**REVISED 1.19.10**

*Brenda Pejovich*
*CHAIR*
*Fred W. Heldenfels IV*
*VICE CHAIR*

*Durga D. Agrawal*
*Wallace L. Hall, Jr.*
*Joe B. Hinton*
*Heather A. Morris*
*Student Representative*
*A.W. "Whit" Riter, III*
*Ex-Officio*

# TEXAS HIGHER EDUCATION COORDINATING BOARD

## Committee on Agency Operations

1200 EAST ANDERSON LANE, BOARD ROOM 2.140
AUSTIN, TEXAS
**2:00 P.M., January 27, 2010**

## AGENDA

**I. Welcome and Committee Chair's Opening Remarks**

**II. Approval of Minutes from the October 28, 2009, Committee meeting**

**III. Deputy Commissioner's Report**

A. ARRA Report

B. Report on Loan Programs

C. Financial Report

**IV. Agency Operations**

A. Consideration of Approval of Requests for Qualifications, Requests for Proposals, or similar requests for the purchase of services as follows:

1. Request for Proposals to perform sub recipient monitoring for the agency regarding the ARRA program

B. Consideration of requests for the purchase of materials or services in excess of $750,000:

1. Consideration of approval of a ten-year lease with 1200 Anderson Partners, L.P., for the lease of facilities at 1200 East Anderson Lane

C. Consideration of requests for the purchase of materials or services in excess of $100,000 and less than $750,000:

1. Consideration of amending the current contract with CyberFicient Technologies, Inc. from $99,932 to a maximum of $180,000 for the Database Modeler/Administrator for design and development of components for the Texas Statewide Longitudinal Data System project

2. Consideration of approving a contract with MCCI, LLC for up to $250,000 to purchase the Laserfiche electronic documents/records management software and services to provide scanning, imaging and workflow tools

3. Consideration of approving an Inter-Agency Contract between the Texas Higher Education Coordinating Board, the Texas Department of State Health Services, and the Texas Health and Human Services Commission to facilitate the implementation and operation of the Children's Medicaid Loan Repayment Program

## V. Auditing

A. Discussion of Statement on Auditing Standards No. 114, *Auditor's Communication With Those Charged With Governance*

B. Discussion of updates on external audits

C. Discussion of the status of Internal Audit Work Plan for Fiscal Year 2010

D. Consideration of approval of revisions to the Internal Audit Charter

The Texas Higher Education Coordinating Board Committee on Agency Operations may convene in Executive Session for any of the following items:

(1) to seek its attorney's advice about pending or contemplated litigation, including pending or contemplated administrative actions, pursuant to Texas Government Code Ann. 551.071(1)(A);
(2) to seek its attorney's advice about a settlement offer, pursuant to Texas Government Code Ann. 551.071(1)(B); or
(3) at any point in this meeting, concerning any agenda item listed in the agenda, to seek or to receive its attorney's advice on legal matters, pursuant to Texas Government Code Ann. 551.071(2), or
(4) to consult with the Commissioner regarding personnel matters, pursuant to Texas Government Code Ann. 551.074 or
(5) consultation with attorney regarding the issuance, refunding, and defeasance of the State of Texas College Student Loan Bonds and related issues pursuant to Section 551.071(2) Texas Government Code.

cc: Board Members
Executive Officers

*Note: The Board will not consider or act upon any item before the Committee on Agency Operations 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, and may create a quorum of the full board, the meeting of the Committee on Agency Operations is also being posted as a meeting of the full Board.*

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

**Wednesday, October 28, 2009**
**Board Room, 2nd Floor**
**Room 2.140**
**2:00 p.m.**

# MINUTES

**Committee Members Present:** Brenda Pejovich Chair, Fred W. Heldenfels IV, Vice Chair, Wallace L. Hall, Jr., Heather Morris, A.W. "Whit" Riter, (Ex-Officio)

**Other Members Present:** Elaine Mendoza

**Member Absent:** Durga D. Agrawal, Joe B. Hinton

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The meeting convened at 2:00 p.m.

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

*Chair Pejovich called the meeting to order and welcomed everyone to the Committee on Agency Operations (AO) meeting.*

## II. Approval of Minutes from the July 29, 2009, Committee Agency Operations meeting

*On motion by Fred Heldenfels, seconded by Wallace Hall, the July 29, 2009, Committee on Agency Operations meeting minutes were approved.*

## III. Approval of Consent Calendar for Committee Meeting

*On motion by Wallace Hall, seconded by Fred Heldenfels, the Consent Calendar for the Committee meeting was approved.*

## IV. Deputy Commissioner's Report

A. Presentation by vendors on College and Career Readiness Standards Marketing Campaign to Create a College-Going Culture

*Presentations were provided by two marketing communication agencies.*

B. Financial Report

*Arturo Alonzo provided an update on the financial report.*

DRAFT

## V. Agency Operations

A. Consideration of adopting staff recommendation amending the Fiscal Year 2010 operating budget to incorporate the American Recovery and Reinvestment Act funds

*On motion by Fred Heldenfels, seconded by Wallace Hall, the Committee approved the staff recommendation on amending the FY 2010 operating budget to incorporate the American Recovery and Reinvestment Act funds.*

B. Consideration of adopting staff recommendation to approve an Inter-Agency Contract between the Texas Higher Education Coordinating Board and the Office of the Attorney General for the litigation and collection of delinquent student loans for the 2010-2011 biennium

*On motion by Wallace Hall, seconded by Fred Heldenfels, the Committee approved the Inter-Agency Contract between the Texas Higher Education Coordinating Board and the Office of the Attorney General for the litigation and collection of delinquent student loans for the 2010-2011 biennium.*

C. Consideration of adopting staff recommendation relating to the certification of Texas Research Incentive Program gift funds to the Emerging Research Universities

*On motion by Fred Heldenfels, seconded by Wallace Hall, the Committee approved the certification of Texas Research Incentive Program gift funds to the Emerging Research Universities.*

D. Consideration of approval to renew membership for Fiscal Year 2010 with Southern Regional Education Board (SREB)

*Agenda item V-D was on the Consent Calendar.*

E. Consideration of adopting the Commissioner's recommendation for amendments to section 1.16 of Board rules, concerning contracts and grants for materials and services

*On motion by Wallace Hall, seconded by Fred Heldenfels, the Committee approved the amendments to section 1.16 of Board rules, concerning contracts and grants for materials and services*

F. Consideration of adopting staff recommendation relating to the AmeriCorps* Grant for program year 2009-2010

*Agenda item V-F was on the Consent Calendar.*

G. Consideration of requests for the purchase of materials or services in excess of $100,000 and less than $750,000:

DRAFT

1. Request approval of the purchase of services through an amendment relating to the College Access Challenge Grant to allow for second-year Fiscal Year 2010 funding at Howard College

*Agenda item V-G (1) was on the Consent Calendar.*

2. Request approval of an amendment to increase contract with Integrated Human Capital (IHC) for temporary employee services for Fiscal Year 2010 for $350,000 for a revised amount not to exceed $750,000

*On motion by Fred Heldenfels, seconded by Wallace Hall, the Committee approved the amendment to increase the contract with Integrated Human Capital (IHC) for temporary employee services for Fiscal Year 2010 for $350,000 for a revised amount not to exceed $750,000.*

## VI. Auditing

A. Consideration of adopting the Commissioner's recommendation relating to the amendment of the contract for Audits of Agency's Loan Program and Agency-wide Financial Statements for the fiscal year ended August 31, 2009, by KPMG, LLP

*On motion by Fred Heldenfels, seconded by Wallace Hall, the Committee approved the amendment of the contract for Audits of Agency's Loan Program and Agency-wide Financial Statements for the fiscal year ended August 31, 2009, by KPMG, LLP.*

B. Consideration of approval of Annual Internal Audit Report for Fiscal Year 2009, Risk Assessment and Audit Work Plan for Fiscal Year 2010

*On motion by Fred Heldenfels, seconded by Wallace Hall, the Committee approved the Annual Internal Audit Report for Fiscal Year 2009, Risk Assessment and Audit Work Plan for Fiscal Year 2010.*

C. Discussion of Report on Follow-Up on Audit Recommendations:

1. Teach for Texas Loan Repayment Program

*Tony Tegbe presented the audit report Teach for Texas Loan Repayment Program.*

2. Financial Aid and Enrollment Audit at Tarrant County College District

*Agenda item VI-C (2) was withdrawn from the agenda.*

*Tony Tegbe provided the following reports to the Committee:*

3. Financial Aid and Enrollment Audit at Texas Woman's University
4. Financial Aid Audit at Texas Christian University
5. Discussion of Internal Audit Report on Outstanding Audit Recommendations

*On motion by Wallace Hall, seconded by Fred Heldenfels, the Agency Operations meeting adjourned at 5:45 pm.*

DRAFT

AGENDA ITEM IV-A

Consideration of Approval of Requests for Qualifications, Requests for Proposals, or similar requests for the purchase of services as follows:

**1. Request for Proposals to perform sub recipient monitoring for the agency regarding the ARRA program**

RECOMMENDATION: Approval

Background Information:

The Texas Higher Education Coordinating Board (THECB) is seeking proposals in response to a Request for Proposals (RFP) for sub recipient monitoring of ARRA funds. The Board is seeking to employ a qualified firm to assist the Board in meeting federal, state and THECB requirements associated with the administration of ARRA funds. As the prime recipient of ARRA funds, as designated by the Governor on August 28, 2009, the Board has total responsibility to ensure that sub recipients are in compliance with all ARRA and U.S. Department of Education requirements. The selected firm's responsibilities will include, but will not be limited to assisting with risk management, conducting desk reviews, verifying time and effort reports, validating source documentation that support all expense reimbursement requests, conducting on-site reviews at the institutions, confirming that funding was used to meet goals articulated in the applications, assurance that all reports are filed and verifying the accuracy of such reports and follow-up reviews to institutions with unfavorable reports.

Staff has determined that outsourcing of sub recipient monitoring will result in increased efficiencies and increased accountability. Funds for this activity are included in the administrative budget provided as part of the ARRA funds.

AGENDA ITEM IV-B

Consideration of requests for the purchase of materials or services in excess of $750,000:

**1. Consideration of approval of a ten-year lease with 1200 Anderson Partners, L.P., for the lease of facilities at 1200 East Anderson Lane**

RECOMMENDATION: Approval

Background Information:

The lease for the facility that the Coordinating Board currently occupies will expire on June 30, 2009. Staff, in consultation with the Texas Facilities Commission and with a TXMAS third-party vendor, CBRE, has been working on the process of either identifying new space or renegotiating a new lease with the current landlord. After an extensive search for suitable space, staff recommends that the Board enter into a 10-year lease with the owner of the current facilities, based on a negotiated price and negotiated terms for building improvements. The terms and conditions of the proposed lease have been approved by the Texas Facilities Commission, subject to approval by the Coordinating Board.

CBRE staff will respond to questions and provide information to the Board on the process and the terms of the recommended lease.

AGENDA ITEM IV-C

Consideration of requests for the purchase of materials or services in excess of $100,000 and less than $750,000:

**1. Consideration of amending the current contract with CyberFicient Technologies, Inc. from $99,932 to a maximum of $180,000 for the Database Modeler/Administrator for design and development of components for the Texas Statewide Longitudinal Data System project**

RECOMMENDATION: Approval

Background Information:

In April 2009 TEA received a Statewide Longitudinal Data System (SLDS) grant from the U.S. Department of Education. The grant involves expanding the existing TEA and THECB data collections to include staff and student data at the classroom level, as well as course completion data for all grade levels. This data, beginning with the 2010-11 school year, will provide a basis for future analysis and reporting on aggregate student performance. The first data submission by higher education institutions will be for the Summer 2011 reporting cycle.

As part of the work related to the development of a Texas Statewide Longitudinal Data System, the CB has issued a contract to CyberFicient Technologies for $99,932 through an existing deliverables-based contract through the Department of Information Resources (DIR). The current contract covers design and development of two components of the data system -- the security access modules and web-based modules for submission and online editing. The security access components will provide a more rigorous and modern authentication process and move the CB to a single sign-on model. The data collection components will modernize and streamline the submission of data and provide institutions the ability to submit data and edit reports during a single session.

The expansion of the contract will enable the agency to continue to use the CyberFicient contract resources for additional database modeling and administration work for the expansion and restructuring of the data collected by the Education Data Center. The funding provided by the grant for this resource is $180,000. Although the DIR contract is deliverables-based, it is based on estimated hours with payment only for hours used.

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**2. Consideration of approving a contract with MCCI, LLC for up to $250,000 to purchase the Laserfiche electronic documents/records management software and services to provide scanning, imaging and workflow tools**

RECOMMENDATION: Approval

Background Information:

The Loan Program Operations area implemented the Visiflow electronic document management software from Vista Solutions Group (VSG) in 1999 as an end-user standalone application and has been using it since for imaging and workflow. Approximately one year ago Business Services began using Visiflow for electronic storage and retrieval of vouchers. The agency recognized the need for an agency-wide document management solution. Visiflow will no longer be supported after December 31, 2010 by the vendor.

During 2009, a pilot project was completed to assess whether NetDMS, the upgrade product from VSG, will meet the agency's future needs. The results of the pilot were mixed. While NetDMS will provide basic archiving functions, the consensus of the users participating in the pilot was that the workflow functionality was limited and that the technical support and robustness of the product will not provide a good long-term solution for the agency.

The work group developed evaluation criteria based on the desired functionality for the software and has evaluated several other solutions. We recommend that the agency purchase Laserfiche using a pre-bid contract through the Department of Information Resources (DIR) with MCCI, LLC. This solution ranked high against the established criteria, appears to meet agency needs well, and costs less than the other solutions evaluated. It is used by several universities and agencies, and the references for service and support were strong.

Funds are budgeted in the Fiscal Year 2010 operating budget.

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**3. Consideration of approving an Inter-Agency Contract between the Texas Higher Education Coordinating Board, the Texas Department of State Health Services, and the Texas Health and Human Services Commission to facilitate the implementation and operation of the Children's Medicaid Loan Repayment Program**

RECOMMENDATION: Approval

Background Information:

In accordance with House Bill 15, Section 19(d), 80th Legislature, the Health and Human Services Commission (HHSC) is engaged in a strategic initiative aimed toward increasing the number of primary care and sub-specialty physicians and dentists who participate in the Medicaid program. The Children's Medicaid Loan Repayment Program (CMLRP), designed to increase access to medical and dental care for children, is part of this strategic initiative. The CMLRP will provide loan repayments for certain physicians and dentists who meet specified targets for services provided to children on Medicaid. The purpose of this IAC is to facilitate the implementation and operation of the CMLRP.

HHSC will transfer to THECB, on a mutually-agreed schedule, sufficient funds to enable THECB to (i) timely deliver payments to lenders or loan servicers for application to eligible

student loans made to Participating Providers, and (ii) cover THECB administrative costs for providing services. HHSC and THECB will establish a written detailed fund transfer schedule in accordance with the following requirements:

HHSC will transfer amounts to THECB for administrative costs incurred by THECB in providing services for the CMLRP, not to exceed:

- $121,365 in FY 2010
- $79,306 in FY 2011
- $159,835 in FY 2012
- $149,172 in FY 2013

The proposed interagency contract assigns the following primary roles and responsibilities to THECB:

- Verify the eligibility of the participating providers' student loans and verify loan balances using a national database and data provided.
- Establish appropriate vendor files at the Comptroller of Public Accounts and submit payment vouchers for loan repayments for the benefit of participating providers.
- Upon verification by DSHS of participating providers' eligibility to receive loan repayment funds, mail state warrants or transmit electronic payments to lenders or loan servicers, to be applied to participating providers' eligible student loans.
- Maintain records of payments made to lenders or loan servicers for eligible student loans made to participating providers.
- Mail IRS 1099 forms, as applicable, to participating providers and report repayment information to the IRS, in accordance with the federally established deadlines.

AGENDA ITEM V-A

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

RECOMMENDATION: No Action Required

Background Information:

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

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

# Statement of Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance*

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**Issue Date:** December 19, 2006

**Effective Date:** This SAS is effective for periods beginning on or after December 15, 2006. Early application is permitted.

**Product Number:** 060709

## Executive Summary

Statement on Auditing Standards (SAS) No. 114 supersedes SAS No. 61, *Communication With Audit Committees,* as amended. This SAS establishes standards and provides guidance to an auditor on matters to be communicated with those charged with governance.

In the wake of well-publicized audit failures and emerging best practices in corporate governance, expectations have increased for auditors to communicate openly and candidly with those charged with governance regarding significant findings and issues related to the audit. The Auditing Standards Board (ASB) believes SAS is responsive to the issues and expectations in the U.S. nonissuer community and will improve audit practice and serve the public interest.

In developing this SAS, the ASB considered the communication requirements of the Proposed International Standard on Auditing 260 (Revised), *The Auditor's Communication with Those Charged with Governance,* which was issued by the International Auditing and Assurance Standards Board in March 2005.

SAS No. 61 established communication requirements applicable to entities that either have an audit committee or that have otherwise formally designated oversight of the financial reporting process to a group equivalent to an audit committee. SAS No. 114 broadens the applicability of the SAS to audits of the financial statements of all nonissuers and establishes a requirement for the auditor to communicate with those charged with governance certain significant matters related to the audit.

The SAS uses the term *those charged with governance* to refer to those with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity, including overseeing the entity's financial reporting process. It uses the term *management* to refer to those who are responsible for achieving the objectives of the enterprise and who have the authority to establish policies and make decisions by which those objectives are to be pursued. Management is responsible for the entity's financial statements.

The SAS identifies specific matters to be communicated, many of which are generally consistent with the requirements in SAS No. 61. However, the SAS includes certain additional matters to be communicated and provides additional guidance on the communication process.

In particular, the SAS:

- Describes the principal purposes of communication with those charged with governance and stresses the importance of effective two-way communication.
- Requires the auditor to determine the appropriate person(s) in the entity's governance structure with whom to communicate particular matters. That person may vary depending on the nature of the matter to be communicated.
- Recognizes the diversity in governance structures among entities (including the existence of audit committees or other subgroups charged with governance) and encourages the use of professional judgment in deciding with whom to communicate particular matters.
- Recognizes the unique considerations for communicating with those charged with governance when all of those charged with governance are involved in managing the entity, which may be the case with some small entities.
- Adds requirements to communicate:
    - An overview of the planned scope and timing of the audit.
    - Representations the auditor is requesting from management.
- Provides additional guidance on the communication process, including the forms and timing of communication. Significant findings from the audit should be in writing when, in the auditor's profession judgment, oral communication would not be adequate. Other communications may be oral or in writing,
- Requires the auditor to evaluate the adequacy of the two-way communication between the auditor and those charged with governance.
- Establishes a requirement to document required communications with those charged with governance.

# AGENDA ITEM V-B

Discussion of updates on external audits

RECOMMENDATION: No Action Required

Background Information:

The Director of Internal Audit, Tony Tegbe, will provide updates on external audits that are being conducted at the agency.

AGENDA ITEM V-C

Discussion of the status of Internal Audit Work Plan for Fiscal Year 2010

RECOMMENDATION: No Action Required

Background Information:

Tony Tegbe, the Director of Internal Audit will provide an update on the Internal Audit Work Plan for Fiscal Year 2010.

AGENDA ITEM V-D

Consideration of approval of revisions to the Internal Audit Charter

RECOMMENDATION: Adoption

BACKGROUND INFORMATION:

The Institute of Internal Auditors' new Standards for the Professional Practice of Internal Auditing (Standards) require that the nature of assurance and consulting services provided by internal auditing should be defined in the audit charter, in addition to the purpose, authority, and responsibility of the internal audit function. The Board adopted the current charter on July 14, 2004.

The major differences between the current charter and the proposed revised charter are:

1) Establishment of Internal Auditing function

The proposed changes align the current charter with the requirements of Texas Government Code, Title 10, Chapter 2102, the "Texas Internal Auditing Act", and Texas Education Code, Section 61.029. Also, the changes reflect current Agency practice.

2) Changes in Auditing Standards

The Institute of Internal Auditors made changes to the standards on *Standards on Independence and Objectivity, Governance, Risk Management and Quality Assurance and Improvement Program*. The proposed revised charter and the redlined copy are included in your Committee agenda material.

# TEXAS HIGHER EDUCATION COORDINATING BOARD

# INTERNAL AUDIT CHARTER

## ESTABLISHMENT

The internal auditing function is established for the Texas Higher Education Coordinating Board ("Agency") in accordance with Texas Government Code, Title 10, Chapter 2102, the "Texas Internal Auditing Act," and Texas Education Code, Section 61.029. The Agency governing board ("Board") shall appoint the Director of Internal Auditing and Agency shall employ additional professional and support staff the Commissioner of Higher Education determines necessary to implement an effective program of internal auditing. The Director of Internal Auditing shall report directly to the Board on all matters, other than administrative matters, that require the decision of the Commissioner of Higher Education.

The Commissioner of Higher Education shall advise the Board regarding:

1) the termination or discipline of the Director of Internal Auditing; and

2) the transfer or reclassification of, or other changes in, the powers or duties of the Director of Internal Auditing.

The Director of Internal Auditing shall establish those internal auditing policies and procedures necessary to assist management in the accomplishment of the Agency's objectives and to ensure compliance with applicable laws and regulations.

***Attribute Standard 1000***
***Purpose, Authority and Responsibility***

**Purpose**

The internal auditing function is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Assurance services are defined as objective examinations of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements. Consulting services are advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's operations. Examples include counsel, advice, facilitation, research, and training.

## Authority

The Director of Internal Auditing is authorized to direct a broad, comprehensive program of internal auditing within the Agency. The internal auditing function is authorized to have full, free, and unrestricted access to all of the agency's functions, facilities, personnel, property, records (in any form) or other resources deemed by the Director of Internal Auditing to be relevant to the subject under review. Agency personnel shall cooperate with the internal auditing function by providing access to records and other resources and by assisting in compiling information within their purview. Due consideration shall be given to the benefits and costs of gathering audit evidence so that optimal use will be made of the Agency's resources.

## Responsibility

The Director of Internal Auditing is responsible for ensuring the internal auditing function conforms to the internal auditing requirements of the *Texas Internal Auditing Act, the Texas Education Code, the Standards for the Professional Practice of Internal Auditing* as promulgated by the Institute of Internal Auditors, generally accepted governmental auditing standards as established by the Comptroller General of the United States, the Certified Internal Auditor Code of Professional Ethics, and the *Statement of Responsibilities of the Institute of Internal Auditors.*

### *Attribute Standard 1100*
### *Independence and Objectivity*

The internal audit activity must be independent, and internal auditors must be objective in performing their work. Independence is the freedom from conditions that threaten the ability of the internal audit activity or the Director of Internal Auditing to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the Director of Internal Auditing has direct and unrestricted access to senior management and the board. The internal auditing function shall be free of all operational and management responsibilities that would impair the ability to independently review all aspects of the Agency's operations. The internal auditing function shall not develop or install procedures, prepare records, or engage in any other activity normally subject to internal auditing review.

The Director of Internal Auditing shall not have authority or responsibility over any of the activities or persons under review so that objectivity will not be impaired. Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made.

The Director of Internal Auditing shall dual-report to the Commissioner and the Board to allow the internal audit activity to fulfill its responsibilities. The Director of Internal Auditing must confirm to the Board, at least annually, the organizational independence of the internal audit activity.

***Performance Standard – 1321 Use of "Conducted in Accordance with the Standards"***

The Director of Internal Auditing shall conduct its activities in a manner that is consistent with the following standards:

- International Standards for the Professional Practice of Internal Auditing, the Institute of Internal Auditors, Inc.
- Code of Ethics, the Institute of Internal Auditors, Inc.
- Statement of Responsibilities of Internal Auditing of the Institute of Internal Auditors, Inc.
- Government Auditing Standards
- Texas Internal Auditing Act
- Policies of the Agency

The Director of Internal Auditing may state that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* and generally accepted governmental auditing standards only if the results of the quality assurance and improvement program support this statement.

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope of operation of the internal audit, the Director of Internal Audit must disclose the nonconformance and the impact to senior management and the board.

***Code of Ethics***
***Standards of Conduct***

The Director of Internal Auditing will respect the value and ownership of information it receives and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

The Director of Internal Auditing shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Agency.

***Performance Standard 2100***
***Nature of Work***

The Director of Internal Auditing shall evaluate the effectiveness and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

The scope of the internal auditing function shall encompass examination and evaluation of the adequacy and effectiveness of both the Agency's systems of internal control and the quality of performance in carrying out assigned responsibilities. Periodic audits of the Agency's major systems and controls, including accounting systems and controls,

administrative systems and controls, and electronic data processing systems and controls shall be conducted. Internal auditing activities include, but are not limited to:

- Reviewing and appraising the reliability and integrity of accounting, financial and operating information and the means used to identify, measure, classify, and report such information.

- Reviewing and appraising the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations that could have a significant impact on operations and reports, and determining the extent of compliance.

- Reviewing and appraising the means of safeguarding assets and, as appropriate, verifying the existence of such assets.

- Reviewing and appraising operations and programs to determine whether results are consistent with established objectives and goals and whether the operations and programs are carried out as planned.

- Appraising the economy and efficiency with which resources are employed.

- Appraising the Agency's effectiveness in meeting its statutory duties.

- Reviewing the planning, design, development and implementation of major information systems to determine whether adequate controls are incorporated in the systems.

- Reviewing for the potential existence of fraud and abuse, and reporting to proper authorities when detected.

***Performance Standard 2110***
***Governance***

The Director of Internal Auditing must assess and make appropriate recommendations for improving the Agency's governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the Agency;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the Agency; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The internal audit activity must evaluate the design, implementation, and effectiveness of the Agency's ethics-related objectives, programs, and activities.
The internal audit activity must assess whether the information technology governance of the Agency sustains and supports the organization's strategies and objectives.

Consulting engagement objectives must be consistent with the overall values and goals of the Agency.

***Performance Standard 2120***
***Risk Management***

The Director of Internal Auditing shall assist the Agency in identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

The Director of Internal Auditing shall evaluate risk exposures relating to the Agency's governance, operations, and information systems regarding the:

- *Reliability and integrity of financial and operation information*
- *Effectiveness and efficiency of operations*
- *Safeguarding of assets; and*
- *Compliance with laws, regulations, and contracts.*

The Director of Internal Auditing must evaluate the potential for the occurrence of fraud and how the Agency manages fraud risk.

During consulting engagements, the Director of Internal Auditing shall address risk consistent with the engagement's objectives and should be alert to the existence of other significant risks. Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the agency's risk management processes.

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

***Performance Standard 2130***
***Control***

The Director of Internal Auditing must assist the Agency in maintaining effective controls by evaluating its effectiveness and efficiency and by promoting continuous improvement. The Director of Internal Auditing must evaluate the adequacy and effectiveness of controls in responding to risks within the Agency's governance, operations, and information systems regarding the:

- *Reliability and integrity of financial and operation information*
- *Effectiveness and efficiency of operations*
- *Safeguarding of assets; and*
- *Compliance with laws, regulations, and contracts.*

The Director of Internal Auditing should ascertain the extent to which operating and program goals and objectives have been established and conform to those of the Agency.

The Director of Internal Auditing should review operations and programs to ascertain the extent to which results are consistent with established goals and objectives to determine whether operations and programs are being implemented or performed as intended.

During consulting engagements, the Director of Internal Auditing must address controls consistent with the engagement's objectives and be alert to significant control issues.

## REPORTING

The Director of Internal Auditing shall report directly to the Board through the Audit Committee, i.e. Agency Operations Committee of the Board. The Director of Internal Auditing shall report to the Commissioner for administrative matters. On a quarterly basis, the Director of Internal Auditing will meet with the Commissioner and Chair of the Agency Operations Committee to discuss the status of the audit plan, the status of management's resolution of audit recommendations, and other significant issues involving the internal auditing function.

### *Performance Standards 2440, 2410, and 2420*
### *Communicating Results, Criteria for Communicating, and Quality of Communications*

The Director of Internal Auditing must communicate audit findings and recommendations with appropriate levels of management prior to issuing final reports. Communications must include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans. Communications must be accurate, objective, clear, concise, constructive, complete, and timely.

The Director of Internal Auditing shall issue a final written report that incorporates management's responses to audit findings and recommendations. Copies of the final report shall be provided to the Commissioner, Chair of the Agency Operations Committee, and appropriate members of management. Final reports shall be made available to Board Members through the Chair of the Agency Operations Committee.

Final communication of engagement results must, where appropriate, contain auditors' overall opinion and/or conclusions. Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.

The Director of Internal Auditing shall follow-up on reported findings to ensure that appropriate and timely management resolution of audit issues has occurred. Management shall be responsible for deciding the appropriate actions to be taken in response to reported audit findings. The Director of Internal Auditing shall provide follow-up reports on all significant findings to the Commissioner and the Chair of the Agency Operations Committee. Follow-up reports shall include significant audit findings where senior management has decided to assume the risk of not correcting the reported condition because of cost or other considerations.

When releasing engagement results to parties outside the Agency, the communication must include limitations on distribution and use of the results.

***Attribute Standard 1230***
***Continuing Professional Development***

Internal Audit shall conform to The Professional Practices Framework as promulgated by the Institute of Internal Auditors which includes The International Standards for the Professional Practice of Internal Auditing and the Code of Ethics, and to generally accepted government auditing standards. In addition, Internal Audit shall conform to requirements found under the Texas Internal Auditing Act (Chapter 2102, Government Code). Internal Audit shall also comply with all policies and procedures of the Agency.

The professional staff of the Internal Audit Division shall maintain technical competence by attending a minimum of 40 hours annually of continuing professional education courses as required by the governing boards which regulate the professional designations of Certified Public Accountant and Certified Internal Auditor as appropriate. Ordinary and necessary expenses of maintaining the above named professional designations will be paid for by the agency. Other relevant certification programs may also be supported on a case by case basis.

***Attribute Standard 1300***
***Quality Assurance and Improvement Program***

The Director of Internal Auditing shall maintain an effective quality assurance program to include supervision, training, internal reviews, and periodic comprehensive external peer reviews to ensure compliance with the Texas Internal Auditing Act and professional standards.

The quality assurance and improvement program must include both internal and external assessments. The internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity; and
- Periodic reviewed performed through self-assessment or by other persons within the Agency with sufficient knowledge of internal audit practices.

External assessments must be conducted at least every three years by a qualified, independent reviewer or review team from outside the Agency.

The Director of Internal Auditing shall maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications, or supplement with contract services, to meet the requirements of this charter.

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Anthony O. Tegbe, CPA
Director, Internal Auditing

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Raymund Paredes
Commissioner of Higher Education

This Charter was approved by the Texas Higher Education Coordinating Board on January 27, 2010, and replaces any previously approved versions.

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Brenda Pejovich, Chair
Agency Operations Committee

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A.W. “Whit” Riter, Board Chairman