TEXAS HIGHER EDUCATION COORDINATING BOARD

Committee on Agency Operations

A.W. "Whit" Riter, III
CHAIR
Durga D. Agrawal
VICE CHAIR

Harold W. Hahn
Joe B. Hinton
Eric A. Rohne
Student Representative
Fred W. Heldenfels IV
Ex-Officio

1200 EAST ANDERSON LANE, BOARD ROOM 1.170
AUSTIN, TEXAS
2:00 P.M., April 26, 2011

AGENDA

I. Welcome and Committee Chair's Opening Remarks

II. Approval of Minutes from the January 26, 2011 Committee meeting

III. Deputy Commissioner's Report

A. ARRA Report

B. Financial Report

C. Update on Facilities

D. IT Governance/Lean Processes

E. Program Review Report – Federal Family Education Loan

IV. Agency Operations

A. Consideration of adopting the Commissioner's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a Bond/Tax/Program Legal Counsel to perform legal services for the agency

B. Consideration of adopting the Commissioner's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a Financial Advisor for the agency's loan program, including debt issuance, for fiscal years 2012-2014, with two one-year extensions immediately thereafter at the agency's option

V. Auditing

A. Discussion of Statement on Auditing Standards No. 114*, Auditor's Communication with those charged with Governance*

B. Updates on External Audits

1. A-133 Audit for Fiscal Year 2010

C. Discussion of Internal Audit Reports:

1. Financial aid audit at Concordia University Texas

2. Financial aid audit at Abilene Christian University

3. Texas Educational Opportunity Grant Program

4. Data Security at UT Dallas Education Research Center

5. Status of Internal Audit Work Plan for Fiscal Year 2011

VI. Executive Session

The Committee will hold a closed session to deliberate the following matters:

A. Under Texas Government Code, Section 551.074, the Committee will meet in closed session to discuss the annual evaluation of certain agency personnel

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.

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, 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.

cc: Board Members
Executive Officers

TEXAS HIGHER EDUCATION COORDINATING BOARD
Committee on Agency Operations

Wednesday, January 26, 2011
Board Room, 2nd Floor
Room 2.140
1:00 p.m.

MINUTES

Committee Members Present: Wallace L. Hall, Jr., Chair, Harold Hahn, A.W. "Whit" Riter, Eric Rohne, Fred W. Heldenfels IV, (Ex-Officio)

Other Members Present: Elaine Mendoza

Member Absent: Durga D. Agrawal, Joe Hinton

The meeting convened at 1:00 p.m.

I. Welcome and Committee's Chair Opening Remarks

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

II. Approval of Minutes from the October 27, 2010, Committee Agency Operations meeting

On motion by Harold Hahn, seconded by Whit Riter, the October 27, 2010, Committee on Agency Operations meeting minutes were approved.

Prior to the Deputy Commissioner's Report, Dr. Arturo Alonzo introduced Sid Hodgson, new Assistant Commissioner for ITS to the Committee members. Sid Hodgson joined the Coordinating Board on December 1, 2010.

III. Deputy Commissioner's Report

A. ARRA Report

Dan Griffiths, Director of the ARRA Grant Program provided a summary of the latest activities of the Government Services Stimulus Program: 1) closed out 95 projects, $121M total awards completed, only $28.58 remained unspent of the $121M; 2) the Coordinating Board was cited by Governor's Office for best practices in monitoring and reporting; 3) KPMG A-133 audit to be completed in February; 4) the USDOE will be on site for their monitoring of the GSF in July 2011. Staff continues to monitor and closeout subrecipients.

B. Financial Report

Dr. Arturo Alonzo, Deputy Commissioner for Business & Finance/COO presented the financial report. Dr. Alonzo reported that the report is at the summary and detailed level and reflects budget adjustments. The budget report is managed by the Assistant Commissioners at the strategy level and funds are encumbered when the contract is fully executed. Dr. Alonzo reported that the report is a good management tool and provides a good picture of the agency's finances.

C. Update on Facilities

Dr. Alonzo reported that the construction and the renovation of the building continues. Dr. Alonzo informed the Committee members that Phase two of the construction is almost complete. The next phase will be the offices in the 2nd floor. The renovations are on target and expected to be completed by the end of April, 2011.

D. Lean Processes

Dr. Alonzo reported that the RFP was issued and 7 proposals were submitted to THECB. Currently, evaluating the technical and the cost evaluations of the proposals and have assembled a team within the agency, lead by Dan Griffiths. Staff is tasked with ensuring that proposals are evaluated in a fair and through matter to go to contract; we hope to have a contract in early February. The RFP is to have someone come to 1) introduce the concept of lean processes to the agency; and 2) get a product out of this process that will help us identify our resources to deploy them better to track resource management.

E. Update on Jarvis Christian College

Dr. Alonzo informed the Committee Members that an update report on Jarvis Christian College was requested at the October committee meeting. This report is not the official audit follow up report. The official follow up report will be complete sometime in October 2011. Jane Caldwell of THECB, Carol McDonald of ICUT and Jarvis staff are working together to resolve the problems. Jarvis purchased a new system to handle their financial aid programs and we will continue to communicate and work with them. Dr. Alonzo informed the members that Jarvis is committed to improving their operations. When the auditors return to Jarvis in October 2011, we expect that Jarvis will have a clean report and that they will have implemented all recommendations.

IV. Agency Operations

A. Consideration of adopting the Commissioner's recommendation to the Committee to approve a list of investment banking firms eligible to be selected to serve as underwriters in connection with any negotiated sale of the Board's College Student Loan Bonds

On motion by Harold Hahn, seconded by Whit Riter, the Committee approved a list of investment banking firms eligible to be selected to serve as underwriters in connection with any negotiated sale of the Board's College Student Loan Bonds.

DRAFT

B. Consideration of adopting the Commissioner's recommendation to the Committee regarding a Resolution authorizing the issuance of State of Texas College Student Loan and Refunding Bonds in an aggregate principal amount not to exceed $190 million, in one or more series; authorizing the Commissioner to approve all final terms of the Bonds; approving the forms of an Official Statement, Paying Agent/Registrar Agreement and Escrow Agreement; and resolving other matters related to the subject

On motion by Whit Riter, seconded by Harold Hahn, the Committee approved a Resolution authorizing the issuance of State of Texas College Student Loan and Refunding Bonds in an aggregate principal amount not to exceed $190 million, in one or more series; authorizing the Commissioner to approve all final terms of the Bonds; approving the forms of an Official Statement, Paying Agent/Registrar Agreement and Escrow Agreement; and resolving other matters related to the subject.

C. Consideration of adopting the Commissioner's recommendation to the Committee regarding a request for approval to issue a Request for Proposals (RFP) to contract for temporary employee services for Fiscal Year 2012 with the option to extend for the two succeeding fiscal years in one-year increments in a total amount that may exceed $750,000 but be less than $1,000,000

The Committee approved a revised version of the above caption, agenda item IV. C; revised caption to read as follows:

On motion by Harold Hahn, seconded by Whit Riter, the Committee approved a request to issue a Request for Proposals (RFP) to contract for temporary employee services for Fiscal Year 2012 with the option to extend for one fiscal year in a total amount that may not exceed $750,000.

V. Auditing

A. Consideration of adopting the Commissioner's recommendation to the Committee for approval of revisions to the Internal Audit Charter

On motion by Harold Hahn, seconded by Whit Riter, the Committee approved the revisions to the Internal Audit Charter.

B. Discussion of Internal Audit Reports.

Tony Tegbe presented four internal audit reports and the Internal Audit Work Plan for FY 2011.

1. Financial aid audit at Texas State University at San Marcos, Texas
2. Financial aid audit at San Antonio College campus of Alamo Community College District
3. Follow-Up audit report on Professional Nursing Shortage Reduction Program
4. Audit of System Development Life Cycle

DRAFT

5. Status of Internal Audit Work Plan for Fiscal Year 2011

Fred Heldenfels suggested that Tony Tegbe give a completion percentage on projects that are listed in progress on the audit work plan.

This item was informational only and did not require any action.

On motion by Whit Riter, seconded by Harold Hahn, the Committee on Agency Operations meeting adjourned at approximately 2:20 pm.

DRAFT

AGENDA ITEM IV-A

Consideration of adopting the Commissioner's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a Bond/Tax/Program Legal Counsel to perform legal services for the agency

RECOMMENDATION: Approval

Background Information:

The Board uses the services of a Bond/Tax/Program Legal Counsel in support of the Hinson-Hazlewood Student Loan Program. The legal counsel assists Board staff with complex legal issues concerning the issuance of bonds and federal tax code.

The contract with the Board's current Bond Counsel, Vinson & Elkins will expire on August 31, 2011.

Board staff is requesting authorization to conduct a RFP for a Bond/Tax/Program Legal Counsel. The results of the RFP will be presented to the Board at the July 2011 meeting for approval.

AGENDA ITEM IV-B

Consideration of adopting the Commissioner's recommendation to the Committee to issue a Request for Proposals (RFP) for selection of a Financial Advisor for the agency's loan program, including debt issuance, for fiscal years 2012-2014, with two one-year extensions immediately thereafter at the agency's option

RECOMMENDATION: Approval

Background Information:

The Board retains a Financial Advisor to advise Board staff on the issuance of bonds that provide funds for the Hinson-Hazlewood Loan Program. The Financial Advisor's role includes advising Board staff on matters pertinent to a proposed bond issue such as structure, timing, marketing, fairness of pricing, terms, and bond ratings. The Financial Advisor may also assist Board staff in preparing cash flows that model the Hinson-Hazlewood Loan program's cash flows.

The contract with the Board's current Financial Advisor, First Southwest, will expire on August 31, 2011.

Board staff is requesting authorization to conduct an RFP for a Financial Advisor. The results of the RFP will be presented to the Board at the July 2011 meeting for approval.

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 Board's external auditor, KPMG LLP will be discussing their responsibility under the generally accepted auditing standards (GAAS). The discussion will include the auditor's responsibility for forming and expressing an opinion on whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects and in conformity with generally accepted accounting principles.

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

AGENDA ITEM V-B

Updates on External Audits

RECOMMENDTION: No Action Required

Background Information

1) A-133 Audit for Fiscal Year 2010

The State Auditor's Office issued its report on the "Statewide Single Audit For the Year Ended August 31, 2010" in February 2011. The report concluded that the basic financial statements presented in the Comprehensive Annual Financial Report (CAFR) for the State of Texas present fairly, in all material respects, the financial position and activities of the State for the Fiscal Year ended August 31, 2010. These financial statements provide a comprehensive disclosure of the State's use of resources during the fiscal year and a status of the balance of assets and obligations at the end of the fiscal year.

The State Auditor's Office also audited the State's Schedule of Expenditures of Federal Awards (SEFA) for Fiscal Year 2010, which is prepared by the Office of the Comptroller of Public Accounts (Comptroller's Office) using SEFA data from all state agencies and higher education institutions that made federal expenditures during the fiscal year. The State Auditor's Office and KPMG LLP audited the processes for preparing SEFA information at state agencies and institutions of higher education.

Auditors noted an instance of noncompliance with Procurement and Suspension and Debarment requirement of OMB Circular A-133 by two THECB subrecipients. In addition, the auditors noted three instances of significant deficiency in internal control over compliance with requirements of the following programs:

- CFDA 84.048 – Career and Technical Education – Basic Grants to States
- CFDA 84.032L – Federal Family Education Loans – Lenders
- State Fiscal Stabilization Fund Cluster - ARRA

Copies of the findings are attached.

Texas Higher Education Coordinating Board

Reference No. 11-38
Allowable Costs/Cost Principles
Period of Availability of Federal Funds
Reporting
Subrecipient Monitoring
(Prior Audit Issue - 10-69)

CFDA 84.048 - Career and Technical Education - Basic Grants to States
Award year - July 1, 2009 to September 30, 2010
Award number - 1042020671200001
Type of finding - Significant Deficiency

Questioned Cost:	$0
U.S Department of Education	

System administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. The following logical access issues were found as it relates to Texas Higher Education Coordinating Board (THECB)'s applications - TDR (time and expense reporting application), Perkins (grant management application) and EDC (Education Data Center application that accepts and processes data submitted by public community and technical colleges). The State of Texas, including THECB, outsources portions of their information technology to a group of contractors known as Team for Texas as required by HB 1516.

Network:

- Two users on the network had inappropriate access with administrative privileges. These two users were Team for Texas employees who no longer needed access to the network at THECB.
- Fourteen unidentified accounts had administrative access to the network. These accounts were confirmed to belong to Team for Texas users.
- Overall, 83 users have been granted network administrative access. This level of network access allows users to control Windows servers that house applications such as TDR, Perkins and EDC.

EDC:

- Five terminated employees were found to have continued access on the EDC application. However, the users did not have active network accounts and could not access the application without the ability to sign on to the network.

TDR:

- A Senior Web Developer was found to have administrative access to the TDR Database. This inappropriate access may allow the developer to inject SQL code through the backend or impact the production code indirectly. In addition, it was noted that there is no documented review of access to the TDR systems to determine the appropriateness of access for existing users. This developer's access noted above was removed in January 2010.
- Additionally, it was noted that TDR application access was not revoked for three users upon their termination.

Perkins:

- One unidentified account had administrative access to the Perkins application server (SBWEB41). This account was confirmed to belong to a Team for Texas user.

Overall, it was noted that there is no documented evidence of periodic management review of existing users' access to the network, EDC, and TDR applications, databases, and systems. No compliance exceptions were noted for the compliance requirements noted above with regard to the above major program.

Recommendation:

Management should implement procedures for more timely removal of terminated employees' access, for identifying and noting users with administrative access to their systems, and for restricting such administrative access to a limited group of authorized individuals. Also management should perform and document periodic management reviews.

Management Response and Corrective Action Plan:

A process is in place to ensure the timely removal of THECB network access for terminated employees. A process will be created to generate reports on EDC, TDR, and Perkins systems access to be sent to and reviewed on a scheduled basis by owners of these applications. ITS is also working with Human Resources to improve the process for removing staff access from these applications at the point of termination.

While THECB recognizes and accepts the responsibility for the protection of data related to federal funds, THECB does not have the ability to control employees nor practices of the outsourced third party. THECB submits that the contract with Team for Texas must be managed at the State level for all agencies. THECB has expressed concerns for the last 3 years related to the contract and the need for Team for Texas to address the associated problems. We understand that the Department of Information Resources (DIR) has taken definite and aggressive steps to address these problems. THECB will continue to work with DIR and with the selected third party to handle the outsourced IT services.

Implementation Date: *Third Quarter fiscal year 2011*

Responsible Person: *John House*

Reference No. 11-39
Reporting
Special Tests and Provisions - Individual Record Review
Special Tests and Provisions - Loan Origination and Lender Loan Fees
Special Tests and Provisions - Interest Benefits
Special Tests and Provisions - Special Allowance Payments
Special Tests and Provisions - Enrollment Reports
Special Tests and Provisions - Payment Processing
Special Tests and Provisions - Due Diligence by Lenders in the Collection of Delinquent Loans
Special Tests and Provisions - Timely Claim Filings by Lenders or Servicer

CFDA 84.032L - Federal Family Education Loans -Lenders
Award year - July 1, 2009 to June 30, 2010
Award number - CFDA 84.032 Award Number Not Applicable
Type of finding - Significant Deficiency

Questioned Cost:	$0
U.S Department of Education	

System administrator privileges should be restricted appropriately based on job function to help ensure adequate internal controls are in place and segregation of duties exist. The Federal Family Education Loan (FFEL) program at the Texas Higher Education Coordinating Board (THECB) utilizes two applications for data processing - HELMS is the key application and HelmsNet acts as the interface from external sources into HELMS. The State of Texas, including THECB, outsources portions of their information technology to a group of contractors known as Team for Texas. Overall, HELMS and HelmsNet have several administrative access issues as noted below:

- One unidentified account had administrative access to the HelmsNet database. This account was confirmed to belong to a Team for Texas user.

- Thirty-one Team for Texas employees have knowledge of the root account password on the HELMS AIX production server. In addition, three terminated users continued to have HELMS application access.
- Additionally, the HELMS operating system/AIX server does not meet the password requirements outlined in the THECB Information Security policies.

In addition, the application control "The disbursement of loans must have promissory note and guarantee prior to disbursement of funds." and "The calculation of loan origination and lender loan fees was complete and accurate." were unable to be tested. The functionality of HELMS is no longer available since the FFEL program ceased as of July 1, 2010. No compliance exceptions were noted for the compliance requirements noted above with regard to the above major program.

Recommendation:

Management should remove the administrative access privileges from the unidentified account on the HelmsNet database and restrict the knowledge of the root account password on the HELMS server to those users whose jobs require such functionality. Also management should align their password polices with practice.

Management Response and Corrective Action Plan:

1. *THECB removed the administrative access from the unidentified account on February 8, 2011.*

2. *While THECB recognizes and accepts the responsibility for the protection of data related to federal funds, THECB does not have the ability to control employees nor practices of the outsourced third party. THECB submits that the contract with Team for Texas must be managed at the State level for all agencies. THECB has expressed concerns for the last 3 years related to the contract and the need for Team for Texas to address the associated problems. We understand that the Department of Information Resources (DIR) has taken definite and aggressive steps to address these problems. THECB will continue to work with DIR and with the selected third party to handle the outsourced IT services.*

3. *THECB will review its password policies and align practices to conform to policy.*

Implementation Date: *February 18, 2011*

Responsible Person: *Jerry Kunschik*

Texas Higher Education Coordinating Board
Texas Education Agency

Reference No. 11-40
Procurement and Suspension and Debarment

State Fiscal Stabilization Fund Cluster - ARRA
Award year - July 9, 2009 to September 30, 2011
Award number - S397A090044
Type of finding - Significant Deficiency and Non-Compliance

Texas Education Agency (TEA)–
The requirements for suspension and debarment are contained in OMB guidance 2 CFR part 180 which require the non-Federal entity to perform a verification check for covered transactions, by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity. For fiscal year 2010, approximately $350 million of State Fiscal Stabilization Fund Cluster funds were used to purchase textbooks for elementary and secondary schools. The procurement for these textbook purchases was done by TEA. None of the textbook vendors were verified by TEA as not being suspended or debarred and there was no certification of this from the vendor or clause in their respective contracts. Per review of EPLS, the vendors were not suspended or debarred, so there are no questioned costs.

Questioned Cost:	$ 0
US Department of Education	

West Texas A&M -
Under the Texas Government Code, Chapter 2155, subchapter A General Provisions, Section 2155.005(a), a bidder offering to sell goods or services to the state shall certify on each bid submitted that neither the bidder, nor the person represented by the bidder, nor any person acting for the represented person has:

1. violated the antitrust laws codified by Chapter 15, Business & Commerce Code, or the Federal antitrust laws; or
2. directly or indirectly communicated the bid to a competitor or other person engaged in the same line of business.

One of the four non-textbook procurement files did not include the required anti-trust certification as the procurement was exempt from competitive bidding requirements. West Texas A&M includes the anti-trust provisions in their invitation to bid correspondence. During field work, West Texas A&M obtained the anti-trust certification for the respective procurement file.

Recommendation:

A procurement checklist or other similar control should be implemented to ensure that all required signatures and items, including EPLS and terms and conditions, are included in the procurement file prior to the award being made.

Management Response and Corrective Action Plan - TEA:

The Texas Education Agency management agrees with the recommendation and has already taken action to centralize the development of textbook contracts. In November 2009, the agency's contract and legal offices recognized the inconsistent contract terms in the Textbook Publisher Contracts and worked with the division of Instructional Materials to update existing contract templates. Since the division of instructional materials was in the middle of a textbook adoption that requires approval from the State Board of Education, the agency decided to phase in the new contract templates commencing with the electronic and open source textbooks. Competitive solicitations were let to the public in January 2010 that contained the agency's standardized Execution of Offer, Affirmations of Terms and Conditions, and Proposal Preferences. In addition, the agency's Internal Audit Division had also completed an audit of the Textbook Publisher Contracts, Internal Audit Report No. 10-02 and a follow-up to the audit recommendations was conducted in November 2010. The audit follow-up concluded that standardized publisher contract templates were being developed as well as a formal procedure for review of contract templates pending legislative changes. The centralization of all contracting processes ensures that the agency verifies the vendors' status that includes suspension or debarment prior to award of a contract. In addition, all contracts will be reviewed by the agency's contract's division to ensure compliance with mandated terms and conditions.

Implementation Date: *November 2009 - May 2011*

Responsible Person: *Norma Barrera*

Management Response and Corrective Action Plan – West Texas A&M University (WTAMU):

As noted above, West Texas A&M University has obtained the anti-trust certification. The university has controls and processes in place and will continue to insure that all required documents are included with each vendor payment.

Implementation Date: *February 15, 2011*

Responsible Person: *Bryan Glenn*

AGENDA ITEM V-C(1)

Discussion of Internal Audit Report on Financial Aid Audit at Concordia University Texas

RECOMMENDATION: No Action Required

Background Information

In accordance with the Internal Audit Work Plan for FY2011, the Internal Audit department has conducted a financial aid audit of Concordia University Texas (the "University") and concluded that the University:

- Complied with all relevant THECB rules and regulations for the awards of Texas Equalization Grants (TEG) and College Access Loans (CAL) except documentary requirements for Texas residency and awards based on Hardship policy. The institution should strengthen its monitoring controls over its financial aid program.
- Awarded Texas Equalization Grants (TEG) totaling $2,180,171 to 632 students and College Access Loan (CAL) totaling $71,900 to 7 students during Fiscal Year 2009.

The university has refunded $16,297 to THECB for awards that lacked documentation of Hardship policy, and has started to implement other recommendations.

A copy of the report is attached.

Agenda Item V-C(1)

TEXAS HIGHER EDUCATION COORDINATING BOARD

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April 7, 2011

THECB Board Members

Audit of Financial Aid at Concordia University

Concordia University Texas complied with all relevant THECB rules and regulations for the awards of Texas Equalization Grants (TEG) and College Access Loans (CAL) except documentary requirements for Texas residency and awards based on Hardship policy. The institution should strengthen its monitoring controls over its financial aid program.

Concordia University Texas awarded Texas Equalization Grants (TEG) totaling $2,180,171 to 632 students and College Access Loan (CAL) totaling $71,900 to 7 students during Fiscal Year 2009.

We statistically sampled and tested $201,876 TEG awarded to 58 students and $71,000 CAL awarded to 7 students on student eligibility criteria which included: Texas residency, financial need, and selective service registration, enrollment in undergraduate degree program, graduation from accredited Texas high school, completion of Recommended or Advanced High School program, and satisfactory academic progress. We identified the following deficiencies:

OBSERVATIONS

1) Lack of documentary evidence to support Texas residency for CAL and TEG recipients.

Concordia University Texas did not have adequate internal control to ensure that students meet the residency criteria to be eligible to receive CAL and TEG. Ineligible students may receive CAL and TEG, which will result in violation of the law and THECB rules and regulations. The institution awarded $2,180,171 to 632 students in TEG and $71,900 to 7 students in CAL during fiscal year 2009. However, there was no documentary evidence to support Texas residency of the 639 recipients of TEG and CAL awards. The students self-reported in their application form whether or not they are Texas residents. The Texas Residency Core Questionnaire, Residency Affidavit and any other form of document were not available to support the residency.

Recommendations

1) The Coordinating Board should require the Concordia University Texas to:

   a) Within 30 days from the date of this report, Concordia University Texas should ensure that the 639 recipients of TEG and CAL complete and sign the core residency questionnaire, in order to prove that they were the Texas residents at the time when they received TEG and CAL in FY 2009.

   b) If satisfactory documentation is not provided to the Coordinating Board within 30 days from the date of this report, the institution should reimburse an amount based on the number of students who do not complete the core questionnaire.

2) Concordia University should strengthen their monitoring process to ensure that students meet the residency criteria to be eligible to receive TEG and CAL.

Institution's Response

Concordia was operating under the mistaken belief of our former Director of Student Financial Services that a signed statement from the student each year was sufficient proof of residency. We are making every effort to contact these students to have them complete the Residency Questionnaire.

Within 30 days of the final receipt of this report, we will provide to the THECB one or more of the following for each of the students:

- A completed Residency Questionnaire, submitted to us either electronically or on paper
- The original applications received by Concordia which indicates that the student is a resident of the state of Texas
- Copies of high school transcripts for those students who graduated from a high school in Texas
- Copies of forms submitted to Concordia in which the student provided a Texas address (application for admission, FAFSA, transcripts, etc).

Name & Title of the Responsible Party (ies):

Kristi Kirk, Vice Provost

Expected Completion Date:

The requested data will be provided to THECB within 30 days after the finalization of this report.

2) Lack of documentation to justify awards of TEG based on Hardship Policy

Concordia University Texas did not have effective monitoring to ensure that adequate documentation exists to prove that students meet the hardship policy criteria to be eligible to receive TEG. Ineligible students may receive TEG, which will result in violation of the law and THECB rules and regulations.

We found that four students, who did not meet the Satisfactory Academic Progress (SAP) requirement, received TEG awards totaling $16,297 based on the hardship policy. However, the institution lacked documentation to support the TEG awards based on hardship policy. Without appropriate documentation, we could not verify whether the hardship policy was properly followed.

Recommendation

1) Concordia University should refund $16,297 to the Coordinating Board.

2) The institution should strengthen its process to ensure that adequate written documentation exists to justify application of the hardship provisions for a student to receive TEG.

Institution's Response

Concordia will strengthen its policies and process to ensure that proper documentation is provided for students who are granted state aid based on hardship provisions. The sum of $16,297 has been returned to the Coordinating Board.

Name & Title of the Responsible Party(ies):

Melanie Rierson, Associate Director of Student Financial Services

Expected Completion Date:

Process will be corrected for the Fall 2011 packaging year, which begins March 1, 2011. Funds were returned to the Coordinating Board on March 15, 2011.

3) Ineligible Iowa resident received $4,750 in College Access Loan

Concordia University Texas did not have adequate monitoring process to ensure that students meet the eligibility criteria for CAL. Ineligible students may receive CAL which will result in violation of the law and THECB rules and regulations. According to THECB rules for CAL (21.55(a) (1)) student must be a resident of Texas for eligibility. One of the seven students who received College Access Loans was an ineligible Iowa resident. The student eventually returned the $4,750 loan because he did not meet the semester credit hours criteria. Institution official said that the ineligible award was due to a human error.

Recommendation

Concordia University should strengthen their monitoring process on testing the eligibility for CAL.

Institution's Response

We will work with our Banner consultants to see if we can create a systematic checkpoint to ensure that certain funds are only disbursed to Texas citizens. If that is not possible, we will create a manual system of checks and balances so that this does not re-occur.

Name & Title of the Responsible Party(ies):

Melanie Rierson, Associate Director of Student Financial Services
Cathy Horn, Assistant Director for Loan Services

Expected Completion Date:

System will be corrected for the Fall 2011 packaging year, which begins March 1, 2011.

4) Failure to report College Access Loans in Financial Aids Database system (FADS)

Concordia University Texas did not have adequate monitoring process to ensure that FADS reporting is accurate. Data from FADS is used to prepare legislature reporting; consequently, the reporting may not be accurate. The institution failed to report any College Access Loans (CAL) in the Financial Aid Database reporting system; whereas, the THECB Higher Education Loan Management System (HELMS) and the institution's Banner system showed that 7 loans totaling $71,900 were made during fiscal year 2009 and there was only one return of $ $4750. Institution officials mentioned that a programming error prevented the banner system from pulling data from an appropriate field for FADS reporting.

Recommendation

Concordia University Texas should update its Banner system to ensure that it uploads accurate and complete data for FADS reporting.

Institution's Response

This was a programming error done by our Concordia Administrative Information Systems (CAIS). It has already been corrected and was correct for the 09-10 reporting period.

Name & Title of the Responsible Party(ies):

Cathy Horn, Assistant Director for Loan Services

Expected Completion Date:

Already completed.

BACKGROUND

In accordance with the approved Internal Audit Work Plan for fiscal year 2010, we performed an audit of financial aid at the College. The College and the THECB have a signed Financial Aid agreement in effect, with a term of 5 years and renewable 5-year options, thereafter. It establishes mutually agreed upon performance requirements related to financial aid programs named under 19, Texas Administrative Code, Ch. 21 and 22.

OBJECTIVES

The objective of this audit was to determine compliance with the Coordinating Board rules and regulations.

SCOPE

The scope of this audit was financial aid awards during fiscal year 2009.

METHODOLOGY

The audit methodology consisted of conducting interviews; collecting and reviewing information; and performing tests, procedures, and analyses against predetermined criteria. Auditors also reviewed relevant THECB statutes, rules, policies and procedures, manuals, and documentation. Pre-audit survey and IT Internal Control Questionnaire (ICQ) were conducted. Auditors selected statistical samples and performed fieldwork testing on site at the college to address the audit objective.

STANDARDS

This audit was conducted in conformance with the *International Standards for Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards (GAGAS). 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.

We wish to express our appreciation to the management and staff of San Antonio College for the courtesies and cooperation extended to our auditors during this audit. If you have any questions, please call me at (512) 427-6167.

Sincerely,

Anthony O. Tegbe, CPA, CFE
Director of Internal Audit

PERFORMED BY

Aporajita (Apola) Ahmed, CPA, CSM
Auditor- Finance/ Performance

Anthony O. Tegbe, CPA, CFE
Director of Internal Audit

DISTRIBUTION

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Kevin Levine, Sunset Advisory Commission

AGENDA ITEM V-C(2)

Discussion of Internal Audit Report on Financial Aid Audit at Abilene Christian University

RECOMMENDATION: No Action Required

Background Information

In accordance with the Internal Audit Work Plan for FY2011, the Internal Audit department has conducted a financial aid audit of Abilene Christian University (the "University") and concluded that the University:

- Complied with all relevant Coordinating Board (THECB) rules and regulations for awards of financial aid totaling $7,655,953 during fiscal year 2009.

A copy of the report is attached.

Agenda Item V-C(2)

TEXAS HIGHER EDUCATION COORDINATING BOARD

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March 17, 2011

THECB Board Members

Audit of Financial Aid at Abilene Christian University

Abilene Christian University complied with all relevant Coordinating Board (THECB) rules and regulations for awards of financial aid during fiscal year 2009.

Abilene Christian University complied with all relevant Coordinating Board (THECB) rules and regulations for awards of financial aid totaling $7,655,953 during fiscal year 2009.

We performed work to determine whether the financial aid consisting of Tuition Equalization Grant (TEG) Grants and College Access Loans (CAL) that were disbursed during Fiscal Year 2009 complied with relevant THECB rules and regulations. We tested 112 students covering 59 grants and 53 loans, and totaling $782,356.00.

Our testing consisted of samples of disbursements tested against the eligibility criteria that were certified by the institution. The samples were pulled from the Financial Aid Database System (FADS) report. We sampled and tested $190,881.00 TEG awarded to 59 students and $591,475.00 CAL awarded to 53 students. Testing criteria included student eligibility, Texas residency, financial need, selective service registration, enrollment in undergraduate degree program, graduation from accredited Texas high school, completion of Recommended or Advanced High School program, and satisfactory academic progress.

BACKGROUND

In accordance with the approved Internal Audit Work Plan for fiscal year 2010, we performed an audit of financial aid at the University. The University and the THECB have a signed Financial Aid agreement in effect, with a term of 5 years and renewable 5-year options, thereafter. It establishes mutually agreed upon performance requirements related to financial aid programs named under 19, Texas Administrative Code, Ch. 21 and 22.

OBJECTIVES

The objective of this audit was to determine compliance with the Coordinating Board rules and regulations for financial aid.

SCOPE

The scope of this audit was financial aid awards during fiscal year 2009.

METHODOLOGY

The audit methodology consisted of conducting interviews; collecting and reviewing information; and performing tests, procedures, and analyses against predetermined criteria. Auditors also reviewed relevant THECB statutes, rules, policies and procedures, manuals, and documentation. Auditors conducted a pre-audit survey, selected statistical samples, and performed fieldwork testing on site at the college to address the audit objectives.

STANDARDS

This audit was conducted in conformance with the *International Standards for Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards (GAGAS). 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.

We wish to express our appreciation to the management and staff of Abilene Christian University, Abilene for the courtesies and cooperation extended to our auditors during this audit. If you have any questions, please call me at (512) 427-6167.

Sincerely,

Anthony O. Tegbe, CPA, CFE
Director of Internal Audit

PERFORMED BY

Ms. Ruby Elizabeth Garcia, CIA, CISA, Financial/ Performance Auditor
Mr. Steve Allen, CIA, CISA, Information Technology Auditor
Mr. Anthony O. Tegbe, CPA, CFE, Director of Internal Audit

DISTRIBUTION

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Abilene Christian University

Dr. Phil Schubert, President
Mr. Buck James, Chief Enrollment Officer
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Mr. Ken Levine, Sunset Advisory Commission

AGENDA ITEM V-C(3)

Discussion of Internal Audit Report on Texas Educational Opportunity Grant

RECOMMENDATION: No Action Required

Background Information

In accordance with the Internal Audit Work Plan for FY2011, the Internal Audit department conducted an Audit of Texas Educational Opportunity Grant (TEOG) at the Coordinating Board.

The objective of this audit was to determine whether TEOG program is administered in accordance statute and rules and regulations established by the Coordinating Board.

The internal audit department concluded that the Coordinating Board accomplished the purpose of the Texas Educational Opportunity Grant (TEOG) Program by providing grant aids totaling $6,945,191 to 4,447 financially needy students enrolled in public two-year institutions in fiscal year 2009. However, awards totaling $55,993 (.8%) were inappropriately awarded to ineligible students. Certified end-of-year reports submitted by most institutions contained errors. Controls should be instituted for preventing unauthorized access to allocation data; reconciling databases; and updating policies and procedures, and managing and ensuring data integrity.

We have discussed our findings and recommendations with management and they have started to implement our recommendations.

A copy of the report is attached.

An Internal Audit Report on
Texas Educational Opportunity Grant Program at the
TEXAS HIGHER EDUCATION COORDINATING BOARD
Report No. THECB-IA-WP-10-100 **April 6, 2011**

BOTTOM LINE

The Coordinating Board accomplished the purpose of the Texas Educational Opportunity Grant (TEOG) Program by providing grant aids totaling $6,945,191 to 4,447 financially needy students enrolled in public two-year institutions in fiscal year 2009. However, awards totaling $55,993 (.8%) were inappropriately awarded to ineligible students. Certified end-of-year reports submitted by most institutions contained errors. Controls should be instituted for preventing unauthorized access to allocation data; reconciling databases; and updating policies and procedures, and managing and ensuring data integrity.

SUMMARY OF OBSERVATIONS

- For fiscal year 2009, awards totaling $55,993 were inappropriately awarded to ineligible students. The fiscal year 2009 End-of-Year Report also identified an additional 10 awards for $10,680 that were inappropriately awarded to ineligible students in the subsequent academic year.

- Certified End-of-Year Reports with one or more errors were submitted by 41 (68%) out of 60 institutions.

- Controls are lacking to prevent unauthorized access and modification or deletion of the TEOG allocation data.

- Student IDs used in the annual Financial Aid and End-of-Year reports do not all match.

- TEOG policies and procedures manual is outdated.

SUMMARY OF RECOMMENDATIONS

Management should:

- Recoup the $55,993 inappropriately awarded in FY2009 to 42 ineligible students from the institutions, plus $10,680 awarded in the subsequent year to 10 students whose FY2009 academic performance did not justify continuation awards.

- Update program rules to reflect the need for institutions to obtain and maintain in file, proof of registration for selective service before making TEOG awards to male students aged 18 to 25. This will ensure compliance with federal and state laws and THECB rules.

SUMMARY OF RECOMMENDATIONS (Contd.)

- Monitor institutional FADs data and end-of year reports, and inform institutions that any inappropriate awards resulting from inaccurate data must be refunded to the Agency. Management should provide more training on how to improve the accuracy and completeness of data and implement additional edit checks in the new database to help ensure data quality.

- Protect all TEOG allocation spreadsheets – both current and previous versions - against unauthorized access, disclosure, modification or destruction.

- Reconcile TEOG eligibility database listing of students to the FADS listing on a student-by-student basis and correct any omissions.

- Review and update the TEOG procedures manual to ensure that written procedures correctly reflect current business practices.

Management generally concurs with the findings in the audit report and has taken corrective action where possible.

Detailed observations, recommendations, and management responses are contained in the balance of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES

OBSERVATION #1

For fiscal year 2009, awards totaling $55,993 were inappropriately awarded to ineligible students. The fiscal year 2009 End-of-Year Report also identified an additional 10 awards for $10,680 that were inappropriately awarded to ineligible students in the subsequent academic year.

a) Awards totaling $43,018 given to students who exceeded the 75 Hour Credit Limit

Thirty-one students who exceeded the 75 hour credit limit were awarded TEOG grants totaling $43,018. These awards violated TEC 56.404 (d) which states, "A person may not receive a grant under this subchapter for more than 75 semester credit hours or the equivalent." Also, they violated TAC Title 19, Part 1, Rule §22.256 (c) (1) which also states, "A student may not receive a Texas Educational Opportunity Grant for more than 75 semester credit hours or its equivalent." Management has implemented new controls to identify students who are exceeding the 75 credit hour limit and prevent a student's award from being processed if that student has greater than 75 credit hours.

b) Awards totaling $7,785 given to students who had exceeded their 4-Year Limit Eligibility

Five students exceeded their 4-year limit eligibility requirement in 2009. Total TEOG amount awarded to ineligible students was $7,785. These awards violated Texas Administrative Code, §22.256 (c) states, "A student's eligibility for TEOG ends 4 years from the start of the semester in which the student received the initial award."

c) Awards totaling $4,325 given to students prior to Selective Service Registration

Four male students had not registered for the Selective Service prior to receiving awards totaling $4,325. These awards were in violation of Texas Administrative Code, §22.256 (a) (7), which states, "To receive an initial award, a student must be registered with Selective Service." and Texas Administrative Code, §22.256 (b) (7), states, "To receive a continuation award, a student must be registered with Selective Service."

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

d) One student was awarded $865 for both TEOG and TEXAS Grants

One student received both TEOG and TEXAS Grants in 2009. Total TEOG amount awarded to this student was $865. The award was in violation of Texas Administrative Code, §22.256 (a) (5), which states, "To receive an initial award, a student must not be eligible for a TEXAS Grant." and Texas Administrative Code, §22.256 (b) (5), which states, "To receive a continuation award, a student must not be eligible for a TEXAS Grant."

e) Fiscal year 2009 End-of-Year Reports identified ten Awards totaling $10,680 given to students in the subsequent year who did not meet SAP requirements.

Ten students who did not successfully achieve their satisfactory academic progress (SAP) eligibility requirements in fiscal year 2009 received continuation awards totaling $10,680 in the subsequent year. These students either failed to complete at least 75% of hours attempted, or did not make the required 2.5 GPA. The awards were in violation of Texas Administrative Code, §22.256 (b)(8)(B)(ii), which states, "To receive a continuation award, a student must make satisfactory academic progress which requires completion of at least 75% of hours attempted in students most recent academic year and maintain an overall grade point average of at least 2.5."

The above inappropriate awards were made primarily because there was a lack of controls to alert Grants and Special Programs (GSP) management when students did not meet criteria. Consequently, students who did not meet the eligibility criteria were awarded the grants totaling $55,993 in FY2009 plus $10,680 in the subsequent year. The awards are summarized below:

	Types of Errors	No. of Errors	No. of Institutions	Amount of Refunds
A)	Students who exceeded the 75 hour credit limit	31	19	$ 43,018
B)	Students who exceeded the 4-Year Limit Eligibility	5	4	7,785
C)	Failure to register for Selective Service before awards	4	3	4,325
D)	TEOG and TEXAS Grants awards	1	1	865
		41	**N/A**	**$ 55,993**
E)	Students who did not meet SAP requirements	10	5	$ 10,680
	Total	**51**	**N/A**	**$ 66,673**

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

RECOMMENDATIONS

Management should:

a) Institute some controls which would alert management when awards do not meet established criteria for the TEOG.

b) Recoup the sum of $66,673 representing inappropriately awarded TEOG grants as follows:

• Students who exceeded the 75 hour credit limit	-	$43,018
• Students who exceeded the 4-Year Limit Eligibility	-	7,785
• Failure to register for Selective Service before awards	-	4,325
• TEOG and TEXAS Grants awards	-	865
• Students who did not meet SAP requirements	-	10,680

c) Update program rules to reflect the requirement that institutions obtain and proof in file of a student's registration for the Selective Service prior to the receipt of a TEOG award.

MANAGEMENT RESPONSES

Recommendation a): New controls are now in place.
Recommendation b): All funds have been received.
Recommendation c): We will update our rules as suggested.

Expected Completion Date: July, 2011

Responsible Parties:

Jane Caldwell, Director of Grants and Special Programs
Connie Cooper, Assistant Director of Grants and Special Programs

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

OBSERVATION #2

Certified End-of-Year Reports with errors were submitted by 41 (68%) out of 60 institutions

Certified end-of year reports with errors were submitted by 41 (68%) out of 60 institutions concerning 149 (3.3%) out of 4,447 students awarded TEOG grants. Nineteen out 41 reports had three or more errors. Examples of errors included:

- Female students who were reported as males.
- Incomplete or out-of-date student Satisfactory Academic Progress (SAP) information.
- Incorrect reporting of 75 hour credit limit on 42 students.
- Incorrect date of birth.

Data reported by institutions form the basis of reports prepared for THECB management, Board, the Texas Legislature and other external stakeholders. Bad information and data received from the institutions could lead internal and external stakeholders to make wrong decisions.

During this audit, GSP management and staff contacted the 41 institutions and requested them to review and correct their data. These efforts resulted in identifying forty-two inappropriately awarded students totaling $55,993 in FY2009 and 10 students totaling $10,680 in the subsequent fiscal year. THECB requested refunds for these inappropriate awards and has received 100% of TEOG funds requested.

RECOMMENDATIONS

Management should:

- Monitor institutional information received and inform institutions that any inappropriate awards resulting from inaccurate data must be refunded to the Agency.

- Provide training and instruction to institutions on how to improve the accuracy and completeness of data and information.

- Implement additional edit checks in the new database to help ensure data quality.

- Generate exception reports for variances and ensure that the variances are researched and corrected.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

MANAGEMENT RESPONSE

Steps have been taken to improve the End-of-Year Report.

New edits have been implemented for the EOY report to identify (1) students exceeding 75 hours or 4 years, (2) students who were reported at the end of the prior year as not meeting academic progress requirements, but were awarded funds in the current year, (3) students who received both TEXAS Grants and TEOG awards in the same year. The eligibility verification screen has been updated to make it easy for institutions to identify students getting close to the 4-year or 75-hour limit. New procedures have been implemented to make it easier for schools to update academic progress data based on summer enrollments (the source of most of the academic progress errors). These edits and procedures will help us identify and correct questionable awards prior to the end of the relevant state fiscal year.

Both the FADS and the EOY report will have additional matches with the Agency's CBM reporting system to ensure more consistency in reported student IDs.

We will increase our training efforts to help institutions better understand program requirements and how to properly report and update student data.

Expected Completion Date: 3/17/2011 for all items but training
Training -- ongoing

Responsible Parties:

Jane Caldwell, Director of Grants and Special Programs
Connie Cooper, Assistant Director of Grants and Special Programs

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

OBSERVATION #3

Controls are lacking to prevent unauthorized access and modification or deletion of the TEOG allocation data.

Although the allocation of funds for the TEOG program was found to be accurate, the spreadsheet was not protected from unauthorized access and modification or deletion of the data. Many of the cells within the spreadsheet contain formulas or automated calculations, but are not locked and any unauthorized users could change these formulas. While access to the TEOG spreadsheet is confined to Grants and Special Programs (GSP) staff, there is no log associated with the spreadsheet that records the user that accessed the spreadsheet or when it was accessed, so it is impossible to track changes made to the cells and formulas. Further investigation found GSP users with read/write access to the spreadsheet who should have had read-only access. Lastly, the spreadsheet contained links to past allocation spreadsheets, and these previous allocation spreadsheets also have the same access and control issues.

Management began implementing corrective actions to address this matter during the audit. The current allocation spreadsheet is now located in a secure directory on the network and only critical TEOG management and staff can access the file. Additionally, management indicated they will move all prior allocation spreadsheets linked to the most current allocation spreadsheet to the secure directory on the network.

RECOMMENDATION

Management should as soon as possible protect all TEOG allocation spreadsheets – both current and previous versions - against unauthorized access, disclosure, modification or destruction.

MANAGEMENT RESPONSE

Management agrees. In the future, program allocation files will be maintained in a protected location accessible only by the Assistant Directors and the Director. Copies of the FY2010 and FY2011 allocation files have already been filed in this location.

Expected Completion Date: October 1, 2010

Responsible Parties:

Jane Caldwell, Director of Grants and Special Programs
Connie Cooper, Assistant Director of Grants and Special Programs

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

OBSERVATION #4

Student ID Numbers in the Annual Financial Aid and Eligibility databases do not match.

Students' identification numbers in the annual Financial Aid database system (FADS) and those in the TEOG End-of-Year Report database do not match. A reconciliation of 2009 TEOG FADS student identification numbers to 2009 TEOG GSP eligibility database student identification numbers resulted in:

- 136 unmatched identification numbers.
- 68 unique identification numbers appeared only in GSP Eligibility Database.
- different set of 68 unique identification numbers only appeared in FADS.

RECOMMENDATION

We recommend that management reconcile TEOG eligibility database listing of students to the FADS listing on a student-by-student basis to identify and correct any omissions and erroneous data.

MANAGEMENT RESPONSE

Agreed. Edits have been added to the TEOG end-of-year report to require student ID numbers be confirmed by matches with the CBM001 (enrollment) reports. Our agency Information Technology Department has taken steps to reconcile the FADS report and CBM reports with regard to student ID numbers.

Expected Completion Date: July 2011

Requests for the additional programming were submitted last fall. The implementation date of the matches among the reports will depend on the completion of the requested programming. Our goal will be to have the End-of-Year Report programming in place by the time the FY2011 year-end report is submitted (July 2011).

Responsible Parties:

Jane Caldwell, Director of Grants and Special Programs
Connie Cooper, Assistant Director of Grants and Special Programs

DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES (Contd.)

OBSERVATION #5

TEOG policies and procedures manual is outdated.

TEOG policies and procedures manual is outdated and should be updated. There were several references to outdated rules, former employees, and information that was several years old. Management began implementing corrective actions to address this matter during the audit. Procedures are currently being reviewed and will be updated after they have completed their review.

RECOMMENDATION

We recommend that management continue to review and update their TEOG procedures manual to ensure that written procedures correctly reflect current business practices. Management should also implement procedures for periodically reviewing all written TEOG documentation for the purpose of ensuring that all documentation is current.

MANAGEMENT RESPONSE

The procedures manual has been updated and will be scheduled for regular updates in the future.

Expected Completion Date: October 30, 2010

Responsible Parties:

Jane Caldwell, Director of Grants and Special Programs
Connie Cooper, Assistant Director of Grants and Special Programs

BACKGROUND

In accordance with the approved Internal Audit Work Plan for fiscal year 2010, we have conducted an audit of the Texas Educational Opportunity Grant (TEOG) Program.

The TEOG Program was designed to provide grant aid to financially needy students to enable them to attend public, two-year institutions in Texas. TEOG is a small, campus-based program. Each eligible institution enters into an agreement (5 year terms) with the Texas Higher Education Coordinating Board (THECB) for participating in the TEOG program in accordance with statutory and THECB requirements for getting TEOG funds. When an institution first gets into the program, the Grants and Special Program Office performs an eligibility test per statute and confers with General Counsel. If an institution should lose its accreditation, it is disqualified and may not receive any TEOG grants.

Institutions choosing to participate provide data to THECB to be used in determining each institution's share of TEOG funds. The THECB divides the funds accordingly, and allocates each institution its portion of the statewide appropriation. The financial aid offices located at the institutions, following program requirements, identify students who are eligible for TEOG awards. Upon receiving requests for funds from the institutions, the THECB processes vouchers through the State Comptroller's Office to issue funds to the institutions. The institutions then disburse funds to the students.

THECB program rules specifically indicate that institutions a have a time limit for distributing all aid awards to eligible students. Funds not awarded within the time limit must be redistributed to other institutions that have successfully given out their awards and have requested additional funds. At the end of each year, program statistics are compiled, and end-of-year reports submitted as required based on information received from institutions. Institutional Financial Aid Database (FADS) data provides a means of measuring the resources available for Texas students. Additional data provided by institutions allows THECB to generate statewide, sector and individual institutional reports, and end-of-year summary reports.

OBJECTIVE

The objective of this audit is to determine whether Texas Educational Opportunity Grant (TEOG) program is administered in accordance with the program rules and regulations as established by the THECB. Three sub-objectives were developed to meet the objective:

- Evaluate the TEOG award process.
- Test and verify student eligibility.
- Test whether programs as well as accounting records are reconciled accurately and completely.

SCOPE AND METHODOLOGY

The scope of our audit included Fiscal year 2009 TEOG award process. We excluded the newly implemented TEOG Eligibility database because it was employed in FY2010. In the future, we will audit the new database.

Methodology included the following:

- Reviewed relevant statutes, rules and THECB policies and procedures, manuals, and documentation related to TEOG program.
- Interviewed appropriate THECB management and staff.
- Reviewed work flow chart and organizational chart.
- Performed a risk assessment.
- Perform sampling and analytical testing to address the audit objectives.

STANDARDS

This audit was conducted in conformance with the *International Standards for Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards (GAGAS). 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.

FOLLOW-UP REVIEW

A follow-up review will be conducted one year after the date of this report, to determine if the recommendations have been implemented and are operating in a manner to achieve the effects desired by management.

STAFF COOPERATION

We wish to express our appreciation to the management and staff of Grants and Special Programs for the courtesies and cooperation extended to our auditor during this audit.

DISTRIBUTION

Board Members
Dr. Raymund A. Paredes, Commissioner of Higher Education
Dr. Arturo Alonzo, Deputy Commissioner for Business and Finance/Chief Operating Officer
Mr. William Franz, General Counsel
Mr. Dan Weaver, Assistant Commissioner, Business and Support Services
Ms. Jane Caldwell, Director of Grants and Special Programs

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Kevin Levine, Sunset Advisory Commission

PERFORMED BY:

Mr. Stephen Allen, CIA, CISA
Information Technology Auditor
Mr. Anthony O. Tegbe, CPA, CFE
Director, Internal Audit

AGENDA ITEM V-C(4)

Discussion of Joint Internal Audit Report on Data Security at UT Dallas Education Research Center by THECB and TEA

RECOMMENDATION: No Action Required

Background Information

The internal audit departments of the THECB and Texas Education Agency jointly conducted an audit of Data Security at UT Dallas Education Research Center and concluded that:

- Effective controls are in place to provide reasonable assurance that student data assets are adequately protected and that unauthorized disclosure of confidential data will not occur at the UT Dallas Education Research Center (UTD ERC). Controls and processes have improved and critical hardware and applications have been significantly updated at UTD ERC.

- UTD ERC is in compliance with Texas Administrative Code (TAC) 202 and the Family Educational Rights and Privacy Act (FERPA).

- Several opportunities for improvements were noted concerning ERC budget and fee schedule, confidentiality agreements, formal approval of, and audit of collaborating partners prior to commencement of operations.

We have discussed our findings and recommendations with the management of UTD ERC and they have started to implement them.

A copy of the report is attached.

Joint Internal Audit Report on
Audit of Data Security at UT Dallas Education Research Center by
TEXAS HIGHER EDUCATION COORDINATING BOARD
and TEXAS EDUCATION AGENCY

Report No. THECB-IA-WP-11-113 **April 6, 2011**

BOTTOM LINE

Effective controls are in place to provide reasonable assurance that student data assets are adequately protected and that unauthorized disclosure of confidential data will not occur at the UT Dallas Education Research Center (UTD ERC). Controls and processes have improved and critical hardware and applications have been significantly updated at UTD ERC. UTD ERC is incompliance with Texas Administrative Code (TAC) 202 and the Family Educational Rights and Privacy Act (FERPA). However, several opportunities for improvements were noted concerning the ERC budget and fee schedule, confidentiality agreements, and formal approval of, and audit of collaborating partners prior to commencement of operations.

SUMMARY OF OBSERVATIONS

UTD ERC:

- Implemented corrective actions to sufficiently correct the most immediate security issues that resulted in the precautionary action of removing access to student level data, and is in compliance with relevant requirements of TAC 202, FERPA.

- Established an Austin office and other access points without formal approval of both the Texas Education Agency (TEA) and the Texas Higher Education Coordinating Board (THECB) as required by statute.

- Had not audited the three collaborating partners to ensure full compliance with terms and conditions of contract and state and federal laws and regulations.

- Did not have a Current budget system that readily separate out income and expenses between the Texas School Project (TSP) and UTD ERC. A formal policy is not in place to provide guidelines and criteria outlining the circumstances in which a full fee, partial fee, or no fee will be charged.

- Confidentiality agreement *should* include additional requirements and information to hold researchers and staff more accountable and to associate the researcher to a particular Joint Advisory Board (JAB) project.

RECOMMENDATIONS AND MANAGEMENT ACTIONS

Detailed observations, recommendations, and management responses with action plans are contained in a separate report which has been provided to management of Texas Higher Education Coordinating Board (THECB), Texas Education Agency (TEA) and University of Texas Dallas ERC. The ERC management concurred with recommendations and are taking corrective actions to address them.

Due to the sensitive nature of the detailed report, distribution is limited.

BACKGROUND

This audit was conducted at the request of THECB and TEA management for the purpose of testing and verifying that the controls put in place by UT Dallas to correct security issues over UTD ERC data were adequate, and ensuring that UT Dallas complies with the Tri-lateral Contract between THECB, UTD, and TEA; TAC 202, and FERPA.

OBJECTIVE

The objective of this audit was to determine whether UTD has implemented adequate controls to restrict access to, and ensure protection of ERC student-level data. Specifically, the audit was designed with the following sub-objectives:

1. Review firewall controls implementation, and verify that they are in compliance with security requirements.

2. Review VPN controls implementation and verify that they restrict access to and from only authorized locations.

3. Review data access controls implementation and verify that they prevent coping or removing of confidential data from the UTD ERC and its servers.

4. Corrective Actions Follow Up Objective: To ensure that all other corrective actions related to the prior audit issues were adequately and successfully implemented.

SCOPE AND METHODOLOGY

The scope of this work was limited to certain procedures and the related controls over the security of the UTD ERC student-level data.

STANDARDS

This audit was conducted in conformance with the *International Standards for Professional Practice of Internal Auditing* and Generally Accepted Government Auditing Standards (GAGAS). 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.

STAFF COOPERATION

We wish to express our appreciation to the management and staff of UTD ERC, UTD Internal Audit Division, and UTD Information Technology for the courtesies and cooperation extended to our auditors during this audit.

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AGENDA ITEM V-C(5)

Discussion of Status of Internal Audit Work Plan for Fiscal Year 2011

RECOMMENDATION: No Action Required

Background Information:

Attached is an Update on Status of Internal Audit Work for Fiscal Year 2011 as of February 28, 2011, with the following explanatory notes:

I) Completed Projects

A) Carry-Overs

A total of 962 out of 1,000 hours was spent on seven of the eight projects that were carried over to fiscal year 2011. All the projects have been completed.

B) Financial aid audit at the Abilene Christian University was completed with 369 out of 400 budgeted hours.

C) Analysis of internet usages of employees was conducted for management use with 40 hours.

II) In Progress

A) Audit of the Texas Educational Opportunity Grant is in progress and we incurred 227 hours during this quarter in addition to 346 hours incurred in fiscal year 2010. This brings the project total hours to 573 hours compared to 280 budgeted hours. This is due to the project having more issues than we had anticipated.

B) We have incurred 545 out of 1,000 hours budgeted for financial aid audits at Concordia University, Houston Baptist University, University of Mary Hardin Baylor, and University of Texas Health Science Center, San Antonio.

C) We have incurred 236 out of 1,260 hours budgeted for Formula Funding, Educational Research Center, Contract Management, and Family Practice Residency Program.

D) There were three management requests and we have incurred 447 out of 300 hours budgeted for such requests this year.

Agenda Item V-C(5)

TEXAS HIGHER EDUCATION COORDINATING BOARD

FY2011 INTERNAL AUDIT WORK PLAN STATUS REPORT

From September 1, 2010 to February 28, 2011

		PROJECTS	Risk Assessment Score	Budgeted Hours	Actual Hours	Status 2/28/2011	% of Completion
I)	56%	**INSTITUTIONAL AUDITS**		3460	1876		
		Carry-Overs	78.9	1000			
		(Estimated Hours to complete 4 audit projects from FY2010)					
		. Saint Mary's University, San Antonio			109	Completed	100%
		. Texas State University, San Marcos			200	Completed	100%
		. Alamo Community College District			188	Completed	100%
		Jarvis Christian College			67	Completed	100%
		ARRA			95	Completed	100%
		Human Resources			1	Completed	100%
		Texas Educational Opportunity Grant			227	In Progress	85%
		System Development Life Cycle			75	Completed	100%
		New Projects		2460			
		Abilene Christian University			369	Completed	100%
		Concordia University			275	In Progress	80%
		Houston Baptist University			86	In Progress	30%
		University of Mary Hardin Baylor			96	In Progress	45%
		University of Texas Health Science Center, San Antonio			88	In Progress	30%
II)	23%	**AGENCY OPERATIONS**		1720	277		
		Carry-Overs					
		(Estimated Hours to complete audit projects from FY2010)					
		Formula Funding	63.6	360	14	In Progress	5%
		New Projects					
		Educational Research Center	64.5	120	89	In Progress	75%
		Contract Management	58.1	340	60	On Hold till May	15%
		Internal Security Review	56.3	240			
		Family Practice Residency Program	55.7	300	73	In Progress	25%
		Audit Follow-Ups (5) (Human Resources Management, Professional Nursing Shortage Reduction Program, Texas Equalization Grant, Teach for Texas Loan Repayment Program, and B-On-Time).	46.4	160			
		Professional Nursing Shortage Reduction Program			38	Completed	100%
		Assistance to KPMG - Financial Audit		200	3		
III)	5%	**ARRA FUNDS**	74.7	300	0		
IV	10%	**BOARD AND MANAGEMENT REQUESTS**		300	447		
		UTD ERC			236	In Progress	80%
		Websense Analysis			40	Completed	100%
		B-On-Time Review			171	In Progress	75%
V)	1%	**CONSULTING SERVICES**		52	36		
		Websense Reviews		52	36		
VI)	6%	**AUDIT RELATED ACTIVITIES**		344	111		
		Risk Assessment, Work Plan and Annual Internal Audit Report		304	80		
		Maintenance of Teammate, ACL & Audit Manual		40	31		
	100%	**TOTAL AUDIT HOURS**		6176	2747		