

March 1, 1995

Dr. Kenneth H. Ashworth, Commissioner
Texas Higher Education Coordinating Board
7745 Chevy Chase Drive
Austin, Texas 78752

Dear Dr. Ashworth:

The Board has established a system to ensure compliance with federal regulations for its two largest federal programs, the \$56.3 million *Federal Family Education Loan Program* (CFDA 84.032) and the \$40.8 million *Vocational Education Program* (CFDA 84.048). In addition, the accounts in the Board's 1994 Annual Financial Report that were tested as part of the statewide financial audit are fairly stated. These accounts include Loans and Contracts Receivable of \$486 million and Bonds Payable of \$499 million. Accurate financial statements are a tool for decision-making and analysis of operations. The accuracy of the State of Texas' financial statements depends on the accuracy of the financial information provided by state entities.

The Board has established a system to ensure compliance with bond covenants, and the system is working. This system ensures that bondholder's interests are protected. In addition, the bond schedules and bond-related *Notes to the Financial Statements* in the agency's 1994 Annual Financial Report are materially correct and in conformity with the Comptroller's reporting requirements for annual financial reports.

The attached finding and the Board's response will appear in the *1994 Financial and Compliance Audit Results* report. This report contains the results of all agencies and universities we visited during the statewide financial and compliance audit.

When this report is published in May, copies will be distributed to the board chairperson and executive director or chancellor and president for each agency and university included. Additional copies can be obtained from Production Services at (512)479-4700.

A copy of this letter has been sent to each board member. If you have any questions, please call me at 479-4700.

Sincerely,

Joe Curtis, CPA
Project Manager

JLC:ggh

cc: Charles Hill, CPA, Director of Internal Audit

Key Points of Report

Texas Higher Education Coordinating Board 1994 Statewide Financial and Compliance Audit

March 1995

Overall Conclusion

The Board has established a system to ensure compliance with federal regulations for its two largest federal programs, the \$56.3 million Federal Family Education Loan Program (CFDA 84.032) and the \$40.8 million Vocational Education Program (CFDA 84.048). This system is working, however, the Board is not adequately tracking all subrecipient audit reports for the Vocational Education Program. The \$486 million Loans and Contracts Receivable account, which is significant to the statewide financial report, is fairly stated. In addition, the Board has established a system to ensure compliance with bond covenants for the \$499 million in outstanding bonds as of August 31, 1994. This system is working and ensures that bondholder's interests are protected. The Board issues bonds for educational loans to eligible Texas college students.

Key Facts And Findings

- The Board did not adequately track all subrecipient audit reports for the *Vocational Education Program-Basic Grants to States* (CFDA 84.048). Without an adequate tracking system, the Board cannot ensure compliance with federal requirements.

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Federal Compliance Issue

Federal Compliance Issue 1:

Improve The Subrecipient Audit Tracking System

The Board does not adequately track all subrecipient audit reports for the Vocational Education Program-Basic Grants to States (CFDA 84.048). Without an adequate tracking system, the Board cannot ensure compliance with federal requirements.

Office of Management and Budget Circular (OMB) A-128 requires the Board to determine whether subrecipients have met Single Audit Act requirements, which provide assurance that funds were spent in accordance with applicable laws and regulations.

Recommendation: We recommend that the Board improve the subrecipient audit tracking system. The system should include data to ensure that:

- All audit reports are both received and reviewed.
- Corrective action is obtained for all audit findings.
- Outstanding reports, findings, and questioned costs are addressed.

Management's Response: *We have initiated a process we feel confident will eliminate recurrence of the problem and ensure compliance with federal requirements that funds will be spent in accordance with applicable laws and regulations.*

We have established a log in fiscal year 1995 to record receipt, review, and appropriate resolution of audit findings. Reports are reviewed for existence of findings and questioned costs when we receive the audit report. Resolution of findings will be initiated then. Follow-up on all 1993 comments will be carried out with the reviews of the 1994 reports. The resolution may be as simple as acceptance of the institution's corrective action plan or further communication to negotiate an appropriate corrective action. Final resolution of audit findings will be approved by the Assistant Commissioner for Community and Technical Colleges upon staff recommendation. The target date for final resolution of this comment is six months after receipt of the final 1994 audit report.

Audit Scope

The primary focus of our audit was the Board's \$486 million in student loans outstanding. The loan programs are funded by 21 bond issues representing the majority of the Board's outstanding debt as of August 31, 1994. We gained an understanding of the Board's general control environment, as well as the administrative controls over major federal programs, including the \$56.3 million *Federal Family Education Loan Program* (CFDA 84.032) and the \$40.8 million *Vocational Education Program* (CFDA 84.048). We also gained an understanding of management's controls over bonds payable and related financial activities. The Loans and Contracts Receivable account, which is significant to the statewide financial statements, was also tested. Specific procedures were also performed to test compliance with bond covenants and compliance with requirements for major federal programs.