiscal Year 2018

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

In accordance with the Texas Internal Auditing Act, the Internal Audit function has developed the risk-based Annual Internal Audit Work Plan for Fiscal Year 2018 using risk assessment techniques as required. The Annual Internal Audit Work Plan for Fiscal Year 2018 presents the individual audits to be performed in fiscal year 2018.

The Annual Internal Audit Work Plan for Fiscal Year 2018 is attached. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.

TEXAS HIGHER EDUCATION COORDINATING BOARD

INTERNAL AUDIT & COMPLIANCE MONITORING

Internal Audit Plan

Fiscal Year 2018

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

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

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

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

A. Required Audits

Estimated Hours Required

- | | |
|--|-----|
| 1. Follow Up of Prior Internal Audits | 190 |
| <i>Assess the implementation status of previously reported internal audit findings in the areas of Texas Educational Opportunity Grant, Data Administration and Governance, and Contract Management.</i> | |
| 2. Self-Assessment of Work Quality, Internal Audit | 150 |
| <i>Perform a self-assessment of internal audit work quality, in accordance with the requirements of professional auditing standards.</i> | |

3. Investigations 340

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

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

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

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

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

B. Risk-Based Audits

6. Review of Formula Funding 390

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

7. Review of Physician Education Loan Repayment Program 442

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

8. Review of Contract Management Administration 394

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

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

Committee on Agency Operations

AGENDA ITEM VI-C

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 April, 2017. One confidential report, *An Audit of Data Administration and Governance*, was covered in the Special Called Board Meeting on June 28, 2017. The remaining two reports are:

1. *Final Report – An Internal Audit of TEOG Administration*; this was a Category 2 Report with four recommendations.
2. *Final Results Letter – SAO Complaint 16-1597 Regarding Loan Payment Processing Errors on a Borrower's Account*; the specific errors were resolved and Borrower Services is continuing to work on solutions to reduce/prevent the occurrence of these types of errors in the future.

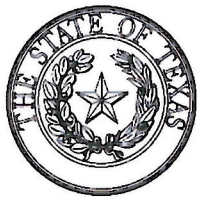
Update on Internal Audit activities

Audits In Progress	Stage of Project
Review of Payroll Administration	Fieldwork
Review of Contract Administration	Fieldwork

Other Internal Audit Activities

- Coordinated external audits – SAO, KPMG, etc.
- Prepared the Internal Audit Annual Work Plan
- Provided input on Financial Aid MOU records retention issue
- Participated in discussions regarding loan payment processing errors

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



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

May 25, 2017

Robert W. Jenkins
CHAIR

Stuart W. Stedman
VICE CHAIR

David D. Teuscher, M.D.
SECRETARY OF THE BOARD

Haley DeLaGarza
STUDENT REPRESENTATIVE

Arcilia C. Acosta
S. Javaid Anwar
Fred Farias III, O.D.
Ricky A. Raven
Janelle Shepard
John T. Steen, Jr.

Raymund A. Paredes
COMMISSIONER
OF HIGHER EDUCATION

512/ 427-6101
Fax 512/ 427-6127

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

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

Dear Dr. Paredes:

I am attaching the final report of *An Internal Audit of Texas Educational Opportunity Grant (TEOG) Administration at the Texas Higher Education Coordinating Board*, Report No. THECB-IA-WP-17-192. This report will be presented at the July 2017 Agency Operations Committee meeting.

The issues presented in this report resulted in a Category 2 Report Rating. These reports contain some observations. While the noted observations require management attention, if addressed timely they do not pose a significant risk for negative reputational or financial consequences.

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

Sincerely,

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

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

EXECUTIVE SUMMARY

Processes over the Texas Educational Opportunity Grant (TEOG) are generally effective in ensuring that eligible institutions and students receive funds in accordance with the Coordinating Board (CB) rules and related statutes. Internal controls and written procedures have shown improvement over the last few years, however, we noted some areas where internal controls can be strengthened and efficiency can be added to operation of the program such as:

- *Student Financial Aid Programs (SFAP) written procedures and documentation require further improvement;*
- *Coordinating Board rules regarding the TEOG maximum award amount require change to provide clarity and support for current calculation practices;*
- *SFAP rules and procedures, regarding return of funds and reconciliations by institutions, require further improvement to reduce late return of funds and potential underutilization of TEOG funds; and*
- *Policies and procedures regarding user access to TEOG data in the EOY database require improvement to provide periodic review for inappropriate access that could potentially result in the loss of integrity and accuracy of TEOG data.*

Please see detailed Observations, Recommendations, and Management Responses for additional information.

Audit Objective and Scope

Our audit objective was to review internal administrative activities associated with the TEOG program and to evaluate the sufficiency of internal control. Our scope focused on current administrative processes and included tests of transactions for FY16 and FY17. Our audit included reviewing relevant statutes, rules and CB policies and procedures, manuals and documentation related to TEOG processes. We interviewed appropriate CB staff, collected data and performed various testing to address the audit objectives.

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

Background

The TEOG program was established in 2001, by the 77th Texas Legislature, in order to provide grants to enable eligible students to attend two-year public institutions of higher education in the state of Texas. The Coordinating Board is authorized to provide TEOG funds to Texas residents enrolled in public junior colleges, public technical institutes, and public state colleges, based on student financial need, but not to exceed a grant amount of more than that specified in the appropriation by the legislature or as provided by Texas Education Code, Section 56.407.

FY 2016	# of allocated institutions	Total amount of TEOG awarded	Total # of students awarded TEOG	Average amount of TEOG/ student
Community Colleges	53	\$42,954,477	23,014	\$1866
State Colleges and TSTCs	4	\$3,758,153	815	\$4611
Total	57	\$46,712,630	23,829	\$1960

Detailed Observations, Recommendations, and Management Responses

1. Student Financial Aid Programs (SFAP) written procedures and documentation require further improvement.

Student Financial Aid Programs (SFAP) written procedures and documentation require further improvement. SFAP has recently improved written documentation and processes. Ledgers have been improved and standardized across grant programs. Guidelines and rules have been better aligned with statute. User access controls have been improved. However, several areas require additional improvement.

A. Provide written procedures for annually determining and documenting TEOG institution eligibility.

- i. According to TAC § 22.255 (b)(2), "An institution must be approved by April 1 in order for qualified students enrolled in that institution to be eligible to receive grants in the following fiscal year." According to TAC § 22.255(b)(1), "Each eligible institution must enter into an agreement with the Board, the terms of which shall be prescribed by the Commissioner."

TAC § 22.255 (b)(2): *"An institution must be approved by April 1 in order for qualified students enrolled in that institution to be eligible to receive grants in the following fiscal year."*

- ii. Review of institution eligibility currently occurs as information is received as various notices are received from the DOE, accreditors, audit reports, or statutory changes; there is no formal annual review, either prior to allocation or prior to April 1st to determine eligible institutions. The list of eligible institutions is relatively stable from year to year for TEOG, therefore management uses the same list as the prior year unless there has been a notification that would suggest ineligibility.
- iii. An annual eligibility review should be performed prior to allocation and/or prior to April 1, and written documentation should be maintained of the review. Eligibility review should include review of statutory eligibility (TEC § 56.401), accreditation, and a valid MOU effective through the period corresponding to the allocation.

B. Provide written procedures for determining TEOG maximum award amounts.

- i. The maximum award amount is to be calculated each year by the CB. According to TEC § 56.407(d), "Not later than January 31 of each year, the coordinating board shall publish the amounts of each

TEC § 56.407(a): *"The amount of a grant under this subchapter for a student enrolled full-time at an eligible institution is the amount determined by the coordinating board ..."*

grant established by the board for the academic year beginning the next fall semester." According to TEC § 56.407(a), "The amount of a grant under this subchapter for a student enrolled full-time at an eligible institution is the amount determined by the coordinating board as the average statewide amount of tuition and required fees that a resident student enrolled full-time in an associate degree or certificate program would be charged for that semester or term at eligible institutions."

- ii. The TEOG maximum award amounts published in January 2016 were originally calculated incorrectly, but were corrected in August 2016 after SFAP realized that the amount had been calculated incorrectly for the January 2016 maximum award announcement. The calculation for state colleges was incorrectly based on General Academic Teaching Institutions instead of limited to TEOG eligible institutions. In addition, the calculation for technical schools did not include Lamar Institute of Technology.
- iii. Prior to 2016, the annual process for determining the maximum award amount did not include a review of statutes and rules to determine if changes in the calculation process were needed. In addition, the same written calculation procedures for TEXAS grant are also used for TEOG, even though the statutes and rules differ between programs. Calculation of the TEOG maximum award amount is conducted by SPF because the calculation relies on information from SPF. SFAP reviews the information and calculations.
- iv. Written procedures for calculation of the maximum award amount should include annual review of statute and rules as well as calculation processes specific to TEOG. Written procedures should also include controls to ensure data received from SPF is accurate and that calculations are completed correctly. (SFAP updated their written procedures during the audit to include review of statute and rules.)

C. Provide written procedures for verifying completion of weekly TEOG ledger reconciliations.

- i. According to TEC § 56.403(c), the total amount of TEOG grants cannot exceed available funds. In order to attempt to meet this requirement, SFAP tracks TEOG allocations and payments to institutions in a separate TEOG ledger. Per existing written procedures, the TEOG ledger is to be updated and reconciled with CB financial reports (Web Focus) on a weekly basis. However, the only documentation of the completion of weekly reconciliations is that the date of the last reconciliation is recorded and updated in the ledger each time it is reconciled. In addition, there is no written procedure to verify that the weekly reconciliation is actually completed.

TEC § 56.403(c): "The total amount of grants awarded under the grant program may not exceed the amount available for the program from appropriations, gifts, grants, or other funds."

- ii. A written procedure should be added that verifies and documents that weekly reconciliations are completed. (SFAP updated their written procedures during the audit to include this recommended written procedure.)

D. Provide written procedures for documenting reconciliation of end of fiscal year totals between the TEOG ledger and THECB financial reports.

- i. As noted above, per TEC § 56.403(c), the total amount of TEOG grants cannot exceed available funds and TEOG allocations and payments to institutions are tracked in a separate TEOG ledger maintained by SFAP. An End-Of-Year ledger is kept for each fiscal year. Although there are TEOG ledgers for FY15 and FY16, they do not clearly show the status at the end of the fiscal year.

TEC § 56.403(c): "The total amount of grants awarded under the grant program may not exceed the amount available for the program from appropriations, gifts, grants, or other funds."

- ii. A snapshot of the activity through the end of the fiscal year should reconcile the activity and final totals in the CB financial reports (Web Focus) to the TEOG ledger. This reconciliation will allow tracking of amounts remaining at the end of the fiscal year that need to either be returned to the state or, if possible, transferred to the next fiscal year.
- iii. A written procedure should be added that provides for reconciling and documenting the TEOG ledger to the CB financial reports (Web Focus) as of the end of the fiscal year. (SFAP updated their written procedures during the audit to include this recommended written procedure.)

E. Provide written procedures for documenting reconciliation of the TEOG Ledger and the Financial Aid Database (FAD) final report.

- i. As noted above, per TEC § 56.403(c), the total amount of TEOG grants cannot exceed available funds and TEOG allocations and payments to institutions are tracked in a separate TEOG ledger maintained by SFAP. An End-Of-Year ledger is kept for each fiscal year. Although there are TEOG ledgers for FY15 and FY16, they do not clearly show the status after final reconciliation with FAD.

TEC § 56.403(c): "The total amount of grants awarded under the grant program may not exceed the amount available for the program from appropriations, gifts, grants, or other funds."
- ii. All final activity for the academic year should reconcile the activity and final totals in the CB financial reports (Web Focus) and final FAD reports to a final TEOG ledger. This reconciliation will allow reconciliation of amounts actually paid and used by the institutions at the end of the academic year as recorded on the FAD report with the final TEOG ledger and the corresponding activity in the CB financial reports (Web Focus). This will provide a final verification and documentation that funds expended did not exceed available funds for the program as required by statute.
- iii. A written procedure should be added that provides for reconciling and documenting a final TEOG ledger to the final FAD report. (SFAP updated their written procedures during the audit to include this recommended written procedure.)

Recommendations

Revise written procedures and documentation to further document internal controls, processes and procedures, including:

- a. An annual eligibility review should be performed prior to allocation and/or prior to April 1, and written documentation should be maintained of the review. Eligibility review should include review of statutory eligibility (TEC § 56.401), accreditation, and a valid MOU effective through the period corresponding to the allocation.
- b. Written procedures for calculation of the maximum award amount should include annual review of statute and rules as well as calculation processes specific to TEOG.
- c. A written procedure should be added that verifies and documents that weekly reconciliations are completed.
- d. A written procedure should be added that provides for reconciling and documenting the TEOG ledger to the CB financial reports (Web Focus) as of the end of the fiscal year.
- e. A written procedure should be added that provides for reconciling and documenting a final TEOG ledger to the final FAD report.

Management response

Management agrees with these recommendations. The FY 2018 allocation process included additional eligibility review, and the FY 2019 allocation process will include formalized written procedures to verify eligibility of each participating institution prior to an allocation calculation. As noted in the audit report, SFAP has already updated their written procedures to include the recommendations outlined in 1B, 1C, 1D, and 1E.

Implementation Date

May 15, 2017

Responsible Party

DeChà Reid, Director, Financial Aid Services

2. Coordinating Board rules regarding the TEOG maximum award amount require change to provide clarity and support for current calculation practices.

Coordinating Board rules regarding the TEOG maximum award amount require change to provide clarity and support for current calculation practices. The TEOG maximum award amount is to be calculated by THECB as required by statute (TEC § 56.407(a)) based on an “average statewide amount of tuition and required fees” for eligible institutions. Currently, for TEOG, SFAP calculates the “average statewide amount of tuition and required fees” separately for each institution type (public junior colleges, public technical institutes, and public state colleges).

TEC § 56.407(a), “The amount of a grant under this subchapter for a student enrolled full-time at an eligible institution is the amount determined by the coordinating board as the average statewide amount of tuition and required fees that a resident student enrolled full-time in an associate degree or certificate program would be charged for that semester or term at eligible institutions.”

Practically, combining all entity types into one group and calculating an average of all entity types together would not provide a workable maximum award due to the obvious differences between public junior colleges, public technical institutes, and public state colleges.

The agency’s position that “average statewide amount” means the average amount for each institution type and not a combined average, could be more explicitly supported through a change to the corresponding rules defining “average statewide amount of tuition and required fees.”

Recommendation

Add a definition for “average statewide amount of tuition and required fees” to CB rules to be an average of tuition and fees by institution type, to provide clarity and support for the CB calculation procedures of maximum award amounts.

Management Response

Management agrees with this recommendation. TAC Title 19, Part 1, Chapter 22, Subchapter M will be revised to more clearly delineate separate calculations of the TEOG maximum for public community, state, and technical colleges. This adjustment will occur in time for the FY 2019 calculation.

Implementation Date

January 31, 2018

Responsible Party

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

3. ***SFAP rules and procedures, regarding return of funds and reconciliations by institutions, require further improvement to reduce late return of funds and potential underutilization of TEOG funds.***

SFAP rules and procedures, regarding return of funds and reconciliations by institutions, require further improvement to reduce late return of funds and potential underutilization of TEOG funds. TEOG funds are returned by institutions to the CB late in the fiscal year, too late to reallocate the returned funds, resulting in a potential underutilization of TEOG funds. For FY16, many institutions (27/57) returned funds after June 1, leaving a balance in the TEOG account of over \$280,000 that was unable to be reallocated. Twelve of the End-of-Year refunds were over \$10,000, indicating that the institutions are likely reconciling their TEOG funds just once, just prior to submitting their EOY report, instead of reconciling on a monthly or semester basis.

TAC Rule General Appropriations Act for 2016-17 Biennium Page III-52, Riders 46 & 47 for funds appropriated or transferred into TEOG, "any unexpended balances on hand at the end of fiscal year 2016 may be carried over to fiscal year 2017 for the same purpose"

SFAP has previously provided instruction to institutions to reconcile on a regular basis. In addition, for FY18, the TEOG End-Of-Year report is expected to be replaced with an updated FAD report that will be required several times a year that approximately corresponds to the end of each semester. However, these changes are not expected to drastically change the reconciliation frequency of institutions. The practice of many institutions of reconciling infrequently, or just once prior to the final report, causes late returns and reallocation challenges. While the agency has unexpended balance authority to transfer TEOG funds between fiscal years during the biennium, it does not have such authority to transfer unexpended balances from one biennium to another.

Recommendations

Implement expected changeover from EOY reporting to approximately semester reporting using an updated version of FAD to encourage institutions to reconcile on a more frequent basis, reducing return of funds late in the year. In addition, a process that requires a student-by-student record submission, prior to requesting funds, similar to the Common Origination Disbursement (COD) process that the Department of Education uses for institutions to report should be considered to improve institutional reconciliation practices, reduce end of year refunds, and reduce end of year balances.

Management response

Management agrees with this recommendation. As noted in the audit report, the frequency of submission for student-by-student reporting will be increased for FY 2018, which will require institutions to reconcile data earlier in the year. The increase from one to three submissions of the FAD, and the subsequent elimination of other duplicative reports, is the first step toward an effort to require more frequent reconciliation. SFAP envisions that additional submissions will be required in future years to further support reconciliation efforts.

Implementation Date

February 28, 2018 (this is the first submission deadline for the new FAD cycle)

Responsible Party

DeChà Reid, Director, Financial Aid Services

4. ***Policies and procedures regarding user access to TEOG data in the EOY database require improvement to provide periodic review for inappropriate access that could potentially result in the loss of integrity and accuracy of TEOG data.***

Policies and procedures regarding user access to TEOG data in the EOY database require improvement to provide periodic review for inappropriate access that could potentially result in the loss of integrity and accuracy of TEOG data. Access to TEOG data in the EOY database is overly broad, allowing potential unauthorized modification.

CB Policy HH-10-F-II-c requires that owners of data specify for the custodians what access controls need to be placed on the data. SFAP is the owner of the EOY data in the Structured Query Language (SQL) database and Information Solutions and Services (ISS) is the custodian of the SQL database.

CB Policy HH-10-F-II-c requires that "Owners of data shall specify for the custodians what access controls need to be placed on the data."

CB Policy HH-13-D-III requires that the division designated as the owner of the application is responsible for regularly reviewing the list of staff that have access to the application and ensuring that authorization is revoked for all staff that no longer require access. Because of the differences in policy in responsibility of data ownership and application ownership, existing policy and procedures do not clarify responsibility for periodic user access review of the EOY database portion of the SQL application.

CB Policy HH-13-D-III requires that the division designated as the owner of the application is responsible for regularly reviewing the list of staff that have access to the application and ensuring that authorization is revoked for all staff that no longer requires access.

The policy conflict was discovered because user access to the EOY database has not been recently reviewed and is over broad. Currently, SFAP staff have modify access to the EOY database, even though current practice is for ISS to make any modifications, not SFAP staff. If there is a need to change the data in the EOY report, a request is sent by SFAP to ISS to make the change. No instances of inappropriate access by SFAP staff were identified for the time period reviewed (FY16).

As the data owner, SFAP has not been receiving nor reviewing semi-annual reports of the user access to the EOY portion of the SQL application. For example, one user account, that has been inactive for network access, has been included in the application user list for over five years. In addition, modify access for SFAP staff for the EOY reports has not been revised to reflect actual procedures and need.

TEOG End of Year (EOY) reports are received from each institution to support the TEOG grant allocations disbursed to each institution. The reports contain student level data used to monitor institutional compliance with TEOG rules and guidance. Although SFAP staff may have a legitimate educational interest to have read-only access to review the data, their current access to modify the data is beyond current practice and need.

Recommendations

Review user access permissions for the EOY database and implement changes to access permissions that align with actual practices and need. Update user review procedures to ensure thorough periodic review of user access permissions for database access. Revise policies to clarify potential conflict of periodic user access review between data owner responsibility and application owner responsibility.

Management response

Management agrees with these recommendations. SFAP will work with ISS to incorporate the EOY databases into the list of applications that are reviewed for appropriate user access on a quarterly basis. SFAP's user access review procedures will be updated to reflect the periodic review, as well as clarify the responsibilities of SFAP as owner of both the data and the application. With the upcoming change to the FY 2018 FAD, FY 2017 is the last year in which data will be added to the EOY databases.

Implementation Date

Quarterly Review for September, 2017

Responsible Parties

Andy Thomas, Sr. Reports Analyst, Student Financial Aid Programs

Zhenzhen Sun, Interim Assistant Commissioner, Information Services and Solutions

PERFORMED BY:

Mr. Paul Maeyaert, JD, MBA, CIA, CGAP; Auditor

CC:

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

Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy
Ms. Linda Battles, Deputy Commissioner for Agency Operations and Communications
Mr. William Franz, General Counsel
Mr. Ken Martin, Assistant Commissioner for Financial Services and Chief Financial Officer
Dr. Charles Puls, Deputy Assistant Commissioner, Student Financial Aid Programs
Ms. Zhenhen Sun, Assistant Commissioner for Information Solutions and Services

Student Financial Aid Services

Ms. DeCha Reid, Director of Financial Aid Services

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Mr. Ed Osner

Governor's Office of Budget & Planning

Mr. Jonathan Hurst

State Auditor's Office

Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine



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May 19, 2017

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FILE

We have closed our inquiry into complaint # 16-1597. The complaint was referred to us from the State Auditor's Office.

The complainant alleged that their loan payments were incorrectly applied by the Coordinating Board. We worked with Borrower Services staff and determined that the payments were initially incorrectly applied and appeared on an exception report. Subsequently, the exception report was manually reviewed, payment corrections were made, and the borrower was notified that their account was paid in full.

Payment processing errors of this nature are being further reviewed in response to recommendations made by Weaver Consulting in their January 2017 report *Comprehensive Assessment of Alternative Student Loan Portfolio Operational Activities*.

We plan no further action on this matter.

Sincerely,

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

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

Cc: Verma Elliott, Assistant State Auditor

Committee on Agency Operations

Agenda Item VII-A

Consideration of adopting the staff's recommendation to the Committee relating to the Annual Compliance Monitoring Plan for Fiscal Year 2018

RECOMMENDATION: Approval

BACKGROUND INFORMATION:

In accordance with Texas Administrative Code Section 1.13 Internal Auditor and Compliance Monitoring, the Compliance Monitoring function has developed the risk-based Annual Compliance Monitoring Work Plan for Fiscal Year 2018. The Annual Compliance Monitoring Work Plan for Fiscal Year 2018 presents the individual engagements to be performed in fiscal year 2018.

The Fiscal Year 2018 Annual Compliance Monitoring Work Plan is attached. Mark Poehl, Director of Internal Audit and Compliance will present this item to the Committee.

TEXAS HIGHER EDUCATION COORDINATING BOARD
INTERNAL AUDIT & COMPLIANCE MONITORING

Compliance Monitoring Plan

Fiscal Year 2018

Specific risk factors from Texas Administrative Code Section 1.13 Internal Auditor and Compliance Monitoring, were used to develop the Compliance Monitoring Annual Plan. These factors included:

- The amount of student financial assistance or grant funds allocated to the institution by the Board;
- Whether the institution is required to obtain and submit an independent audit;
- The institution's internal controls;
- The length of time since the institution's last desk review or site visit;
- Past misuse of funds or misreported data by the institution; and
- In regard to data verification, whether the data reported to the Board by the institution is used for determining funding

Risk-Based Reviews	<u>Hours</u>	<u>%</u>
1. Formula Funding at Institutions of Higher Education	375	22%

Perform reviews of contact hours at public community/junior colleges and formula variable reviews at other public institutions of higher education. Formula funding for institutions of higher education totals approximately \$4.6 billion annually.

Public Universities – 1 institution, based on risk assessment

Desk Reviews

Sam Houston State University

Public Community/Junior Colleges – 1 institution, based on risk assessment

Onsite Reviews

Amarillo College

2. Student Financial Assistance Compliance at Institutions of Higher Education	1,350	78%
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Perform compliance reviews of student financial assistance programs at public community/junior colleges or other public/private institutions of higher education. Student financial assistance disbursed to colleges and universities in Texas totals approximately \$930 million annually.

Public Universities – 2 institutions, based on risk assessment

Onsite Review

Texas Tech University

Desk Review

Texas Southern University

Public Community/Junior Colleges – 3 institutions based on risk assessment

Onsite Review

Lone Star College System
San Jacinto College District

Desk Review

Northeast Texas Community College

Private Universities - 1 institution, based on risk assessment

Onsite Review

University of Mary Hardin Baylor

Public Health Related Institutions - 1 institution, based on risk assessment

Onsite Review

The University of Texas Medical Branch at Galveston

TOTAL RISK-BASED REVIEWS		1,725	100%
Completion of FY17 Risk-Based Reviews		<u>Hours</u>	<u>%</u>
1. Formula Funding at Institutions of Higher Education 6 institutions		1,125	75%
2. Student Financial Aid Compliance at Institutions of Higher Education 2 institutions		375	25%
TOTAL COMPLETION of FY17 REVIEWS		1,500	100%
Follow-Up Reviews		<u>Hours</u>	<u>%</u>
3. Formula Funding at Institutions of Higher Education 9 institutions		1,000	53%
4. Student Financial Aid Compliance at Institutions of Higher Education 9 institutions		900	47%
TOTAL FOLLOW-UP REVIEWS		1,900	100%

Committee on Agency Operations

Agenda Item VII-B

Update on Compliance Monitoring Reports and Activities

RECOMMENDATION: No action required

BACKGROUND INFORMATION:

Update on Compliance Monitoring Reports

The Compliance Monitoring team completed six projects during the reporting period since the April 2017 Agency Operations Committee meeting. The final reports are attached. A seventh final report, *An Audit of Formula Funding at Tyler Junior College*, was completed in December 2016 and is handled as a separate agenda item.

Formula Funding Engagements Completed

A Follow Up Audit of Formula Funding at Navarro College (no findings)

A Compliance Desk Review of Formula Funding at Texas Woman's University (no findings)

Financial Aid Engagements Completed

A Compliance Audit of TEXAS Grant at Prairie View A&M University (no findings)

A Compliance Desk Review of Tuition Equalization Grant at Texas Wesleyan University (no findings)

A Compliance Desk Review of Tuition Equalization Grant at Howard Payne University (no findings)

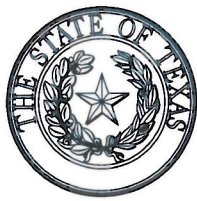
A Compliance Monitoring Audit of the Texas Educational Opportunity Grant (TEOG) at Houston Community College System (1 finding)

Projects In Progress	Stage of Project
Sul Ross University Rio Grande – Formula Funding	Fieldwork
The University of Texas at Austin – TEXAS Grant	Fieldwork
Texas A&M University-Corpus Christi – Texas Grant	Fieldwork

Other Compliance Monitoring Activities

- Prepared FY 2018 Compliance Risk Assessment and Audit Plan

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



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May 1, 2017

Dr. Richard M. Sanchez, District President
Navarro College
3200 West 7th Avenue
Corsicana, Texas 75110

Dear Dr. Sanchez:

Navarro College implemented the recommendation in our prior report *A Desk Review of Formula Funding at Navarro College* issued May 13th, 2015.

Management has implemented the audit recommendation by:

- Ensuring that contact hours reported for 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, if any, based on the audit objectives.

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

Sincerely,

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

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

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

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

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

Navarro College

Ms. Tammy Adams, Director of Admissions/Registrar

Mr. Lloyd D. Huffman, Chairman, Board of Trustees

Texas Association of Community Colleges

Mr. Jacob Fraire, President and Chief Executive Officer

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512/ 427-6101
Fax 512/ 427-6127

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

May 1, 2017

Dr. Carine M. Feyten, Chancellor and President
Texas Woman's University
304 Administration Drive
Denton, TX 76204

RE: Desk Review of Formula Funding at Texas Woman's University

Dear Dr. Feyten:

Texas Woman's University complied with relevant Coordinating Board rules and regulations for enrollment data used for formula funding and with Texas Administrative Code (TAC) Section 13, in the areas of student semester credit hour eligibility, tuition payment, and enrollment.

Summary

Our review included tests of relevant enrollment data reported and certified by Texas Woman's University for accuracy and completeness in accordance with TAC Section 13. Our desk review focused on the following enrollment data and time periods:

- Semester Credit Hours and Tuition Payments for CBM001 (Student Report) during summer 2014, fall 2014, and spring 2015; and
- Enrollment for CBM004 (Class Report) during summer 2014, fall 2014, and spring 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 cooperation of your staff during this review is greatly appreciated. If you have any questions or comments on the conduct of this review, please let me know.

Sincerely,

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

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

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/COO

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

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

Texas Woman's University

Dr. Jennifer Martin, Interim Provost and Vice President of Academic Affairs

Dr. Barbara Lerner, Interim Vice President of Enrollment Services

Dr. Mark Hammer, Associate Provost of Institutional Research and Improvement

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May 24, 2017

Dr. George C. Wright, President
Prairie View A&M University
100 University Dr.
Prairie View, TX 77446

Dear Dr. Wright,

I am attaching the final report on *A Compliance Audit of TEXAS Grant at Prairie View A&M University*, Report No. THECB-CM-FA-17-015. There were no findings resulting from this engagement.

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

Prairie View A&M University (PVAMU) complied with relevant Coordinating Board (THECB) rules and regulations for the Toward EXcellence, Access, and Success (TEXAS) Grant Program and with Texas Administrative Code (TAC) Sections 22.225 – 22.240, in the areas of eligibility and award amounts.

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

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 TEXAS Grant disbursements during fiscal year 2016 for compliance with relevant criteria, including:

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

Our work included procedures to verify:

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

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

Background

The purpose of the Toward EXcellence, Access, & Success (TEXAS) Grant Program is to provide grants of money to enable eligible students to attend public institutions of higher education in this state. During fiscal year 2016, PVAMU awarded \$9,709,528 to 2,012 students.

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)

Ms. Carol Conner, Compliance Specialist

Ms. Jamyen Robinson-Hall, Compliance Specialist

CC:

THECB

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Commissioner's Office

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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

Prairie View A&M University

Mr. Ralph Perri, Director of Financial Aid & Scholarships

Dr. Felecia Nave, Provost and Senior Vice President of Academic Affairs

Dr. Corey S. Bradford, Senior Vice President of Business Affairs

Dr. Michael L. McFrazier, Vice President of Administration

Ms. Cathy Smock, Special Advisor to the President for Compliance

Mr. Rod Mireles, Associate Vice President Financial Management Services

The Texas A&M University System

Mr. Cliff Thomas, Chairman, Board of Regents

Mr. John Sharp, Chancellor

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April 24, 2017

Dr. Slabach, President
Texas Wesleyan University
1201 Wesleyan Street
Fort Worth, Texas 76105

Dear Dr. Slabach:

I am attaching the final report on *A Compliance Desk Review of Tuition Equalization Grant at Texas Wesleyan University*, Report No. THECB CM-FA-17-014. There were no findings resulting from this engagement.

Texas Wesleyan University complied with relevant Coordinating Board (THECB) rules and regulations for Tuition Equalization Grant (TEG) and with Texas Administrative Code (TAC) §22.21 through §22.32.

Summary

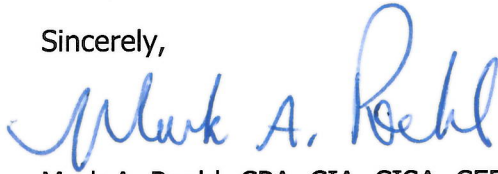
Our desk review included tests of relevant financial aid data reported and certified by TWU for award year 2015-2016. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any based on the desk review objectives.

Our work included procedures to verify:

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

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

Sincerely,



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

PERFORMED BY:

Ms. Jamyen Robinson-Hall, Compliance Specialist

CC:

THECB

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

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Dr. Charles Puls, Deputy Assistant Commissioner

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Ms. Donna Nance, Vice President of Finance and Administration

Ms. Caron Patton, Comptroller

Ms. Laurie Rosenkrantz, Director of Financial Aid

Ms. Patti Wiley, Financial Aid Assistant Director

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Fax 512/ 427-6127

Web site:
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May 18, 2017

Dr. William N. Ellis, President
Howard Payne University
1000 Fisk Street
Brownwood, TX 76801

Dear Dr. Ellis:

I am attaching the final report on *A Compliance Desk Review of Tuition Equalization Grant at Howard Payne University*, Report No. THECB CM-FA-17-013. There were no findings resulting from this engagement.

Howard Payne University complied with relevant Coordinating Board (THECB) rules and regulations for the Tuition Equalization Grant (TEG) and with the Texas Administrative Code (TAC) §22.21 through 22.32.

Summary

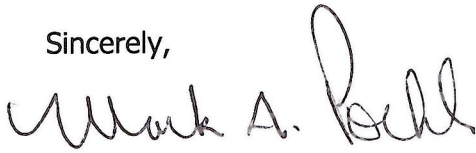
Our desk review included tests of relevant financial aid data reported and certified by Howard Payne University (HPU) for award year 2015-2016. We believe the evidence obtained provides a reasonable basis for the findings and recommendations, if any, based on the desk review objectives.

Our work included procedures to verify:

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

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

Sincerely,

A handwritten signature in dark ink, appearing to read "Mark A. Poehl". The signature is fluid and cursive, with the first name "Mark" being the most prominent.

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

PERFORMED BY:

Ms. Carol Conner, Compliance Specialist

cc:

THECB

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Commissioner's Office

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

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

Mr. William Franz, General Counsel

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

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner

Howard Payne University

Mr. Carter Sharpe, Chairman, Board of Trustees

Mr. Mike Rodgers, Vice President for Finance and Administration, CFO

Ms. Jodi Goode, Assistant Vice President for Information Technology Services

Ms. Glenda Huff, Director of Student Aid

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512/ 427-6101
Fax 512/ 427-6127

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

July 5, 2017

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

RE: An Audit of Texas Educational Opportunity Grant at Houston Community College System

Dear Dr. Maldonado,

I am attaching the final report of *A Compliance Monitoring Audit of the Texas Educational Opportunity Grant (TEOG) at Houston Community College System*, Report No. THECB-CM-FA-17-010.

This Compliance Monitoring audit report will be presented to the Texas Higher Education Coordinating Board (THECB) Committee on Agency Operations, a standing committee of the THECB Board, on July 26, 2017.

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

Sincerely,

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

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

EXECUTIVE SUMMARY

Houston Community College System (HCCS) did not comply with relevant THECB rules and regulations for the TEOG Program, in the area of student eligibility. HCCS awarded \$168,560 of TEOG to 107 students during fiscal year 2016 without obtaining and retaining required documentation to establish eligibility. HCCS did not have sufficient procedures to ensure compliance with TAC §22.256 (c) (3), relating to required documentation when a student has been convicted of a felony or offense under the Texas Controlled Substances Act.

See the Detailed Observation, Recommendation and Management's Response on page four of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and 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.

Scope, Objective, and Methodology

Our compliance audit included tests of TEOG disbursements during fiscal year 2016 for compliance with relevant criteria, including but not limited to:

- 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
- Reportable award amounts reconciled between the student information system data and payment records

The methodology employed during this audit included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and other tests necessary to achieve the objectives of the audit. THECB used random sampling and a 100% review of the Statement of Eligibility forms to determine the extent to which HCCS accurately reported TEOG data.

Background

TEOG is a Texas public two-year college program designed to provide grant aid to students with financial need. During fiscal year 2016, a total of 2,918 students received \$4.3 million of TEOG award disbursements from HCCS.

Detailed Observation, Recommendation and Management's Response

1. Houston Community College System awarded \$168,560 of TEOG to 107 students during fiscal year 2016 without obtaining and retaining required documentation to establish eligibility.

Houston Community College System awarded \$168,560 of TEOG to 107 students during fiscal year 2016 without obtaining and retaining required documentation to establish eligibility. HCCS did not have sufficient procedures to ensure compliance with TAC §22.256 (c) (3), relating to required documentation when a student has been convicted of a felony or offense under the Texas Controlled Substances Act (see Textbox TAC Eligibility Requirements).

In our review, we noted the following:

No. of Students	Exception	Amount Awarded
71	Missing Statement of Eligibility form	\$109,709
36	No documentation related to drug offense	\$58,851
107	Totals	\$168,560

HCCS stated that the cause of non-compliance was related to weaknesses in the prior decentralized financial aid distribution approach across its campuses, as well as record keeping shortcomings in implementing a new electronic imaging system.

Recommendation:

Develop procedures to ensure compliance with TAC §22.256 (c) (3), including sound records retention practices. Refund the \$168,560 in TEOG awarded for the above students to the Texas Higher Education Coordinating Board.

Management Response:

Houston Community College understands the importance of ensuring that all students complete required documentation prior

TAC Eligibility Requirements

According to Texas Administrative Code (TAC) §22.256 (c) (3), "A person is not eligible to receive an initial or continuation Texas Educational Opportunity Grant award if the person has been convicted of a felony or an offense under Chapter 481, Health and Safety Code (Texas Controlled Substances Act), or under the law of any other jurisdiction involving a controlled substance as defined by Chapter 481, Health and Safety Code, unless the person has met the other applicable eligibility requirements under this subchapter and has:

A) received a certificate of discharge by the Texas Department of Criminal Justice or a correctional facility or completed a period of probation ordered by a court, and at least two years have elapsed from the date of the receipt or completion; or
(B) been pardoned, had the record of the offense expunged from the person's record, or otherwise been released from the resulting ineligibility to receive a grant."

to receiving state funding. HCC required eligible students to complete paperwork necessary to validate eligibility for TEOG funding. HCC notified students of requirements and went through the process of collecting documents from eligible students and updating computer records prior to disbursing funds. All students who received funds had their computer record updated, however during the audit HCC was unable to locate the documents submitted by 71 students who received the funds. HCC has tightened its procedures to ensure compliance with TAC 22.256(c)(3) and those procedures are outlined in the following Corrective Action Plan. HCC has conducted extensive training with staff who reviews the documents to ensure that the drug offense requirements are understood and appropriate documentation obtained from the student prior to delivering TEOG funds.

Houston Community College will refund \$168,560 to the Texas Higher Education Coordinating Board by HCC's fiscal year end of August 31, 2017.

Corrective Action Plan:

Prior to tightening procedures described in the enclosed procedures and set-up screens, collecting the Statement of Student Eligibility was a manual process completed by front desk administrators of financial aid offices that were decentralized, and required follow-up with the student TEOG recipient. HCC was collecting the required documentation on paper at the various campuses and the administrators who collected the documentation updated the computer system to document the receipt of the required forms. HCC has implemented new automated system processes that post a requirement on a student's record as soon as the TEOG is awarded. This requirement, called a checklist, notifies the student by email that they must complete a Statement of Student Eligibility prior to receiving TEOG funds. The checklist is set up to prevent disbursement of the TEOG funds until the checklist is completed upon receipt of the Statement of Student Eligibility. This process is described in the enclosed policies and procedures.

The intake process of receiving the Statement of Student Eligibility has been streamlined and system-wide training conducted to ensure that all employees understand the processes and review the documentation received by the students to ensure compliance with TAC 22.256(c)(3).

A complete review of all TEOG recipients for the 2016-2017 aid year has been completed to ensure that all TEOG eligibility requirements have been met for the students who received FY 2017 TEOG funding.

PERFORMED BY:

Mr. David Mahoney, Compliance Specialist (Lead Auditor)
Ms. Jamyen Robinson-Hall, Compliance Specialist

CC:

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

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

Student Financial Aid Programs

Dr. Charles Puls, Deputy Assistant Commissioner

Houston Community College System

Ms. JoEllen Soucier, Executive Director Financial Aid
Ms. Eva Loreda, Board Chair

Texas Association of Community Colleges

Mr. Jacob Fraire, President and CEO

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Mr. Ken Levine, Director

Attachment A

TEOG Policy and Procedure

Purpose:

The purpose of the TEOG Program is to provide financial aid assistance to enable eligible students to attend two-year public institutions of higher education in Texas. Houston Community College, in accordance with the Texas Coordinating Boards regulatory guidance, has implemented the following policy to provide standard operating procedures and equitable criteria for determining student eligibility.

Program Authorization:

The Texas Educational Opportunity Grant (TEOG) Program is authorized by Chapter 56, Subchapter P of the Texas Education Code. Rules establishing procedures to administer the subchapter can be found in Chapter 22, Subchapter M of the Texas Administrative Code.

Selection Process:

The System award students on a first-come first served basis based on the following criteria:

TEOG 1st year

- Enrolled at least 1/2 time (**6 semester credit hours**) in the first 30 hours (or their equivalent) in an associate's degree or certificate program at a public two-year college in Texas excluding credits for dual enrollment or by examination
- Texas residents
- Demonstrate Financial Aid Need/FAFSA
- If applying for a first-time award, have an 9 month EFC of no more than the amount specified by the state each year
- Register for the Selective Service or are exempt from this requirement (males only)
- Have not been granted an associate's or a baccalaureate degree and have not been convicted of a felony or a crime involving a controlled substance*
- Student who graduated from high school on minimum plan or have received G.E.D may qualify for this grant.

*An individual convicted of a crime involving a controlled substance can regain eligibility for an award in the program two years after he/she has fulfilled his/her obligation to society.

TEOG 2nd Year

- Student must have been previously awarded TEOG 1st year
- Student must be enrolled at least half-time
- Student must be classified by the institution as a Texas Resident

These are other identifiers of Texas residents on the Residency Official Panel

- HB1403
- SB1528
- Student should not be concurrently receiving Texas Grant renewal
- Student must be meeting SAP o 2.5 Cumulative GPA
- 75% completion rate of attempted hours
- Student has not attempted 75 SCH while receiving grant

Adhering to Program Controlled Substance Restrictions

A person is not eligible to receive an initial or continuation TEOG award if the person has been convicted of a felony or an offense under Chapter 481, Health and Safety Code (Texas Controlled Substances Act), or under the law of any other jurisdiction involving a controlled substance as defined by Chapter 481, Health and Safety Code, unless the person has met the other applicable eligibility requirements under this subchapter and has:

1. received a certificate of discharge by the Texas Department of Criminal Justice or a correctional facility or completed a period of probation ordered by a court, and at least two years have elapsed from the date of the receipt or completion; or
2. Been pardoned and had the record of the offense expunged from the person's record.

Houston Community College requires the statement (electronic or paper) from each TEOG recipient prior to the disbursement of funds confirming eligibility in regards to the controlled substance restrictions of the program with required supporting documentation included. This statement is retained with the student's records at the institution and can be made available if requested in the course of a program review or audit.

Houston Community College has the determined the statement of student eligibility will be collected once during initial or incoming recipients enrollment here at the

institution. The Statement of Student Eligibility form is available to the student on the forms page of the HCC Financial Aid web site.

Satisfactory Academic Progress (SAP) – GPA and Completion Rate

Each recipient's GPA and completion rate must be monitored to ensure compliance as outlined below	End of Initial Year End of Subsequent Years	Minimum 2.0 cumulative GPA Minimum 2.5 cumulative GPA*
Completion Rate	End of Initial Year End of Subsequent Years	67% successful completion of attempted Hours for the year 75% successful completion of attempted hours for the year**

TEOG Setup Rules

Financial Aid Item Type Setup for TEOG – All the TEOG business rules/validations are embedded in the Selection Criteria equation

Financial Aid Packaging Setup for TEOG – All the TEOG business rules/validations are embedded in the

Financial Aid Packaging Setup for TEOG – All the TEOG business rules/validations is embedded in the Selection Criteria equation during TEOG assignment.

Some of the business rules are implemented for TEOG along with statement of Eligibility:

IF Student has an existing GRANTS (TEOG) then it would NOT process further to assign TEOG

ELSE

It would process further and check for the following criteria's before assigning the **TEOG**:

Check EFC - If Primary EFC < 4800 from ISIR.

Check C Codes - COMMENT_CODE NOT IN ('132', '124', '134', '135', '136', '272', '303', '304', '305', '306', '307') OR H.NSLDS_MATCH <> '2' OR C.SAR_C_FLAG <> 'Y'

Student is NOT Grad (Check Grad Status)

Check to see if student is INSTATE and INDISTRICT - A.RESIDENCY IN ('ID01', 'ID02', 'ID03', 'ID05', 'ID14') OR (A.RESIDENCY IN ('OS01', 'OS02', 'ST01') AND A.TUITION_EXCPT IN ('SBHS', 'HB2')

EFC_STATUS = 'O' (official)

SAP status is NOT 'U' (Undetermined) or 'N' (Not meet)

FA_LOAD is NOT 'N' or 'L' and it should be either "F" or "H" or "T" from FA term

FA Units < 31 from FA term.

If Received First Bachelor Degree = NO from ISIR

Check if TEOG Award Declined earlier (HFA_CHK_AWRD)

Check to see student has completed statement of Eligibility

Also disbursement rules/validations are setup for TEOG in the "Disbursement Item Type Rules" setup where we added a validation such that student should have completed statement of Eligibility checklist.

Indicators

Groups/Thresholds

Checklists/Tracking

Item Type: 300000001201 TASFA_TEOG_FALL
Aid Year: 2016
Academic Career: Semester Credit Hour
Institution: HCCSD

Indicators

Find First 1 of 1 Last

Eff Date: 01/01/2015
Status: Active
Copy Setup Data

Descr: TASFA_TEOG_1
Short Desc: TASFA_TEOG

☐ Review Complete
☒ Package Complete
☒ Verification Complete
☐ Official Fed EFC
☐ NSLDS Loan Year Match
☐ Bdgt/Term Level Match
☒ Hold If No Enrollment Data
☐ Loan Entrance Intervw Req

☐ Awd Career Match Term Career
☒ Honor Disbursement Hold
☒ Must Meet Satisfactory Prog
☒ Hold Disb Fed Overaward
☒ Hold Disb Inst Overaward
☐ Hold If Withdrawn
☐ Match Fees
☐ Authorize To Fee Assessment

☐ Post Disb Red Ctrl - Census Dt
☐ Post Disb Reduction Control
☐ ASG HERA Level Match
☐ ASG CIP Code Match
☐ ASG Minimum GPA
☐ ASG Incomplete Grades
☐ ASG Pell Grant Awarded

SMART Enrollment Verification:

Load Level Rules

☐ Bdgt/Term Load Match
☐ Awd/Term Load Match
Disbursement Proration Rule:
Use Current Load:

Save
Return to Search
Notify
Previous tab
Next tab
Add
Include History
Correct History

Indicators | Groups/Thresholds | Checklists/Tracking

Committee on Agency Operations

Agenda Item VII-C

Consideration of adopting the Commissioner's recommendation to the Committee relating to the Final Report – An Audit of Formula Funding at Tyler Junior College

Recommendation: Discussion and consideration of financial consequences, if any, for Tyler Junior College as a result of the findings in Audit Report No. THECB-CM-FF-16-005

Background Information:

Coordinating Board Compliance Monitoring issued a final report on *An Audit of Formula Funding at Tyler Junior College*, dated December 15, 2016. The audit concluded that Tyler Junior College had not complied with Coordinating Board rules and state law for enrollment data used for formula funding, in the area of continuing education contact hours. Tyler Junior College did not meet the "immediate employment" aspects of TAC 9.1(5) for continuing education contact hours reported for students 17 years of age and under.

As a result of the non-compliance, Tyler Junior College received \$91,870 of formula funding for the 2016-2017 biennium that it was not eligible to receive. This error represented .32% of formula funds received and 6.7% of continuing education formula funds received for the biennium.

Tyler Junior College asserts in its management response, in part, that the College placed emphasis on TEC 130.003 (e) which states: The purpose of each public community college shall be to provide: (7) work force development programs designed to meet local and statewide needs. To this end, the College interpreted the ability to work in Texas at age 16 as satisfying the immediate employability construct for entry level occupations. Tyler Junior College states that in the interest of finding a reasonable solution, the College's Board of Trustees and administration recommends reimbursement to the state in the amount of \$9,484 per year for two years, for a total of \$18,968, for students served who were under the age of 16.

Rider 7 Adjustment of Contact Hours, General Appropriations Act, 84th Legislature, states, "Texas Higher Education Coordinating Board is authorized to review the accuracy of the contact hour data reported to the Coordinating Board by community college districts. In the event of data reporting errors, the Coordinating Board is authorized to adjust the fiscal year's formula appropriations as necessary to reflect the corrected data elements." Thus, this agenda item provides the board the opportunity to consider the appropriateness of such an adjustment.

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



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

December 13, 2016

Robert W. Jenkins
CHAIR

Stuart W. Stedman
VICE CHAIR

David D. Teuscher, M.D.
SECRETARY OF THE BOARD

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Raymund A. Paredes
COMMISSIONER
OF HIGHER EDUCATION

512/ 427-6101
Fax 512/ 427-6127

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

Dr. L. Michael Metke, President
Tyler Junior College
1327 S. Baxter Avenue
Tyler, Texas 75771

RE: An Audit of Formula Funding at Tyler Junior College

Dear Dr. Metke,

I am attaching the final report of *A Compliance Monitoring Audit of Formula Funding at Tyler Junior College*, Report No. THECB-CM-FF-16-005. There were three findings resulting from this engagement. Tyler Junior College was over-awarded \$91,870 in continuing education formula funding for the 16-17 biennium, based on not meeting the immediate employment criteria for contact hours reported for students under the age of 18.

Other opportunities for improvement at Tyler Junior College include:

- Better documentation of academic course contact hours for courses delivered through agreements with local independent school districts; and
- Enhancement of information system access controls.

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

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

Sincerely,

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

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

EXECUTIVE SUMMARY

Tyler Junior College did not fully comply with relevant statutes and Coordinating Board (THECB) rules for enrollment data used for formula funding, in the area of continuing education contact hour reporting. Formula funding reporting to THECB should ensure continuing education contact hours are reported for formula funding only for adults seeking immediate employment. Approximately 0.32% of continuing education contact hours were over-reported and did not meet statutory requirements, resulting in over-awarding for the current biennium of \$91,870.

Other opportunities for improvement at Tyler Junior College include:

- Documentation of academic course contact hours for courses delivered through agreements with local independent school districts; and
- Enhancement of information system access controls.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and 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.

Scope, Objective, and Methodology

Our audit included tests of relevant enrollment data reported and certified by Tyler Junior College for the CBM004 (Class Report) during Summer 2014, Fall 2014, and Spring 2015 and for the CBM00C (Continuing Education Class Report) during Summer I 2014, Summer II 2014, Fall 2014, and Spring 2015 and others as applicable for accuracy and completeness. Our work included procedures to verify:

- Contact hours/enrollment met reporting requirements;
- Contact hours were eligible for formula funding;
- Student payment was received per requirements;
- Instructors of record meet applicable requirements; and
- The control system provides reasonable assurance that the data reported by Tyler Junior College to the THECB is accurate and complete¹.

The methodology employed during this audit included objectively reviewing and analyzing various forms of documentation, conducting interviews and observations, and other tests necessary to achieve the objectives of the audit. THECB used random sampling to determine the extent to which Tyler Junior College accurately reported enrollment data.

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

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 distribute 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.

The THECB is authorized to review the accuracy of the contact hour data reported to the Coordinating Board by community college districts. In the event of data reporting errors, the Coordinating Board is authorized to adjust the fiscal year's formula appropriations as necessary to reflect the corrected data elements. (General Appropriations Act FY 2014-15 biennium, page III-203 and General Appropriations Act FY 2016-17 biennium, page III-204)

Tyler Junior College submitted certified enrollment data for Summer 2014, Fall 2014, and Spring 2015.

Detailed Observations, Recommendations and Management's Response

1. Tyler Junior College over reported 15,277 hours in continuing education formula funding for the 2014 base period.

Tyler Junior College over reported 15,277 hours in continuing education formula funding for the 2014 base period. Applying an average rate of \$3.00 per hour, results in an over-reporting of \$45,935 for the base year and \$91,870 for the 16-17 biennium. Tyler Junior College reported a total of \$14,530,388 in formula funding for the 2014 base period with continuing education contact hours accounting for \$689,668 of the total formula funding. Overall, Tyler Junior College over reported by 0.32% (\$45,935/\$14,530,388) for the 2014 base period. Attachment 1 provides a snapshot of formula funding at Tyler Junior College for the 2014 base year.

On a contact hour basis, for Quarter 1 (Fall) 2014, 1.7% of the hours reported for continuing education funding for Tyler Junior College were for students under the age of 18. Similarly, for Quarter 2 (Spring) 2015, 12% of the hours reported for continuing education funding were for students under the age of 18. For the 2014 base period, 6.7% of the hours reported for continuing education funding were for students under the age of 18.

Summary of Tyler Junior College Formula Funding Non-compliance

- Tyler Junior College did not meet the "immediate employment" aspects of TAC § 9.1(5) for continuing education contact hours reported for students 17 and under.

Continuing education funding is designed for continuing the education of adults and to provide job training for immediate employment. TEC § 130.003(e)(4) refers to continuing education programs as "continuing **adult** education programs for occupational or cultural upgrading" (emphasis added). Workforce education, as a part of continuing education, is designed to train adults after graduating from high school for immediate employment. TAC § 9.1(31) defines a workforce continuing education course as a course "... with an occupationally specific objective" TAC § 9.1(5) defines a career technical/workforce program as "... intended to prepare students for **immediate employment** or a job upgrade in a specific occupation." (emphasis added)

Recommendation

Comply with statutory and rule limitations regarding immediate employability for continuing education contact hours reported for formula funding. Consider alternatives, such as providing courses as credit courses instead of continuing

education courses, particularly level 1 certificate programs, to support public secondary school districts with the challenge of HB 5 implementation.

Management Response

The College placed emphasis on TEC §130.003 (e) which states: The purpose of each public community college shall be to provide: (7) work force development programs designed to meet local and statewide needs. To this end, the College interpreted the ability to work in Texas at age 16 as satisfying the immediate employability construct for entry level occupations. Given that CNA, lifeguarding, and other programs/certificates/licenses are available to students under the age of 18, one could reasonably infer that no age restriction is present. Due to the ambiguity of the language and the compelling governmental interest of colleges addressing the needs of their communities, the College followed prior guidance from the Coordinating Board's website and interpreted the statutes in favor of the omissions rather than inferring a restriction/limitation was intended to be included. Moreover, the College did not interpret TAC§ 9.1 (5) to specifically apply to after graduation and requests further clarity of the guidelines and their respective application. The following items are relevant:

- 1) *The CE specific FAQ removed from the THECB website was still searchable on the internet until May of 2016. It stated:*

Q: What is the minimum age restriction for CE students enrolled in courses reported for formula funding? A: There is no minimum age restriction written into state statute or rules at this time. Each college should have its own written policy on this. Many colleges establish 16 or 17 as a minimum age but allow exceptions in special cases. Colleges are urged to use common sense about this. The Legislature devotes a certain amount of money to higher education, and would not be pleased to hear that this money has been used to fund courses for the under-16 set when K-12 has been funded for that age group.

- 2) *Each course that was submitted for formula funding was a course that was active in the current WECM inventory with the exception of the Food Workers Certification course that was approved by the WECM committee to meet local needs by the Northeast Texas Health District for food safety.*
- 3) *Each program that received formula funding included courses tied to WECM courses and outcomes.*
- 4) *The courses that were submitted for formula funding provide specific skills that have been identified as industry needs.*

The College respectfully requests the Coordinating Board consider the following clarifications regarding specific programmatic elements:

- 1) **Food Workers Certification** – Employees who prepare or handle food must complete a Food Handler training course. This course was approved by the WECM committee to meet local needs for the Northeast Texas Health District regarding food safety. This certificate provided immediate employment for entry level food related occupations. This certification is governed and regulated by the **Texas Department of State Health Services** and the **Northeast Texas Health District**.
- 2) **Lifeguard Training** – Tyler Junior College offers a Lifeguard Training program to meet employment needs. In our region pools will have to shut down or limit hours of operation as a result of a shortage of trained and certified life guards. This training and certification is regulated by the **American Red Cross** which offers lifeguard training to participants age 15 and up. <http://www.redcross.org/take-a-class/lifeguarding>
- 3) **Certified Nurse Aide (CNA)** – Employment of nursing assistants and orderlies is projected to grow 17 percent from 2014 to 2024, much faster than the average for all occupations. Because of the growing elderly population, many nursing assistants and orderlies will be needed to assist and care for these patients. Tyler Junior College offers this program in order to meet this demand. CNAs may be employed at age 17 in a long term care facility. This certification provides many with an opportunity for an entry point on a career ladder in medical care professions. This program is regulated by the **Texas Department of Aging and Disability Services**.
- 4) **CE Automotive Programs/High School Automotive Programs (CE only)** – These courses serve as a pathway for the automotive program and the welding program at the College. Students received a good foundation for entering and being successful in the college credit technical programs. At that time, there were very few career and technical education offerings available to high school students. It is important to keep in mind that these courses are in alignment with WECM courses and are introductory and foundational courses. Students who choose not to continue their education have an advantage in entering the workforce because they receive specific skills training that other high school graduates do not have. As a result, they are eligible for immediate employability in various jobs within the automotive industry. In effect, the CE courses have been gateway courses in the secondary schools that are a part of the coherent sequence of courses that enable students to complete their high school endorsement and lead into college courses during their junior and senior year of high school. Students who finish these CE courses are eligible to receive a certificate of completion for each class which they can add to a resume and provide to potential employers.

In addition, TJC submits Continuing Education student and class data through the CBM00A (Student Report) and CBM00C (Class Report) in accordance with procedures outlined in the Reporting and Procedures Manual for Texas Community, Technical, and State Colleges provided by the THECB. At the time of submission, the THECB Educational Data Center (EDC) provides an edit that scrutinizes each report for questionable or erroneous data. TJC's reporting official works with the Continuing Education Department to correct all data to ensure both reports are free of errors and contact hours are in balance. It is important to note that during the audit period, no underage students were flagged for errors. College reporting officials rely on the EDC's audit reports to flag any unacceptable errors that could result in overfunding. In Summer 2016 (after our initial audit findings were released), the THECB Educational Data Center implemented new report auditing procedures that now detect and flag underage students. Doug Parker, from THECB, announced this implementation at the summer Texas Association of Collegiate Registrars and Admissions Officers (TACRAO) meetings. TJC was already aware of this since the errors were noted in the audit process for spring CBM00A.

Excerpted from TJC's Audit Transmittal Letter (see Attachment II)

TJC strives to serve the needs of our communities, and we continuously gauge local employment needs and address local workforce shortages through cost effective approaches. We believe that the implemented interpretations will adversely impact students who, while desiring licenses and certifications that provide a career pathway, have not always followed the traditional path of graduating from high school. As per our previous conversations and in the interest of finding a reasonable solution, the College's Board of Trustees and administration recommends that TJC provide reimbursement to the state in the amount of \$9,484 per year for two years, for a total of \$18,968, for students served who were under the age of 16.

Auditor Follow Up Comment to Management's Response

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

Approximately two thirds of the \$91,870 of formula funds questioned in the audit report were for automotive-related continuing education classes that are available as both continuing education and credit courses. Age would not have been a factor had the courses been conducted as dual credit, versus continuing education.

2. Documentation of academic course contact hours for courses delivered through agreements with local independent school districts requires improvement.

Documentation of academic course contact hours for courses delivered through agreements with local independent school districts (ISDs) requires improvement. Reported enrollment on the Class Report (CBM004) for 12 of 91 (13%) classes tested was not correct as follows:

Subject Prefix	Course No.	Section No.	Contact Hours Reported	Contact Hours Verified	Exception
Summer I					
ENGL	1302	28067FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
HIST	1302	28002FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
PSYC	2301	28158FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
SPCH	1315	28041FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
WLDG	2443	28166FE	128	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
Fall 2014					

SPCH	1144	10743	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
Spring 2015					
BIOL	1406	12355FE	96	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
ENGL	1301	12433FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
ENGL	2332	12303FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
ENGL	2332	12429FE	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
HITT	1305	20336	48	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus
IMED	1316	22155	96	Unable to determine	Course delivered via agreement with local ISD and not documented in Banner or on syllabus

For the 12 courses noted above, class meeting days and times were not documented in the Banner student data system, course schedule listing and or the course syllabus. As a result, the contact hours reported could not be verified. The courses were validated as having been held by reviewing a sample of student transcripts.

All course contact hours reviewed were reported within the Academic Course Guide Manual (ACGM) maximum contact hour limits.

Additionally, for one course, TJC reported 48 contact hours but a review of class meeting information in the Banner student data system indicated the course met only 45 contact hours. TJC over reported three contact hours.

Subject Prefix	Course No.	Section No.	Contact Hours Reported	Contact Hours Verified	Over-reported/ Exception
Summer II					
PHYS	1402	40145	48	45	3

Texas Administrative Code (TAC) Section 13.103(a) requires that institutions not submit excess hours to the Board for the purposes of formula funding unless those hours are exempt. TAC §1.13 (b) (2) (B) requires that compliance monitoring verify data reported by institutions of higher education for formula funding allocations to ensure the data is accurately and consistently reported.

Recommendation

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

Management Response

The College's organizational structure now has both academic affairs and student affairs reporting to the Provost and Vice President, and is focused on student success, academic rigor and relevance, and data integrity. In addition, the College added another high level administrative position, a Director for School District Partnerships, to serve as liaison to the school districts and to ensure proper reporting that meets all requirements for dual credit offerings. All college level courses taught on high school sites are no longer reported as TBA in the College's system, Banner. The dual credit liaison confirms days and times of instruction to properly meet all contact hour requirements. It is also important to note that the College recently went through its off-campus site visit by the Southern Association of Colleges and Schools/Commission on Colleges and received glowing reports about the integrity of the reports.

3. Tyler Junior College student information systems access controls require improvement.

Tyler Junior College student information systems access controls require improvement. Tyler Junior College does not have policies and procedures in place to limit access to information systems and to ensure there are adequate controls to protect student information. Tyler Junior College's student information system contains the institution's confidential data and records, including enrollment information reported for formula funding purposes.

We observed that three out of 27 (11%) users reviewed were assigned security level permissions that provided access to screens in the student information system that were not required to meet the user's current business needs. These three users had permissions that provided inappropriate access to formula funding related data.

We noted the following during the review:

Items Noted During the Review of 27 Users with Access Permissions to the Student Information System	# of Users Noted	Percentage
User is not involved with enrollment related processes at TJC	3	11%

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 a legitimate educational interests." In addition, TAC § 202.71(b)(8) should be used as a best practice and requires "developing and recommending policies and establishing procedures and practices ... necessary to ensure the security of information and information resources against unauthorized or accidental modification, destruction, or disclosure."

Policies and procedures and enhanced oversight of the College's student information system would provide greater assurance that student information security and integrity is achieved.

Recommendation

Enhance controls over access to educational records, in particular establish and implement policies and procedures and user access permission controls, to comply with 34 CFR § 99.31 (FERPA) and align with the best practices of TAC §§ 202.70 – 202.76 to better protect registration information and other student data from unauthorized use.

Management Response

*The College values security and privacy for student data and agrees that a better access control process is necessary. To strengthen the current structure, the College developed a **Banner Request for Access Form**, that is now in practice. The College will require all current users to be revalidated against their current access needs. Additionally, the approval process will require a minimum of two approvals – the immediate supervisor and the data custodian(s) of the area(s) the person is requesting access. This form will be attached to the person's record in Banner through the use of the current imaging system and a hard copy will be provided to the Human Resources Office for inclusion into the individual's personnel record.*

PERFORMED BY:

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

CC:

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

Dr. Raymund A. Paredes, Commissioner of Higher Education

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

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

Mr. William Franz, General Counsel

Strategic Planning and Funding

Dr. Julie Eklund, Assistant Commissioner Strategic Planning and Funding

Academic Quality and Workforce

Dr. Rex Peebles, Assistant Commissioner Academic Quality and Workforce

Dr. Garry Tomerlin, Deputy Assistant Commissioner, Workforce

Tyler Junior College

Mr. Joe Prud'homme, President, Tyler Junior College Board of Trustees

Dr. Juan E. Mejía, Provost and Vice President for Academic and Student Affairs

Texas Association of Community Colleges

Mr. Jacob Fraire, President and CEO

STATUTORY DISTRIBUTION REQUIREMENT**State Auditor's Office**

Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine, Director

**Attachment I
Snapshot of Formula Funding
Continuing Education
Base Year 2014**

Quarter	Total	Total	FF \$ based	Under 18				Under 16			
	Stdnts	Hours	on avg \$/hr	Stdnts	Hours	% hrs	FF \$	Stdnts	Hours	% hrs	FF \$
Summer I 2014	2008	56,042	\$168,509	94	6,742	12.0%	\$20,272	16	1,230	2.2%	\$3,698
Summer II 2014	1728	60,817	\$182,866	35	635	1.0%	\$1,909	3	44	0.1%	\$132
Fall 2014	2059	54,138	\$162,784	35	894	1.7%	\$2,688	8	40	0.1%	\$120
Spring 2015	1419	58,370	\$175,509	93	7,006	12.0%	\$21,066	23	1840	3.2%	\$5,533
Total		229,367	\$689,668	257	15,277	6.7%	\$45,935	50	3,154	1.4%	\$9,484

Attachment II
TJC Audit Response Transmittal Letter 2016



TJC
OFFICE OF THE PRESIDENT

December 5, 2016

Mark Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance
Texas Higher Education Coordinating Board
1200 E. Anderson Lane
Austin, TX 78752

Dear Mr. Poehl:

Thank you and Mr. Overton-Hadnot for the time you dedicated to the enrollment audit at TJC and for your professionalism throughout the process. We value our relationship with your agency, and we have always relied on the expertise of you and your colleagues. Please know that TJC is committed to high ethical standards as we seek to respond to our community's needs by providing quality programs and services with integrity, responsiveness, and innovation.

We have always attempted to fully comply with applicable rules and regulations and have utilized guidance from your agency to do so. Attached you will find TJC's Management Response. We hope that you and your team have the opportunity to review and re-assess the concerns presented by your audit in light of our management response. The desired outcome is that the monies not be collected at this time and instead that the THECB would provide clear direction and implement the revised rules and guidance for future audits.

TJC strives to serve the needs of our communities, and we continuously gauge local employment needs and address local workforce shortages through cost effective approaches. We believe that the implemented interpretations will adversely impact students who, while desiring licenses and certifications that provide a career pathway, have not always followed the traditional path of graduating from high school. As per our previous conversations and in the interest of finding a reasonable solution, the College's Board of Trustees and administration recommends that TJC provide reimbursement to the state in the amount of \$9,484 per year for two years, for a total of \$18,968, for students served who were under the age of 16.

TJC has created a culture of service without compromising compliance, and we believe that the institution was working with the best information available. We request that new interpretations and changes not be implemented retroactively but be used for future audits. We value and appreciate the good relationship with you and the rest of the Coordinating Board. Please know the College is fully committed to working with the Coordinating Board to fulfill the goals of the 60x30 plan. We look forward to hearing from you.

Sincerely,

Mike Metke
President

cc: Ann Brookshire, President, TJC Board of Trustees
Juan E. Mejia, Provost & Vice President for Academic and Student Affairs
Keith Overton-Hadnot, Compliance Specialist (Lead Auditor)

Committee on Agency Operations

AGENDA ITEM VIII

Executive Session

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

B. Pursuant to Texas Government Code Section 551.074, the Agency Operations Committee will meet in closed session to discuss the performance evaluation of the Internal Auditor since that position, by statute, reports directly to the Board.

EMERGENCY CONSIDERATION

Agency Operations Committee

Agenda Item IX-A

Consideration of adopting, on an emergency basis, proposed amendments to Chapter 25, Subchapter A, Section 25.4, of Board rules, concerning the Optional Retirement Program (SB 1954, 85th Texas Legislature, R.S.), per the Commissioner's recommendation

RECOMMENDATION: Approval

Background Information:

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

The intent of the amendments is to incorporate into existing rules changes and provisions enacted by SB 1954, 85th Texas Legislature, R.S. The amendments are being adopted on an emergency basis pursuant to Section 2001.034 of the Government Code, which allows a state agency to adopt an emergency rule if a requirement of state or federal law requires adoption of the rule on less than 30 days' notice. The rule will be in effect for 120 days and may be renewed once for not longer than 60 days. During this time, the rule will be posted for a 30-day comment period and will be presented for Committee approval at the next quarterly meeting.

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

The Higher Education Coordinating Board made the finding that this amendment should be adopted on an emergency basis, pursuant to Section 2001.034 of the Government Code, because the new statutory provisions, which will go into effect on September 1, 2017, affect eligibility for benefits.

Legal Review:

Approved by the Office of General Counsel: _____ Date: _____

Chapter 25. Optional Retirement Program

Subchapter A. Optional Retirement Program

Sections

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

25.4. Eligibility to Elect ORP

(a) – (n) (No change.)

(o) Administrative Errors.

(1) – (3) (No change.)

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

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

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

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

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

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

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

~~The 90-day ORP election period for the eligible employee shall begin on the date that the employee is notified, and the~~ (C) ~~The~~ participation start date shall be determined in accordance with subsection (g) of this section.