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July 5, 2017

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

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

Dear Dr. Maldonado,

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

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

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

Sincerely,

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

EXECUTIVE SUMMARY

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

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

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

Scope, Objective, and Methodology

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

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

Our work included procedures to verify:

- Students met all eligibility criteria including SAP requirements;
- Students demonstrated financial need;
- Students fulfilled residency requirements;
- Applicable students registered with the selective service system; and
- Reportable award amounts reconciled between the student information system data and payment records

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

Background

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

Detailed Observation, Recommendation and Management’s Response

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

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

In our review, we noted the following:

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

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

Recommendation:

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

Management Response:

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

TAC Eligibility Requirements

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

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

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

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

Corrective Action Plan:

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

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

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

PERFORMED BY:

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

cc:

THECB

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Mr. Jacob Fraire, President and CEO

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Internal Audit Coordinator

Sunset Advisory Commission

Mr. Ken Levine, Director

Attachment A

TEOG Policy and Procedure

Purpose:

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

Program Authorization:

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

Selection Process:

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

TEOG 1st year

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

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

TEOG 2nd Year

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

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

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

Adhering to Program Controlled Substance Restrictions

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

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

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

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

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

Satisfactory Academic Progress (SAP) – GPA and Completion Rate

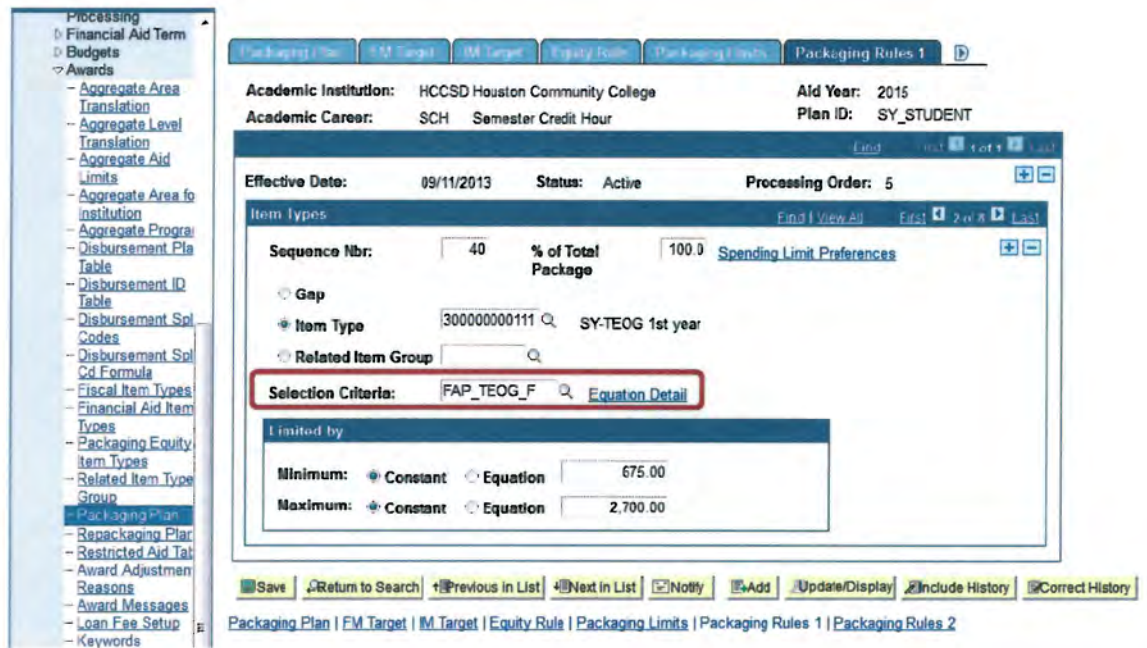
Each recipient's GPA and completion rate must be monitored to ensure compliance as outlined below	End of Initial Year End of Subsequent Years	Minimum 2.0 cumulative GPA Minimum 2.5 cumulative GPA*
GPA	End of Initial Year End of Subsequent Years	67% successful completion of attempted Hours for the year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

TEOG Setup Rules

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

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

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



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

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

ELSE

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

Check EFC - If Primary EFC < 4800 from ISIR.

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

Student is NOT Grad (Check Grad Status)

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

EFC_STATUS = 'O' (official)

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

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

FA Units < 31 from FA term.

If Received First Bachelor Degree = NO from ISIR

Check if TEOG Award Declined earlier (HFA_CHK_AWRD)

Check to see student has completed statement of Eligibility

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

Indicators | [Groups/Thresholds](#) | [Checklists/Tracking](#)

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

Indicators Find First 1 of 1 Last

Eff Date: 01/01/2015 Status: Active [Copy Setup Data](#)

Descr: TASFA_TEOG_1 Short Desc: TASFA_TEOG

<input type="checkbox"/> Review Complete	<input type="checkbox"/> Awd Career Match Term Career	<input type="checkbox"/> Post Disb Red Ctrl - Census Dt
<input checked="" type="checkbox"/> Package Complete	<input checked="" type="checkbox"/> Honor Disbursement Hold	<input type="checkbox"/> Post Disb Reduction Control
<input checked="" type="checkbox"/> Verification Complete	<input checked="" type="checkbox"/> Must Meet Satisfactory Prog	<input type="checkbox"/> ASG HERA Level Match
<input type="checkbox"/> Official Fed EFC	<input checked="" type="checkbox"/> Hold Disb Fed Overaward	<input type="checkbox"/> ASG CIP Code Match
<input type="checkbox"/> NSLDS Loan Year Match	<input checked="" type="checkbox"/> Hold Disb Inst Overaward	<input type="checkbox"/> ASG Minimum GPA
<input type="checkbox"/> Bdgt/Term Level Match	<input type="checkbox"/> Hold If Withdrawn	<input type="checkbox"/> ASG Incomplete Grades
<input checked="" type="checkbox"/> Hold If No Enrollment Data	<input type="checkbox"/> Match Fees	<input type="checkbox"/> ASG Pell Grant Awarded
<input type="checkbox"/> Loan Entrance Intervw Req	<input type="checkbox"/> Authorize To Fee Assessment	

SMART Enrollment Verification:

Load Level Rules

<input type="checkbox"/> Bdgt/Term Load Match	Disbursement Proration Rule: <input type="text"/>
<input type="checkbox"/> Awd/Term Load Match	Use Current Load: <input type="text"/>

[Indicators](#) | [Groups/Thresholds](#) | [Checklists/Tracking](#)