



TEXAS HIGHER EDUCATION COORDINATING BOARD

P.O. Box 12788 Austin, Texas 78711

October 1, 2018

Stuart W. Stedman
CHAIR

Fred Farias III, O.D.
VICE CHAIR

John T. Steen, Jr.
SECRETARY OF THE BOARD

Michelle Q. Tran
STUDENT REPRESENTATIVE

Arcilia C. Acosta
S. Javid Anwar
Michael J. Plank
Ricky A. Raven
Donna N. Williams
Welcome Wilson, Jr.

Raymund A. Paredes
COMMISSIONER
OF HIGHER EDUCATION

(512) 427-6101
Fax (512) 427-6127

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

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

Dear Dr. Paredes:

The Texas Higher Education Coordinating Board has implemented five of seven recommendations and partially implemented two recommendations, from our prior report, *An Internal Audit of College Access Loan Administration (CAL)*, Report No. THECB-IA-WP-15-174, issued October 19, 2015.

Management implemented five of seven outstanding audit recommendations by:

- Training loan staff on risk identification and risk management practices and reviewing reporting mechanisms to ensure that exception reporting results in the appropriate level of management oversight and involvement in non-routine events (Prior Observation 2);
- Evaluating and clarifying the records retention language in the Financial Aid Memorandum of Understanding, in light of institutional loan-related records (Prior Observation 3);
- Establishing, publishing, and making available to students and institutions, forms and applications that contain information related to CAL as THECB-administered loans to promote full understanding and identification of the loan by the borrower, co-signer, and other parties (Prior Observation 5);
- Establishing comprehensive written procedures addressing all aspects of CAL program administration including documentation of decision factors in granting forbearance and quality control review of work (Prior Observation 6); and
- Revamping procedures to administer access to HELMSNET¹ to ensure that only authorized institutional personnel can access loan-related information (Prior Observation 7).

¹ HELMSNET is a web based portal to access THECB loan information for students and institutions.

Management partially implemented two of seven outstanding audit recommendations:

1. (Prior Observation 1)

- a) The first part of Prior Observation 1, to develop a positive assurance control, such as Financial Aid Database (FAD) to HELMS reconciliation, to timely alert the Coordinating Board when an institution improperly retains loan funds intended for student borrowers, has been partially implemented.

The current FAD to HELMS reconciliation relies on the institutions that receive CAL funds to perform a student-by-student reconciliation based on information provided to the institution by THECB. A review of three institution's reconciliations identified one instance where the year associated with a loan was incorrect and could not be corrected, and three instances where differences between the certified FAD amount and the amount indicated as disbursed in HELMS were not the same.

Although management has made significant improvements in establishing and improving the FAD to HELMS reconciliation process, several shortcomings reduce the effectiveness of the reconciliation. First, HELMS does not provide an editable "FAD year" field that would allow institutions to provide and correct the FAD year that is associated with a particular loan, so if a loan is initiated with the wrong year, it cannot be corrected. Second, the loans that have been certified and reconciled through the FAD to HELMS reconciliation cannot be locked down to prevent additional changes to disbursements after certification. Therefore, the effectiveness of the reconciliation control process is negatively impacted by a) the inability to identify loans within HELMS included in the FAD-HELMS reconciliation process, b) the inability to revise the FAD year prior to reconciliation and c) the inability to prevent changes to loans in HELMS after reconciliation.

An interim option that would provide enhanced control over institutional cancellation payments, may be to consolidate payment processing in the Student Financial Aid department so that cancellations may be more accurately applied to student loan accounts and controlled.

- b) The second part of Prior Observation 1, to enhance HELMSNET, or its successor, to provide complete information that better allows institutions to reconcile and research loan activity, has been partially implemented.

Management has implemented procedures to provide institutions student-by-student loan information from HELMSNET on at least a semi-annual basis for reconciliation purposes. However, institutions do not have the capability

to obtain information directly from HELMSNET to reconcile and research loan activity.

- **Management's Current Response for Prior Observation 1 as of September 2018:**

Management agrees. The manual processes implemented for reconciling FAD to HELMS has identified many past discrepancies and has allowed the THECB and institutions to correct these. Manual processes inherently include a higher degree of risk than automated situations, while automated situations include a higher degree of cost (both fiscal and resources) than manual processes to implement. Additionally, WebFocus reports for institutions were removed due to high security risks, though Financial Aid Services continues to provide these reports through a secure mechanism upon request. Integrating fields into HelmNet3, the CommonLine certification process, institutional financial aid management systems, and HELMS to allow for automated reconciliation would potentially require substantial resources from 5280 (the HELMS vendor), software vendors, institutions, and the agency. The cost of this has the potential to significantly outweigh the benefits for this purpose and level of risk.

Management will continue to review the situation with ISS and other stakeholders to identify potential approaches that may be available to perform a complete reconciliation at minimal cost.

- **Name and Title of Responsible Party for Prior Observation 1**

DeCha Reid, Director, Financial Aid Services, SFAP

- **Expected Completion Date for Prior Observation 1**

ISS has determined that the reporting tools for institutions will need to be recreated in the HELMS/HelmNet3 environment. Business specifications are currently being developed for these reports. Creation of the reports will be dependent on ISS and 5280 resources, and the approval of ITSC.

- **Current Status of Implementation for Prior Observation 1**

Partially Implemented

2. (Prior Observation 4)

- a) Management is in the process of implementing the following part of Prior Observation 4. However, implementation of this part of Prior Observation 4 has been delayed due to external factors beyond the control of THECB.
- Align program guidance language with the language in Education Code chapter 52 and TAC Title 19 (regarding accounting for family financial resources in determining the maximum CAL loan amount) (Prior Observation 4A).

Management pursued a statutory change to implement the observation during the 85th legislative session via SB 2048. Although the statutory revision made it through the committees, it did not receive a vote on the floor for final passage. Management is planning to propose the same legislation in the upcoming session.

An alternative solution was explored to change the HELMS loan application format to add an additional field for family financial resources, but changes on the institution side would have also been required, making the alternative solution not feasible.

- b) Management has implemented part 4B of Prior Observation 4 by:

- Establishing statute, rules, and program guidance governing the prompt disbursement of CAL funds to the student or return of undistributed funds to the Coordinating Board (Prior Observation 4B).
- **Management's Current Response for Prior Observation 4 as of September 2018:**

Management agrees. The agency will re-submit a request for a statutory amendment during the 86th legislative session. If approved, this will clarify this portion of the statute based on the initial audit observation.

- **Name and Title of Responsible Party for Prior Observation 4**

Ken Martin, Assistant Commissioner Financial Services/CFO

- **Expected Completion Date for Observation 4**

May 2019

- **Current Status of the Implementation for Prior Observation 4**

In progress, external factors delaying implementation

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

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

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is written in a cursive style with a large initial "M".

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

PERFORMED BY:

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

cc:

THECB

Board Members

Commissioner's Office

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

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

Mr. William Franz, General Counsel

Mr. Ken Martin, Assistant Commissioner for Financial Services

Student Financial Aid Programs

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

Ms. DeCha Reid, Director of Financial Aid Programs

STATUTORY DISTRIBUTION REQUIREMENT

Legislative Budget Board

Ms. Julie Ivie

Governor's Office of Budget and Planning

Mr. John Colyandro

State Auditor's Office

Internal Audit Coordinator

Sunset Advisory Commission

Ms. Jennifer Jones