



# Texas Higher Education Coordinating Board Audit results

Financial statements for the year ended August 31, 2019

July 22, 2020

## Introduction

To the Committee on Agency Operations of the Board of Trustees of the Texas Higher Education Coordinating Board:

We are pleased to have the opportunity to meet with you on July 22, 2020 to discuss the results of our audit of the financial statements of the Texas Higher Education Coordinating Board (THECB) as of and for the year ended August 31, 2019. Our audit was conducted in accordance with the terms established in the audit engagement letter dated June 28, 2019.

We are providing this document in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This document should be read in conjunction with our audit plan, presented on April 23, 2020. We will be pleased to elaborate on the matters covered in this document when we meet.

We issued our auditor report on the financial statements of THECB and the required communications between KPMG and the Committee on Agency Operations of the Board of Trustees.

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## Audit results required communications and other matters summary

Communication topic	Response
<b>Scope of audit</b>	Our audit of the financial statements of THECB as of and for the year ended August 31, 2019 was performed in accordance with auditing standards generally accepted in the United States of America.
<b>Changes to our planned risk assessment and planned audit strategy</b>	There were no significant changes to our planned risk assessment and planned audit strategy presented to you on April 23, 2020.
<b>Auditors' report</b>	We issued an unqualified opinion on the financial statements.
<b>Outstanding matters</b>	None
<b>Significant accounting policies</b>	Significant accounting policies and practices are described in Note 1 to the financial statements and are consistent with prior year.

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## Audit results required communications and other matters summary (continued)

Communication topic	Response
<b>Significant financial statement disclosures</b>	None noted.
<b>Risk assessment- Significant risks, estimates, and IT</b>	These risks include management override of controls, assumptions used to calculation the allowance for doubtful student accounts, and evaluation of IT systems. KPMG performed certain audit procedures to respond to the risk. We have determined that there are no other significant risk of error or fraud.
<b>Risk assessment – Other significant audit matters</b>	Other significant audit matters include valuation and existence of student loans and related balances, valuation of debt and compliance with debt covenants, completeness, existence, and accuracy of financial assistance expenses and related balances, and completeness, existence, and accuracy of grants revenues and related balances. KPMG performed certain audit procedures to respond to the risk. We have determined that there are no other significant risk of error or fraud.
<b>New accounting pronouncements</b>	None for FY 2019.

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## Audit results required communications and other matters summary (continued)

Communication topic	Response
<b>Uncorrected and Corrected misstatements</b>	No significant matters to report.
<b>Financial presentation and disclosure omissions</b>	No matters to report.
<b>Significant Deficiencies or Material Weaknesses</b>	There are no matters to report.
<b>Related parties</b>	No significant findings or issues arose during the audit in connection with THECB's related parties.
<b>Independence</b>	In our professional judgment, we are independent with respect to THECB, as that term is defined by the professional standards.

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## Audit results required communications and other matters summary (continued)

Communication topic	Response	Communication topic	Response
<b>Illegal acts or fraud</b>	No actual or suspected fraud involving THECB management, employees with significant roles in internal control, or instances where fraud results in a material misstatement in the financial statements were identified during the audit.	<b>Significant difficulties encountered during the audit</b>	No matters to report.
<b>Noncompliance with laws and regulations</b>	No matters to report.	<b>Disagreements with management</b>	No matters to report.
<b>Going concern</b>	No matters to report.	<b>Significant findings or issues discussed, or the subject of correspondence, with management</b>	No matters to report.
<b>Non-GAAP</b>	<ul style="list-style-type: none"> <li>Straight line amortization of bond issuance versus effective interest method</li> <li>Accrual of liabilities at year end that are greater than or equal to 1% of GAAP fund balance</li> </ul> These have been assessed as clearly inconsequential to the financial statements.	<b>Management's consultation with other accountants</b>	No matters to report.
<b>Subsequent events</b>	<ul style="list-style-type: none"> <li>Lease extension and relocation</li> <li>COVID-19</li> </ul>	<b>Material written communications</b>	Management representation letter distributed under separate cover.
<b>Other findings or issues</b>	No matters to report.		

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# Responsibilities

<b>Management responsibilities – Financial statements</b>	<ul style="list-style-type: none"> <li>— Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP.</li> <li>— Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by us are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.</li> </ul>
<b>Management responsibilities – ICFR</b>	<ul style="list-style-type: none"> <li>— Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.</li> </ul>
<b>Management responsibilities – Other</b>	<ul style="list-style-type: none"> <li>— To provide us with:                             <ol style="list-style-type: none"> <li>1) access to all information of which management is aware is relevant to the preparation and fair presentation of the consolidated financial statements, such as records, documentation, and other matters;</li> <li>2) additional information that we may request from management for the purpose of the audit; and</li> <li>3) unrestricted access to persons within THECB from whom we determine it necessary to obtain audit evidence.</li> </ol> </li> <li>— Identifying and ensuring that THECB complies with laws and regulations applicable to its activities, and for informing us of any known material violations of such laws and regulations.</li> <li>— Providing us with a letter confirming certain representations made during the audit, that includes but is not limited to management's:                             <ol style="list-style-type: none"> <li>1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect THECB's financial reporting</li> <li>2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud.</li> </ol> </li> </ul>

The financial statement audit does not relieve management or the Committee on Agency Operations of the Board of Trustees of their responsibilities.

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# Responsibilities (continued)

<b>Committee on Agency Operations of the Board of Trustees responsibilities</b>	<ul style="list-style-type: none"> <li>— Oversight of the financial reporting process and internal control over financial reporting (ICFR).</li> <li>— Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.</li> </ul>
<b>Management and the Committee on Agency Operations of the Board of Trustees responsibilities</b>	<ul style="list-style-type: none"> <li>— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.</li> <li>— Ensuring that THECB's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the THECB's financial statements.</li> </ul>
<b>KPMG – Audit objectives</b>	<ul style="list-style-type: none"> <li>— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Committee on Agency Operations of the Board of Trustees are prepared, in all material respects, in accordance with U.S. GAAP.</li> </ul>
<b>KPMG responsibilities – Audit</b>	<ul style="list-style-type: none"> <li>— Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements as a whole are free from material misstatement.</li> <li>— Performing an audit of consolidated financial statements includes consideration of ICFR as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of THECB's ICFR.</li> </ul>

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# Responsibilities (continued)

## KPMG responsibilities – Communications

- Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Committee on Agency Operations of the Board of Trustees in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Committee on Agency Operations of the Board of Trustees .
- Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential.
- Communicating to management and the Committee on Agency Operations of the Board of Trustees in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the consolidated financial statements is not to report on THECB's internal control.
- Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy.
- Communicating to the Committee on Agency Operations of the Board of Trustees circumstances, if any, that affect the form and content of the auditors' report.
- Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal.
- Communicating to the Committee on Agency Operations of the Board of Trustees if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement.
- When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with THECB, or by additional requirements applicable to the engagement.
- Communicating if we have identified or suspect fraud involving: (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the consolidated financial statements, and (d) other matters related to fraud that are, in our professional judgment, relevant to the responsibilities of the Committee on Agency Operations of the Board of Trustees .
- Communicating significant findings and issues arising during the audit in connection with THECB's related parties.
- Communicating conditions and events, considered in the aggregate, that raise substantial doubt about THECB's ability to continue as a going concern for a reasonable period of time.

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# Questions?

For additional information and Committee on Agency Operations of the Board of Trustees resources, including National Audit Committee Peer Exchange series, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at [www.kpmg.com/ACI](http://www.kpmg.com/ACI).

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