



An Audit Report on

# Financial Management Processes at the Higher Education Coordinating Board

June 2020  
Report No. 20-035



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## Overall Conclusion

The Higher Education Coordinating Board (Coordinating Board) complied with the requirements of the Texas Education Code and the Texas Administrative Code for allocating and distributing Toward Excellence, Access, and Success (TEXAS) grant funds to higher education institutions for fiscal year 2020 (see text box for a description of the TEXAS grant program).

In addition, Tarleton State University and the University of Houston-Downtown administered the TEXAS grant in accordance with requirements by awarding TEXAS grants to eligible students. Both universities also had sufficient controls over the information systems that maintained TEXAS grant student financial aid data and eligibility information.

### Audited Contract

The Coordinating Board administered its contract with Nelnet Servicing, LLC for its loan management system in accordance with most applicable statutes and the *State of Texas Contract Management Guide*<sup>1</sup>. Specifically, the Coordinating Board (1) performed contract planning activities necessary for determining the contract objectives, (2) identified the appropriate procurement method, (3) formed the contract with all key contract provisions required by the *State of Texas Contract Management Guide*, and (4) monitored key contract deliverables. However, it did not consistently ensure that all members of the evaluation team signed required disclosure forms (see text box for more information about the audited contract.)

### TEXAS Grant

The purpose of the Toward Excellence, Access, and Success (TEXAS) grant is to provide financial assistance to eligible students attending Texas public institutions of higher education. Texas Education Code, Chapter 56, authorizes the TEXAS grant program and the Texas Administrative Code establishes the rules for administration of the program.

The TEXAS grant program is funded by state appropriations and other gifts and grants to the program. The Higher Education Coordinating Board was appropriated \$433.2 million for the TEXAS grant for fiscal year 2020.

Sources: The Coordinating Board and the General Appropriations Act (86th Legislature).

### The Audited Contract

The Coordinating Board entered into a 4-year contract beginning July 1, 2015, with Nelnet Servicing, LLC. That contract was for the migration of the Coordinating Board's previous Higher Education Loan Management System (HELMS) to a new system. That new system would originate and service new student loans and serve as the Coordinating Board's ongoing loan management system. The contract had an initial value of \$3.5 million and was later amended with a new total value of \$5.4 million and an extended term to end June 30, 2021.

Source: The Coordinating Board.

<sup>1</sup> The *State of Texas Contract Management Guide* versions 1.11 through 1.13 were in effect during the planning, procurement, and formation of the contract audited for this report. In June 2018, that guide was updated and released as the *State of Texas Procurement and Contract Management Guide*; the current version of the guide is version 1.3 updated as of December 2019.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1	The Coordinating Board Complied with Applicable Requirements for Allocating and Distributing TEXAS Grant Funds to Institutions of Higher Education	Low
2	Tarleton State University and the University of Houston-Downtown Administered the TEXAS Grant in Accordance with Applicable Requirements	Low
3-A	The Coordinating Board’s Contract for a New Loan Management System Complied with Most Requirements	Low
3-B	The Coordinating Board Should Verify That Required Disclosure Forms Are Consistently Completed	Medium

<sup>a</sup> A chapter/subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity’s ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity’s ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated **Low** if the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

Auditors communicated other, less significant issues separately in writing to the management of the Coordinating Board and the two universities audited.

### ***Summary of Management’s Response***

At the end of Chapter 3-B, auditors made a recommendation to address the issues identified during this audit and the Coordinating Board agreed to implement that recommendation.

### ***Audit Objectives and Scope***

The objectives of this audit were to:

- Determine whether the Coordinating Board and selected institutions of higher education administered the TEXAS Grant Program in accordance with applicable requirements.

- If Texas Government Code, Section 2261.258, which requires the State Auditor's Office to assign ratings to certain agencies for contract monitoring, is applicable to the Coordinating Board, determine whether the agency has administered certain contract management functions in accordance with applicable requirements.

The scope of the audit covered the fiscal year 2020 TEXAS grant allocation and grant management functions at the Coordinating Board and eligibility of grant recipients in fiscal year 2020 at Tarleton State University and the University of Houston-Downtown. Additionally, auditors reviewed the Coordinating Board's contract with Nelnet Servicing, LLC that was signed in June 2015.

The scope also included a review of significant internal control components related to grant and contract management.

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# Detailed Results

Chapter 1

## **The Coordinating Board Complied with Applicable Requirements for Allocating and Distributing TEXAS Grant Funds to Institutions of Higher Education**

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**Chapter 1  
Rating:**  
Low <sup>2</sup>

The Higher Education Coordinating Board (Coordinating Board) complied with the requirements of the Texas Education Code and the Texas Administrative Code for allocating and distributing Toward Excellence, Access and Success (TEXAS) grant funds to institutions of higher education for fiscal year 2020.

**Grant Allocation.** The Coordinating Board adopted rules for administering TEXAS grant funds, as required by the Texas Education Code. For fiscal year 2020, the Coordinating Board's allocation of \$433.2 million in TEXAS grant funds to 42 institutions of higher education complied with those rules. Specifically, the Board used an allocation formula that was consistent with Title 19, Texas Administrative Code, Section 22.236 (see text box for more information about that formula). In addition, that allocation formula (1) was supported by the financial aid data that institutions of higher education reported to the Coordinating Board and (2) was consistently and accurately applied.

### **TEXAS Grant Allocation**

TEXAS grant funds are allocated to higher education institutions using a formula defined in the Texas Administrative Code. That formula allocates TEXAS grant funds to specific institutions by estimating the population of grant recipients for the current year based on prior actual awards. Funds for returning students (renewal year awards) are allocated first and any remaining funds are then allocated for new students (initial year awards).

Source: Title 19, Texas Administrative Code, Section 22.236.

**Grant Payments.** Tarleton State University and the University of Houston-Downtown were allocated a total of \$17.4 million in TEXAS grant funds for fiscal year 2020 (see Table 2 on the next page for the TEXAS grant allocation for fiscal year 2020). As of February 2020, the Coordinating Board had disbursed TEXAS grant funds totaling \$7.3 million to Tarleton State University and \$5.6 million to the University of Houston-Downtown. All of those disbursements were accurately processed, supported by documented requests, appropriately approved by Coordinating Board personnel, and processed in a timely manner.

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<sup>2</sup> The risk related to the issues discussed in Chapter 1 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Table 2 lists the TEXAS grant allocation for fiscal year 2020.

Table 2

TEXAS Grant Allocation for Fiscal Year 2020			
Institution	Returning Year Award Allocation	Initial Year Award Allocation	Total Allocated Amount
<b>Health-Related Institutions</b>			
Texas A&M University System Health Science Center	\$ 65,016	\$ 40,974	\$ 105,990
Texas Tech University Health Sciences Center	55,861	27,316	83,177
The University of Texas Health Science Center at Houston	17,860	72,844	90,704
The University of Texas Health Science Center at San Antonio	77,406	236,743	314,149
The University of Texas M.D. Anderson Cancer Center	60,000	4,552	64,552
The University of Texas Medical Branch at Galveston	12,273	18,211	30,484
<b>Public Universities</b>			
Angelo State University	2,928,312	4,001,874	6,930,186
Lamar University	2,840,000	4,306,909	7,146,909
Midwestern State University	2,190,384	2,235,404	4,425,788
Prairie View A&M University	6,283,727	7,061,328	13,345,055
Sam Houston State University	8,470,000	7,712,373	16,182,373
Stephen F. Austin State University	4,584,198	5,185,592	9,769,790
Sul Ross State University	800,800	1,470,541	2,271,341
Tarleton State University	4,060,000	4,898,768	8,958,768
Texas A&M International University	6,063,570	5,303,963	11,367,533
Texas A&M University	22,638,900	12,729,513	35,368,413
Texas A&M University-Central Texas	268,804	368,773	637,577
Texas A&M University at Galveston	360,000	450,723	810,723
Texas A&M University-Commerce	2,845,000	4,347,884	7,192,884
Texas A&M University-Corpus Christi	4,475,000	5,950,455	10,425,455
Texas A&M University-Kingsville	3,805,000	3,655,865	7,460,865
Texas A&M University-San Antonio	567,273	3,683,181	4,250,454
Texas A&M University-Texarkana	260,000	787,627	1,047,627
Texas Southern University	3,613,420	696,572	4,309,992
Texas State University	15,871,482	13,321,371	29,192,853
Texas Tech University	6,225,000	7,612,212	13,837,212
Texas Woman's University	4,540,000	6,164,435	10,704,435
The University of Texas at Arlington	8,595,000	6,637,922	15,232,922
The University of Texas at Austin	18,153,289	9,683,717	27,837,006
The University of Texas at Dallas	6,268,160	5,813,872	12,082,032
The University of Texas at El Paso	14,450,981	13,102,839	27,553,820
The University of Texas at San Antonio	11,608,696	13,139,261	24,747,957
The University of Texas at Tyler	1,045,000	2,308,248	3,353,248

**TEXAS Grant Allocation for Fiscal Year 2020**

Institution	Returning Year Award Allocation	Initial Year Award Allocation	Total Allocated Amount
The University of Texas of the Permian Basin	895,000	1,611,676	2,506,676
The University of Texas Rio Grande Valley	22,286,040	17,305,035	39,591,075
University of Houston	11,065,000	14,791,912	25,856,912
University of Houston-Clear Lake	610,000	2,786,288	3,396,288
University of Houston-Downtown	2,940,000	5,458,757	8,398,757
University of Houston-Victoria	910,000	1,506,963	2,416,963
University of North Texas	13,340,000	11,686,931	25,026,931
University of North Texas at Dallas	908,622	1,939,475	2,848,097
West Texas A&M University	2,998,400	3,050,348	6,048,748
<b>Totals</b>	<b>\$ 220,053,474</b>	<b>\$ 213,169,247</b>	<b>\$ 433,222,721</b>

Source: The Coordinating Board.



## **Tarleton State University and the University of Houston-Downtown Administered the TEXAS Grant in Accordance with Applicable Requirements**

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**Chapter 2  
Rating:**  
Low<sup>3</sup>

Tarleton State University and the University of Houston-Downtown administered the TEXAS grant in accordance with Texas Education Code and the Texas Administrative Code requirements. Both universities also had sufficient controls over the information systems that maintained TEXAS grant student financial aid data and eligibility information.

**Financial Aid Data Accuracy.** The two universities reported accurate fiscal year 2017 and 2018 financial aid data to the Coordinating Board, enabling the Coordinating Board to accurately calculate the fiscal year 2020 allocation of TEXAS grant funds.

**TEXAS Grant Eligibility.** The two universities made TEXAS grant awards to eligible students (see Table 3 on the next page for more information about eligibility requirements). Specifically:

- All 35 TEXAS grant recipients tested at Tarleton State University met eligibility requirements. Awards tested totaled \$144,901 of the \$7.3 million disbursed as of February 2020.
- All 31 TEXAS grant recipients tested at the University of Houston-Downtown met eligibility requirements. Awards tested totaled \$145,002 of the \$5.7 million<sup>4</sup> disbursed as of February 2020.

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<sup>3</sup> The risk related to the issues discussed in Chapter 2 is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

<sup>4</sup> As of February 2020, the University of Houston-Downtown had received \$5.6 million of TEXAS grant funds from the Coordinating Board and had disbursed \$5.7 million of TEXAS grant funds to its students.

Table 3 lists the eligibility requirements for TEXAS grant funds.

Table 3

TEXAS Grant Eligibility Requirements
All Award Students
All awarded students must meet the following eligibility requirements:
<ul style="list-style-type: none"> <li>▪ Be registered with selective service, or be exempt.</li> <li>▪ Be a Texas resident.</li> <li>▪ Not be convicted of a felony crime involving a controlled substance.</li> <li>▪ Have a financial need.</li> <li>▪ Be enrolled at least three-quarter time as a baccalaureate student without having earned a baccalaureate degree.</li> </ul>
Renewal Year Award Students
Students considered for a renewal award also must meet the following eligibility requirements:
<ul style="list-style-type: none"> <li>▪ Previously received a TEXAS Grant award.</li> <li>▪ Maintained satisfactory academic progress.</li> <li>▪ Has not exceeded the maximum timeframes.</li> </ul>
Entry Pathway
Students considered for an initial year award must enroll through one of following pathways:
<ul style="list-style-type: none"> <li>▪ Graduated from a Texas high school, and enrolled in an eligible institution within 16 months of graduation without accumulating more than 30 semester credit hours.</li> <li>▪ Earned an associate degree from a Texas higher education institution and enrolled in an eligible institution within 12 months of obtaining the degree.</li> <li>▪ Graduated from a Texas high school on May 1, 2013, or later, enlisted in the military within 12 months of graduation, and enrolled in an eligible institution within 12 months of receiving an honorable discharge.</li> <li>▪ Transferred into an eligible institution in Texas with at least 24 semester credit hours, a minimum 2.5 grade point average, and received an initial year Texas Educational Opportunity Grant in fall 2014 or later.</li> </ul>

Sources: CollegeForAllTexans.com; Texas Education Code, Chapter 56; and Title 19, Texas Administrative Code, Chapter 22.

**General IT Controls.** Both universities had effective general information technology controls over the information systems that maintained TEXAS grant student financial aid data and eligibility information. Those controls helped ensure the completeness, integrity, and availability of those systems and TEXAS grant financial aid data.

## ***The Coordinating Board Planned, Procured, Formed, and Monitored the Audited Contract in Compliance With Most Applicable Requirements; However, It Should Verify That Disclosure Forms Are Consistently Completed***

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The Coordinating Board administered the audited contract in accordance with applicable statutes and the *State of Texas Contract Management Guide*<sup>5</sup>. Specifically, the Coordinating Board (1) performed contract planning activities necessary for determining the contract objectives; (2) identified the appropriate procurement method; (3) formed the contract with all key contract provisions required by the *State of Texas Contract Management Guide*; and (4) monitored key contract deliverables. However, it did not consistently ensure that all members of the evaluation team signed required disclosure forms.

Chapter 3-A

### **The Coordinating Board’s Contract for a New Loan Management System Complied with Most Requirements**

The Coordinating Board planned, procured, formed, and monitored the contract for a new loan management system in accordance with most applicable requirements tested (see text box for more information about the contracting phases).

**Contract Planning.** The Coordinating Board performed the contract planning activities necessary for determining the contract objectives. For example, the Coordinating Board developed a detailed statement of work that specified its desired system requirements. In addition, the Coordinating Board: (1) requested and received delegated authority from the Office of the Comptroller of Public Accounts for the procurement; (2) received the required approval from the Department of Information Resources; (3) prepared a

**Chapter 3-A  
Rating:**

Low<sup>6</sup>

#### **Contract Planning, Procurement, Formation, and Monitoring**

**Planning:** Define the business need and establish the procurement objectives.

**Procurement and Vendor Selection:** Identify the appropriate procurement method and, if applicable, issue a solicitation. Fairly and objectively select the vendor that provides best value to the State.

**Formation:** Ensure that the awarded contract complies with applicable procurement law and contains provisions that achieve the procurement objectives.

**Management:** Administer and enforce the terms of the contract. Monitoring the contractor’s performance is a key function of proper contract management.

Source: *Texas Procurement and Contract Management Guide*, Version 1.3.

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<sup>5</sup> The *State of Texas Contract Management Guide* versions 1.11 through 1.13 were in effect during the planning, procurement, and formation of the contract audited for this report. In June 2018, that guide was updated and released as the *State of Texas Procurement and Contract Management Guide*; the current version of the guide is version 1.3 updated as of December 2019.

<sup>6</sup> The risk related to the issues discussed in Chapter 3-A is rated as Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

cost estimate; and (4) incorporated the State's Contract Advisory Team's recommendations into its solicitation.

**Contract Procurement.** The Coordinating Board complied with most applicable requirements tested related to procurement. Specifically, the Coordinating Board (1) selected the appropriate procurement method; (2) prepared a Request for Offer that incorporated its detailed statement of work and proposal evaluation criteria; (3) approved the solicitation prior to its advertisement; and (4) advertised the solicitation in the *Electronic State Business Daily* as required. In addition, the final evaluation criteria used to score the proposals was consistent with the criteria identified in the solicitation, and the proposals' scores were correctly tabulated.

**Contract Formation.** The Coordinating Board incorporated the statement of work into the contract and appropriately approved the audited contract and its amendments. In addition, the contract included all of the essential clauses required by the *State of Texas Contract Management Guide*.

**Contract Monitoring.** The Coordinating Board performed monitoring activities to verify compliance with the contract terms. For example, the Coordinating Board verified the contractor migrated its loan data from its previous system to its new loan management system. The Coordinating Board also held regular meetings with the contractor and monitored system issues using a trouble ticket log.

In addition, the Coordinating Board made 44 payments to the contractor totaling \$3.8 million as of February 2020. All 9 payments totaling \$531,166 tested were supported, consistent with the contract, appropriately approved, and paid within 30 days as required.

## The Coordinating Board Should Verify That Required Disclosure Forms Are Consistently Completed

**Chapter 3-B  
Rating:**  
Medium <sup>7</sup>

The Coordinating Board did not ensure that all members of the bid evaluation team and contract management personnel involved in the audited contract completed the required disclosure forms (see text box for information about those required forms).

**Nepotism Disclosure.** None of the 10 employees (9 bid evaluation team members and 1 procurement manager) involved in the procurement of the audited contract signed the Nepotism Disclosure Form required by Texas Government Code, Section 2262.004.

The Coordinating Board did require employees to attest that they did not have a conflict of interest created by financial interests with potential vendors. However, it did not require employees to disclose potential conflicts created by certain family relationships.

**Nondisclosure Statement.** All 9 bid evaluation team members signed a nondisclosure statement as required by the *State of Texas Contract Management Guide*. That form requires bid evaluation team members to agree to maintain confidentiality of the information relating to the procurement process. However, the Coordinating Board could not provide documentation showing that the procurement manager signed a nondisclosure statement.

Auditors performed limited procedures and did not identify any potential conflicts of interest. Not ensuring that all purchasing personnel, including bid evaluation team members, complete all of the required disclosure forms increases the risk that the Coordinating Board may not identify, and if necessary mitigate, potential conflicts of interest.

### Nepotism Disclosure

Texas Government Code, Section 2262.004, requires purchasing personnel working on a major contract to disclose certain family relationships and financial interests with the business entity before the contract is awarded.

### Nondisclosure Statement

According to the *State of Texas Contract Management Guide*, the purpose of a nondisclosure statement is for an individual to agree to maintain the confidentiality of the information relating to the procurement process. All state entity management and staff involved in a contract should complete this statement.

Sources: Texas Government Code and the *State of Texas Contract Management Guide*, version 1.11.

<sup>7</sup> The risk related to the issues discussed in Chapter 3-B is rated as Medium because the audit identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

## Recommendation

The Coordinating Board should verify that all purchasing personnel involved in its contracts, including bid evaluation team members, sign forms that contain all the required disclosures prior to the award of contracts.

## Management's Response

*The State Auditor's Office (SAO) selected the THECB's loan management system for their contract management audit. The findings under Chapter 3-B address missing documentation during the 2014 evaluation stage of the procurement process. In 2015, the loan management system contract was awarded to Nelnet.*

### **Response to Nepotism Disclosure:**

*The SAO Nepotism form addresses potential conflicts created by certain family relationships. The THECB acknowledges the SAO Nepotism form seemingly was not collected for the 9 evaluation team members and 1 procurement manager; at a minimum, such forms could not be located.*

*In 2015, however, the THECB adopted and implemented the Governor's January 2015 directive addressing potential conflicts created by certain family relationships. Adoption of the Governor's directive addressed potential conflicts of interest from staff resulting from any issues of nepotism. Further, in January 2019, the THECB ensured collection of the SAO Nepotism form with the amendment to the Nelnet contract.*

**Response to Nondisclosure Statement:** *The THECB acknowledges in 2014, all 9 bid evaluation team members signed a nondisclosure statement, but could not locate the purchasing manager's nondisclosure statement.*

**Action Plan:** *In 2014, the THECB Board relocated the Procurement and Contracting department under the Office of General Counsel. As a result, the THECB has improved its compliance with federal and state contracting laws. In 2015, the THECB's Procurement and Contract Management Handbook was created addressing compliance requirements, including the need to complete and retain the SAO Nepotism form and Nondisclosure Statements. The Handbook is updated, as needed, to stay in compliance with new contracting and procurement laws. The THECB has invested in staff obtaining procurement and contract management certifications along with annual contract management training for THECB agency staff.*

*The THECB will continue to monitor compliance requirements and will perform a review of the agency's procurement files.*

*Date completion for review of procurement files: August 31, 2020*

*Responsible person for implementation: Director Contracts and Grants*

# Appendices

Appendix 1

## **Objectives, Scope, and Methodology**

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### **Objectives**

The objectives of this audit were to:

- Determine whether the Higher Education Coordinating Board (Coordinating Board) and selected institutions of higher education administer the Toward Excellence, Access, and Success (TEXAS) Grant Program in accordance with applicable requirements.
- If Texas Government Code, Section 2261.258, which requires the State Auditor's Office to assign ratings to certain agencies for contract monitoring, is applicable to the Coordinating Board, determine whether the agency has administered certain contract management functions in accordance with applicable requirements.

### **Scope**

The scope of this audit covered fiscal year 2020 TEXAS grant allocation and grant management functions at the Coordinating Board and eligibility of grant recipients in fiscal year 2020 at Tarleton State University and the University of Houston-Downtown. Additionally, auditors reviewed the Coordinating Board's contract with Nelnet Servicing, LLC (Nelnet) that was signed in June 2015.

The scope also included a review of significant internal control components related to grant and contract management (see Appendix 3 for more information about internal control components).

### **Methodology**

The audit methodology for the TEXAS Grant Program included conducting interviews with Coordinating Board and university personnel; reviewing applicable statutes and rules; and analyzing data and calculations the Coordinating Board performed. Additional testing included verification of reported award data, sampling and verification of eligibility, and general control work over the related systems.



In addition, for the audited contract, the methodology included collecting and reviewing contract planning, procurement and formation documentation; reviewing and testing the audited contract payments; and reviewing the Coordinating Board's monitoring activities.

#### **Data Reliability and Completeness**

To determine the reliability of the Coordinating Board's TEXAS grant allocation data, auditors tested the accuracy of the allocation calculations and compared the allocation data inputs to the source data from the Coordinating Board's financial aid database. In addition, auditors performed procedures to assess the reliability of that source data by observing the data extract and reviewing the query parameters used to extract the data. Auditors determined that the data was sufficiently reliable for the purposes of this audit.

To determine the reliability of the TEXAS grant student financial aid and eligibility data at the audited universities, auditors tested selected general controls over the student financial aid systems and determined that the data was sufficiently reliable for purposes of this audit. In addition, auditors compared the total TEXAS grant aid disbursed to students to the total TEXAS grant funds paid by the Coordinating Board to each university and determined that the populations of TEXAS grant awards was sufficiently reliable for the purposes of this audit.

Auditors also reviewed the Coordinating Board's payment data from the Uniform Statewide Accounting System (USAS) and relied on previous State Auditor's Office work to determine that it was sufficiently reliable for purposes of this audit.

#### **Sampling Methodology**

To test the eligibility of TEXAS grant recipients, auditors selected a nonstatistical sample of grant recipients primarily through random selection. In some cases, auditors selected additional students for testing based on risk. This sampling design was chosen to ensure the sample would include a cross section of grant recipients and to address specific risk factors identified in the population. The sample items were not necessarily representative of the population; therefore, it would not be appropriate to project the test results to the population.

Auditors also selected a non-statistical sample of contract payments for testing; this sample design was chosen to ensure the sample covered (1) all fiscal years of the contract and (2) a cross section of deliverables. These sample items were not representative of the population; therefore, it would not be appropriate to project the test results to the population.

Information collected and reviewed included the following:

- Coordinating Board policies and procedures for allocating, awarding, and disbursement of TEXAS grant funds.
- Coordinating Board fiscal year 2020 TEXAS grant allocation worksheet.
- Coordinating Board financial aid databases for fiscal years 2013 through 2018.
- Coordinating Board TEXAS grant ledgers.
- Coordinating Board TEXAS grant and contract expenditures from USAS.
- From the two universities audited:
  - ♦ Student financial aid data.
  - ♦ User access data and supporting documentation related to general controls over the universities' student financial aid systems.
- For the contract audited:
  - ♦ Coordinating Board solicitation and bid documentation, evaluation criteria and documentation, and related supporting documentation.
  - ♦ Coordinating Board contract procurement documentation, including planning documentation, approvals, and other supporting documentation.
  - ♦ Coordinating Board payment documentation, including vendor invoices, approvals, and other supporting documentation.

Procedures and tests conducted included the following:

- Interviewed Coordinating Board personnel.
- Tested the allocation of TEXAS grant funds for compliance and accuracy.
- Tested the universities' requests for TEXAS grant payments, including verifying whether the requests received were reviewed and approved by the Coordinating Board.
- Verified that information the Coordinating Board used in the allocation calculation matched information the universities provided.
- Tested student eligibility for TEXAS grant awards.

- Tested general controls over the audited universities' student financial aid systems.
- For the contract audited, tested selected contract planning, procurement, formation, and monitoring for compliance with state requirements, Coordinating Board policies and procedures, and applicable rules and statutes.
- Reviewed applicable conflict of interest and nondisclosure forms.
- Tested payments for the audited contract.

Criteria used included the following:

- Texas Education Code, Chapter 56.
- Title 1, Texas Administrative Code, Chapter 212.
- Title 19, Texas Administrative Code, Chapter 22.
- Title 34, Texas Administrative Code, Chapter 20.
- *The Coordinating Board's FY 2019 Financial Aid Database (FAD) Report Manual 2018-19.*
- Texas Government Code, Chapters 322, 2054, 2155, 2157, 2251, 2252, 2261, and 2262.
- *State of Texas Procurement and Contract Management Guide*, version 1.3.
- *State of Texas Contract Management Guide*, versions 1.11 through 1.13.
- *Texas Higher Education Coordinating Board Procurement and Contract Management Handbook.*
- The Coordinating Board's contract with Nelnet Servicing, LLC.

## Project Information

Audit fieldwork was conducted from November 2019 through May 2020. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The following members of the State Auditor's staff performed the audit:

- Amadou Ngaide, MBA, CFE, CIDA, CICA (Project Manager)
- Jules Hunter, CPA, CIA (Assistant Project Manager)
- Charlotte Carpenter, CPA
- Alton C. Gamble
- Joe Kozak, CPA, CISA
- Andy Lee
- William J. Morris, CPA
- Ryan Walther
- Ann E. Karnes, CPA (Quality Control Reviewer)
- Robert G. Kiker, CGAP (Quality Control Reviewer)
- Lauren Godfrey, CIA, CGAP, Audit Manager

## Issue Rating Classifications and Descriptions

Auditors used professional judgment and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 4 provides a description of the issue ratings presented in this report.

Table 4

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

## Internal Control Components

Internal control is a process used by management to help an entity achieve its objectives. Government Auditing Standards require auditors to assess internal control when internal control is significant to the audit objectives. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) established a framework for five integrated components and seventeen principles of internal control, which are listed in Table 5.

Table 5

Internal Control Components and Principles		
Component	Component Description	Principles
Control Environment	The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.	<ul style="list-style-type: none"> <li>▪ The organization demonstrates a commitment to integrity and ethical values.</li> <li>▪ The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.</li> <li>▪ Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.</li> <li>▪ The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.</li> <li>▪ The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.</li> </ul>
Risk Assessment	Risk assessment is the entity's identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risks should be managed.	<ul style="list-style-type: none"> <li>▪ The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.</li> <li>▪ The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.</li> <li>▪ The organization considers the potential for fraud in assessing risks to the achievement of objectives.</li> <li>▪ The organization identifies and assesses changes that could significantly impact the system of internal control.</li> </ul>
Control Activities	Control activities are the policies and procedures that help ensure that management's directives are carried out.	<ul style="list-style-type: none"> <li>▪ The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.</li> <li>▪ The organization selects and develops general control activities over technology to support the achievement of objectives.</li> <li>▪ The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.</li> </ul>
Information and Communication	Information and communication are the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.	<ul style="list-style-type: none"> <li>▪ The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.</li> <li>▪ The organization internally communicates information, including objectives and responsibilities</li> </ul>

Internal Control Components and Principles		
Component	Component Description	Principles
		<p>for internal control, necessary to support the functioning of internal control.</p> <ul style="list-style-type: none"> <li>▪ The organization communicates with external parties regarding matters affecting the functioning of internal control.</li> </ul>
Monitoring Activities	Monitoring is a process that assesses the quality of internal control performance over time.	<ul style="list-style-type: none"> <li>▪ The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.</li> <li>▪ The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.</li> </ul>

Source: Internal Control - Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, May 2013.

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