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

Web site:
<http://www.highered.texas.gov>

May 26, 2021

Dr. Harrison Keller
Commissioner of Higher Education
1200 E. Anderson Lane
Austin, TX 78752

Dear Dr. Keller,

I am attaching the final report of *An Audit of Formula Funding-Health Related Institutions at the Texas Higher Education Coordinating Board*, Report No. THECB-IA-WP-21-233. This report will be presented at the July 2021 Agency Operations Committee meeting.

The issues presented in this report resulted in a Category 2 Report Rating. These reports contain some observations. While the noted observations require management attention, if addressed timely they do not pose a significant risk for negative reputational or financial consequences.

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

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl".

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

EXECUTIVE SUMMARY

The administration of the Formula Funding-Health Related Institutions (FF-HRI) program is generally effective. Formula funding calculations are accurate and properly documented, however, issues that warrant attention for better administration of the program include:

1. Agency practices do not comply with the requirements of Texas Education Code regarding notification of formula funding recommendations.
2. The master spreadsheet containing important health-related institution formula funding information is not maintained in an accessible location to promote data integrity and business continuity.
3. Written procedures for health-related formula funding processes require improvement.

Audit Objective, Scope and Methodologies

Our audit objective was to review the internal administrative activities associated with the health-related institutions formula funding processes. Our audit scope focused on current processes. Our audit included reviewing relevant statutes, rules and agency policies and procedures, manuals and documentation related to the audit area, and performing various testing to address the audit objectives. We also interviewed appropriate agency staff.

We conducted this audit in conformance with the International Standards for the Professional Practice of Internal Auditing. Additionally, 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. We further acknowledge that, as internal auditors, we are independent according to the requirements specified in Government Auditing Standards.

Background

An audit of FF-HRI program was included on the 2021 Internal Audit Plan. Texas Education Code, Section 61.059, Appropriations, gives statutory authority to finance a system of higher education and to secure an equitable distribution of state funds deemed to be available for higher education. Funding for FF-HRI program has steadily increased as represented in the following table.

| Appropriation Year | Funding |
|---------------------------|-----------------|
| 2020-2021 | \$2,518,708,720 |
| 2018-2019 | \$1,927,940,924 |
| 2016-2017 | \$1,904,086,282 |
| 2014-2015 | \$1,756,855,106 |

Pursuant to Texas Education Code, Sections 61.059(b-b-1), Formula Advisory Committee (FAC), such as, the advisory committee for FF-HRI, provide advice and recommendations regarding a set of formulas that provide appropriate funding levels and financial incentives necessary to best achieve the goals of the state's higher education plan. THECB is mandated to present formula funding recommendations to the Legislative Budget Board on June 1 of even years. In August of odd years, institutional representatives meet to answer the Commissioner's charges relating to formula funding in preparation for the CB's recommendation to the Legislative Budget Board. This FF-HRI advisory committee is established for each upcoming biennium with institutional representatives for Health-Related Institutions.

Detailed Observation, Recommendation, and Management Response

1. Agency practices do not comply with the requirements of Texas Education Code regarding notification of formula funding recommendations.

Agency practices do not comply with the requirements of Texas Education Code regarding notification of formula funding recommendations.

Texas Education Code (TEC) Section 61.059(d) requires that the Coordinating Board notify the governing boards of institutions of higher education of the formulas designated by the board to be used by the institutions in making appropriation requests for the next biennium. These notifications had not been made because of interpretation differences between the statute and appropriations rider.

The agency also did not certify to the governor and the Legislative Budget Board that each institution had prepared its appropriation request in accordance with the designated formulas and in accordance with the uniform system of reporting provided in TEC, Chapter 61-Texas Higher Education Coordinating Board.

Texas Education Code-61.059 (d)-Not later than June 1 of every even-numbered calendar year, the board shall notify the governing boards and the chief administrative officers of the respective institutions of higher education and university systems, the governor, and the Legislative Budget Board of the formulas designated by the board to be used by the institutions in making appropriation requests for the next succeeding biennium and shall certify to the governor and the Legislative Budget Board that each institution has prepared its appropriation request in accordance with the designated formulas and in accordance with the uniform system of reporting provided in this chapter.

Texas Education Code-61.003 (9)- "Governing board" means the body charged with policy direction of any public technical institute, public junior college, public senior college or university, medical or dental unit, or other agency of higher education, including but not limited to boards of directors, boards of regents, boards of trustees, and independent school district boards insofar as they are charged with policy direction of a public junior college.

Non-compliance with statutory notification and certification requirements reduces the effectiveness of the Coordinating Board's communication with stakeholders regarding important formula funding information.

Recommendations:

1. No later than June 1 of every even-numbered calendar year, notify the governing boards of the formulas designated by the board to be used by the

- institutions in making appropriation requests for the next succeeding biennium.
2. Certify to the governor and the Legislative Budget Board that each institution has prepared its appropriation request in accordance with the designated formulas and in accordance with the uniform system of reporting.

Management Response:

Governing boards will be added to the distribution list of the formula funding recommendations when it is sent by the Commissioner of Higher Education in each even-numbered year.

Institutions of higher education are directed by the Legislative Budget Board and Governor's Office to not request formula funding in their legislative appropriations request. However, Coordinating Board staff direct institutions to prepare and report data to the Educational Data Center each semester. This data is provided to the Legislative Budget Board in November of each even-numbered year as the basis for the formula funding provided through the appropriations act. This data is certified by the institutions. When data is provided in November, the Coordinating Board staff have available certified Spring and Summer data, and error-free Fall data.

In order to comply with statute and based on the use of this certified and error-free data, the memo provided to the Legislative Budget Board in November of each even-numbered year will be amended to include a statement certifying that each institution has prepared its data in accordance with the designated formulas and in accordance with the uniform system of reporting.

Implementation Date:

Fiscal year 2022 during the next cycle of correspondence on formula funding

Responsible Party (ies):

Emily Cormier, Assistant Commissioner for Funding

2. The master spreadsheet containing important health-related institution formula funding information is not maintained in an accessible location to promote data integrity and business continuity.

The master spreadsheet containing important health-related institution formula funding information is not maintained in an accessible location to promote data integrity and business continuity. The spreadsheet is kept on the Program Lead's personal drive until it is finalized, and moved to a shared drive location.

While on the personal drive, the document is not readily accessible to others on short notice. Storage on the shared drive location accessible to an appropriate number of users would strengthen controls. Consideration of password protection of important documents may provide additional control where warranted.

Recommendations:

1. Keep business data in an appropriately accessible location, such as a shared drive with access defined based on business necessity.
2. Consider additional strengthening of information security and data integrity controls through password protection of documents that contain important information.

Management Response:

Per this finding, versions of the spreadsheet will be maintained on both the personal drive and the shared drive from initial development through the final product. The spreadsheet on the shared drive will be updated at least by close of business on Mondays from the initial development through final distribution of the file and the file will include the last date it was updated. Additionally, a request has been made of information resources for the shared drive folder to be limited to those individuals on the Funding and Resource Planning team, administrative staff, the Assistant Commissioner, and Deputy Commissioner. This will ensure appropriate data integrity while allowing necessary access on short notice.

Implementation Date:

July 15, 2021

Responsible Party (ies):

- Ed Buchanan, Manager, Funding
- Emily Cormier, Assistant Commissioner for Funding

3. Written procedures for health-related formula funding processes require improvement.

Written procedures for health-related formula funding processes require improvement. The current procedure document is not comprehensive. Procedures should be more descriptive of the daily operations of the program. Comprehensive procedures should include:

- detail for each step of the process,
- timelines for each step,
- staff responsible for accomplishing the processes,
- definition of the formulas to be calculated with references to relevant statutory authority,
- data sources used to calculate the formulas,
- communication methodologies, timelines, and requirements,
- reports received from external/internal parties and/or provided to the external/internal parties, and
- review and monitoring processes to evidence quality controls.

Complex processes like formula funding should be evidenced by strong review processes and are an important factor in promoting business continuity. Current processes are not supported by written procedures and evidence addressing how, when, and by whom measures were verified for computational accuracy and statutory compliance.

Recommendations:

Expand written procedures governing FF-HRI administration processes. Ensure the written procedures are routinely updated, address review processes, and serve as a resource to promote business continuity.

Management Response:

The procedure file for the HRI Formula Funding is in the process of a review and update to ensure all recommended information is included. These procedures will

be reviewed after each formula funding cycle to ensure they are routinely updated.

Implementation Date:

July 15, 2021

Responsible Party (ies):

- Ed Buchanan, Manager, Funding
- Emily Cormier, Assistant Commissioner for Funding

PERFORMED BY:

Ms. Apola Ahmed, CPA, CFE, CITP, CGMA, CICA, Certified Cybersecurity Professionals, Internal Audit Lead

CC:

THECB

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