TEXAS HIGHER EDUCATION
COORDINATING BOARD

P.O. Box 12788   Austin, Texas 78711

September 13, 2018

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

Dear Dr. Paredes:

I am attaching the final report of the *Review of the Physician Education Loan Repayment Program* at the Texas Higher Education Coordinating Board, Report No. THECB-IA-WP-18-201. This report will be presented at the October 2018 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,

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

EXECUTIVE SUMMARY

The Physician Education Loan Repayment Program includes programmatic management and information technology components. Overall, the program is performing as intended and in alignment with program objectives.

This report is divided into two sections. First, issues are discussed that are specific to the PELRP program. Next, one issue is discussed that pertains to the Coordinating Board as a whole.

PELRP Program Issues

1. *The MOU with HHSC to provide Medicaid encounter data lapsed and was not renewed until May 2, 2018.*
2. *PELRP staff have included outdated statutes and rules in procedures as reference materials for program administration.*
3. *The PELRP database contains data entry errors, indicating the need for stronger monitoring controls.*
4. *Validation of physician citizenship is not adequately performed for the PELRP program.*
5. *Segregation of duties is negated by current user access configurations and business processes.*
6. *User access reviews are not completed for users with access to PELRP folders within the H: drive and the Laserfiche application.*
7. *The PELRP database reconciliation process is inadequate and lacks appropriate monitoring.*

Agency-wide Issues

8. *Risk management policy needs more comprehensive and consistent execution to better position the agency to identify and manage the array of risks it faces.*

Audit Objective, Scope and Methodologies

Our audit objective was to review the internal administrative processes associated with the Physician Education Loan Repayment Program. Our audit scope included current processes and data from FY15-FY17. Our audit included reviewing relevant statutes, rules, THECB policies and procedures, manuals, and documentation related to the audit area, and performing various testing to address the audit objectives. We also interviewed appropriate THECB 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.

Background

The Physician Education Loan Repayment Program was reviewed as part of the 2018 Internal Audit Plan. The PELRP is designed to encourage physicians to practice medicine in a Health Professional Shortage Area (HPSA). Under Texas Education Code (TEC) § 61.531 the Coordinating Board may provide assistance in repayment of student loans for physicians who qualify under PELRP, and create rules to administer PELRP under Texas Education Code § 61.537.

PELRP Program managers and staff use a SQL database to enter, track, and award physician's funds through PELRP. This database has several edit checks to ensure a physician is not awarded more than four years of awards, and does not exceed a total payout of $160,000.

This review has provided an opportunity to further expand and highlight improved awareness and implementation of the agency's Risk Management Policy (THECB Agency Policy Chapter VV). This policy is further explained in the THECB Risk Management Training Handbook (RMTH) and the Addendum to the Risk Management Handbook (ARMTH) that are available on the Coordinating Board intranet (See Human Resources Information Center under Mandatory Training – Risk Management).

The RMTH and the ARMTH are based on guidance titled "Internal Control – Integrated Framework" (2013) from the Committee of Sponsoring Organizations of the Treadway Commission (COSO). COSO developed this framework for the creation of internal control systems and includes five key components and 17 guiding principles. These key components and principles are specifically listed in the agency's ARMTH. The federal government has used the COSO framework with the same 17 principles to develop "Standards for Internal Control in the Federal Government" (Green Book). These standards, published by the U.S. Government Accountability Office (GAO), support the framework created by COSO and are designed for the government environment, particularly those organizations that receive federal grants. At times, we may refer to the Green Book, since it describes in more detail, some of the same principles as COSO's internal control framework.

The Components, Objectives, and Organizational Structure of Internal Control
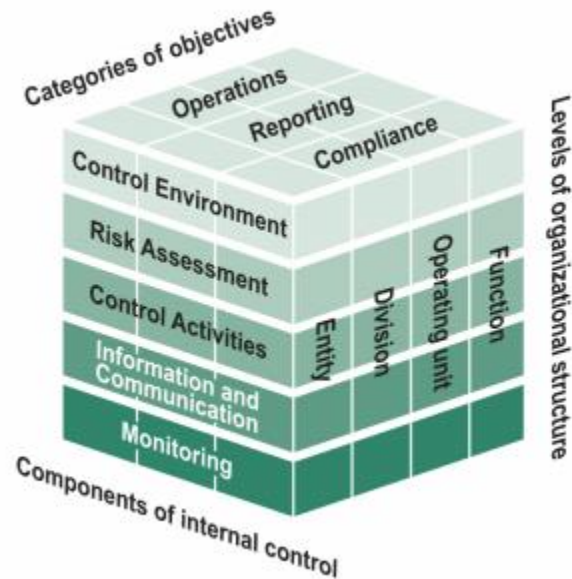
Sources: COSO and GAO. | GAO-14-704G

We appreciate the cooperation of PELRP staff and management for helping us explore and discuss how internal controls can be further implemented at the Coordinating Board by using this review of the PELRP program as a pilot to develop additional internal controls. This process has helped highlight some deficiencies in internal controls and the need to do more.

We expect that the observations and recommendations noted in this report will be taken in light of the recent amendment, in August 2017, of the Risk Management policy and the resulting need for continuing improvement of internal controls. The observations and recommendations noted below, particularly Observation 8, which is an agency-wide issue, represent updated expectations in light of the agency's revised Risk Management Policy and training.

PELRP Program Detailed Observations, Recommendations, and Management Responses

1. The MOU with HHSC to provide Medicaid encounter data lapsed and was not renewed until May 2, 2018.

The MOU with HHSC to provide Medicaid encounter data lapsed and was not renewed until May 2, 2018. The MOU with HHSC to provide Medicaid data, is required under Texas Administrative Code Title 19, Part 1, Chapter 23 Education Loan Repayment Programs, Subchapter C PELRP, § 23.66 (b)(1)(C). Since the MOU has lapsed, the Coordinating Board would be unable to meet the TAC requirement to obtain Medicaid encounter data from HHSC. The lapsed MOU could have inhibited the ability to administer program requirements related to the alternative pathway under TEC § 61.532 (HB 2550). In order to process eligibility on alternative pathway physicians, the Coordinating Board needs Medicaid encounter data from HHSC. The alternative pathway allows for physicians treating Medicaid clients outside of a HPSA to qualify for PELRP. The Coordinating Board's contract monitoring system (BMS) allows for a 30-day alert to be made to the program area when a contract is coming up for renewal. This timeframe was insufficient to ensure proper contract renewal and execution.

Recommendations:

Management should identify, analyze, and respond to risks related to achieving program objectives including identifying key contracts that impact program execution. Management should consider all significant interactions within the agency and with external parties. (COSO Principle 7; Green Book 7.01 and 7.04).

Management Response:

Agree. While renewal of the MOU was initiated in April, 2017 (four months prior to expiration of the previous version) miscommunication between THECB and HHSC created unnecessary delays in the process. THECB also recognizes that the standard 30-day alert for expiring contracts in BMS is inadequate for this particular contract and has put in place several calendar reminders to begin negotiations timely in the future.

Implementation Date:

May 2, 2018

Responsible Party:

Stacy Johnson, Program Manager – Loan Repayment Programs

2. PELRP staff have included outdated statutes and rules in procedures as reference materials for program administration.

PELRP staff have included outdated statutes and rules in procedures as reference materials for program administration. The version of Texas Administrative Code (TAC) provided by PELRP staff is Chapter 21 that was adopted in February 2016, the current version is Chapter 23 adopted in November 2016. The version of Texas Education Code (TEC) provided is from 2013, the most current version was amended in 2015. (See, for example, § 61.5391.) Insufficient programmatic oversight has led to the use of outdated statutes and rules in procedures. Although management participates in review of statutes and development of rules through the legislative review process and rule making process, there is no formal review of the impact of changes to procedures maintained for reference. Policies and procedures are not reviewed on a specific interval and are updated only on an ad hoc basis.

Recommendation:

Management should periodically review policies, procedures, and related control activities for continued relevance and effectiveness in achieving the agency's objectives or addressing related risks. If there is a significant change in an agency's process, management should review this process in a timely manner after the change to determine that the controls are designed and implemented appropriately. (COSO Principle 12; Green Book 12.05)

Management Response:

Agree. The PELRP procedural binders contained outdated paper copies of statute and rule. However, the authoritative electronic versions found on the Internet are used by staff for actual application of statute and rules. In order to prevent any potential for confusion, all hard-copy statute and rule documentation has now been removed from the procedural binders.

Implementation Date:

July 11, 2018

Responsible Party:

Stacy Johnson, Program Manager – Loan Repayment Programs

3. **The PELRP database contains data entry errors, indicating the need for stronger monitoring controls.**

The PELRP database contains data entry errors, indicating the need for stronger monitoring controls. A total of 60 physicians, (30 initial and 30 End of Service Period) were selected for testing, of the 60, 19 had data entry errors, (32%) of the total tested. It is important to ensure data collected to determine eligibility is accurate, which is difficult when applications are entered manually without review. In the current process, one employee reviews the paper application, and another employee enters the data into the PELRP database. Aside from an initial cursory review, data entry is not reviewed for accuracy. In addition, management does not perform oversight of the review process; therefore, data entry errors are missed. The following chart categorizes application type and attributes identified to have errors:

Application Type: Initial/End of Service Period	Attribute Name and #	Exception	Exception Type	Total # of Instances
Initial	Demographic Info Match? Y/N	Demographic Info did not match	Data Entry Errors	3 of 30
Initial	Application Receipt Date match LRP Y/N?	Application receipt date did not match LRP.	Data Entry Errors	7 of 30
Initial	Service Period Accurate Y/N?	Service period was recorded inaccurately.	Data Entry Errors	1 of 30
Initial	Does denial/award letter contain accurate information? Y/N	Denial or award letter contains inaccurate information.	Data Entry Errors	3 of 30
End of Service Period	Demographic Info match LRP Y/N?	Demographic Info did not match	Data Entry Errors	4 of 30
End of Service Period	Lender and Loan Amounts Accurate Y/N?	Loan amount was not accurate	Data Entry Errors	1 of 30

We Noted:
- Audit staff worked with the program manager to correct data entry errors, as of the date of this report.
- The PELRP database has a few controls to ensure physicians are not paid beyond the four-year statutory requirement, and are not exceeding yearly allowable amounts. It is worth noting that both of these controls are working accurately.
- In addition, the PELRP application data entry process has been automated as of March 1, 2018, allowing the physician to enter initial and end of service period applications into the PELRP database using a web interface, this may reduce data entry errors. However, the data available from the automated system was insufficient to test any new controls that may reduce data entry errors.

Recommendation:

Management should monitor the control of data entered into the PELRP database through ongoing monitoring and separate evaluations. Ongoing monitoring should be built into the agency's operations, performed continually, and responsive to change. Separate evaluations should be used periodically and may provide feedback on the effectiveness of ongoing monitoring. (COSO Principle 16; Green Book 16.01 and 16.04)

Management Response:

Agree. The database contained data entry errors created by THECB staff. Automation of the PELRP application process, implemented March 1, 2018, has reduced the likelihood of further data entry errors in areas such as demographics and the application receipt date. Of the 19 data entry errors identified in the audit, 14 (seven demographic, and seven application receipt date) would not have occurred had the automated application process been in place at that time. Additionally, a data entry quality control process will be implemented by October 1, 2018 to mitigate the recurrence of other types of data entry errors.

Implementation Date:

October 1, 2018

Responsible Party:

Ron Stroud, Assistant Director – Operations Center

4. Validation of physician citizenship is not adequately performed for the PELRP program.

Validation of physician citizenship is not adequately performed for the PELRP program. TAC Title 19 Chapter 23 Subchapter C Rule 23.66 Eligibility (a)(2) requires the physician to be a U.S. Citizen or Legal Permanent Resident. Although physicians are self-asserting their citizenship status on PELRP applications, some State Board physician applications showed that the country of origin was a country other than the U.S., or was blank. Of the sixty physicians tested, 22 were country unknown or a country other than the U.S., which is 36% of the total sample of physicians (60). In 100% of these cases, no further documentation was requested by the Coordinating Board to validate citizenship. The Coordinating Board is at risk by not validating U.S. Citizenship or Legal Permanent Resident status, and could potentially be paying physicians who do not qualify under Coordinating Board Rules.

Recommendation:

Management should design and implement controls for physician citizenship validation to achieve the agency's objectives. (COSO Principle 10; Green Book 10.01)

Management Response:

There is no statutory requirement in TEC §61.532 (physician eligibility to receive repayment assistance) regarding citizenship, whereas TAC Rule §23.66(a)(2) (physician eligibility for THECB to reserve loan repayment funds) requires that a physician be a "U.S. citizen or a Legal Permanent Resident". SFAP will pursue a revision to TAC Rule §23.66(a)(2) to require that a physician has either received Title IV funding, or is able to provide documentation of status as a U.S. Citizen or Legal Permanent Resident. Such revision would broaden the scope of this requirement by allowing all citizenship categories recognized by the Department of Education, thereby better aligning the Rule with the intent of the program, which is to get qualified physicians into underserved areas. Eligibility for PELRP would then be monitored by using NSLDS for confirmation of authorized citizenship status. Absent prior receipt of Title IV funding, LRP staff will review the physician's license found on the Texas Medical Board's website for "Place of Birth", aka "Country of Origin". If medical license information does not clearly indicate birth in the United States, LRP staff would contact an applicant for appropriate citizenship documentation. Prior to

such change, we will confer with the Family Practice Residency Program Advisory Committee for their input.

Implementation Date:

TBD

Responsible Parties:

Lesa Moller, Senior Director Student Financial Aid Programs, for rule change; Stacy Johnson, Program Manager – Loan Repayment Programs, for procedural changes

5. **Segregation of duties is negated by current user access configurations and business processes.**

Segregation of duties is negated by current user access configurations and business processes. Internal control of the PELRP program relies on the segregation of duties and user roles so that no single individual can enter, review, and approve an application. Individuals processing PELRP applications have asserted that one individual reviews paper applications, and the other performs data entry, achieving segregation of duties. However, in the current process both individuals have the same user access rights (IsUpdate) in the PELRP database, therefore negating the segregation of duties control. This occurs because the "IsUpdate" function allows both users the ability to enter records and create vouchers. There are currently two employees processing PELRP applications. In this scenario, segregation of duties is not achieved.

We noted:
  ➢ The PELRP database has three administrative accounts, these accounts are able to add users and create vouchers. It would be beneficial to clean up the admin accounts, reducing the number to one and adding a role that only approves vouchers such as "IsVoucher".

Recommendation:

Management should design proper controls to adequately enforce segregation of duties. Management should consider segregation of duties in designing controls so that incompatible duties of entering and approving applications are segregated. (COSO Principle 10; Green Book 10.12)

Management Response:

Agree. The current user access structure in the LRP database does not allow for complete segregation of duties. As this recommendation will require support from ISS, we will meet with ISS to discuss options for implementing additional access role(s).

Implementation Date:

Exploratory meetings to be held with ISS by October 1, 2018.

Responsible Party:

Ron Stroud, Assistant Director – Operations Center

6. **User access reviews are not completed for users with access to PELRP folders within the H: drive and the Laserfiche application.**

User access reviews are not completed for users with access to PELRP folders within the H: drive and the Laserfiche application. Agency policy HH-10 requires adequate user control for confidential and sensitive information. For example, PELRP database users are reviewed quarterly, however, access to other areas with sensitive information such as the H: drive and Laserfiche are not reviewed.

Recommendations:

1. Implement a review policy and procedure that aligns with the current quarterly PELRP database reviews. This policy and procedure should identify the individuals designated as reviewers and the frequency of reviews.

2. Create policies and procedures related to the provisioning of Laserfiche users and verify how the current setup controls user access.

3. Management should identify, analyze, and respond to risks related to protecting confidential and sensitive information. (COSO Principle 7; Green Book 7.01)

Management Response:

Agree. User access reviews are not completed for users with access to PELRP folders within either the H: drive or Laserfiche. As this recommendation will require support

from ISS, we will meet with ISS to discuss options for implementing user access reviews within both the H: drive and Laserfiche.

Implementation Date:

Exploratory meetings to be held with ISS by October 1, 2018.

Responsible Party:

Ron Stroud, Assistant Director – Operations Center

7. The PELRP database reconciliation process is inadequate and lacks appropriate monitoring.

The PELRP database reconciliation process is inadequate and lacks appropriate monitoring. Current processes do not include a full reconciliation or comparison of data in the PELRP database to data from Webfocus, the CB accounting database reporting application. Although a separate spreadsheet is maintained comparing some PELRP data to Webfocus data, it does not provide an item by item reconciliation that includes the detailed items as well as the totals that comprise the current amount of funds available by year.

The current process is limited due to the lack of a reporting function of the total amount available by year and associated details directly from the PELRP database. Therefore, the existing process relies on hand entry of data from the LRP voucher tab in the LRP database and cash return information, as it occurs, from the Cash Receipt System (CRS). Manual adjustments are made to match amounts in Webfocus. Lastly, there is no review of the process other than accounting staff separately reviewing expenditures and encumbrances each month without reconciling data to the PELRP database.

Recommendations:

1. Provide regular, detailed reconciliations of the PELRP database to the accounting database, with each database providing a separate itemized listing and total of available funds by year.

2. Provide a reporting function in the PELRP database that would allow direct reporting of the vouchers and cash receipts by year that could be directly reconciled with Webfocus.

3. Management should perform ongoing monitoring of the design and operating effectiveness of the reconciliation process as part of the normal course of operations. Management should establish and operate monitoring activities to monitor the reconciliation process and evaluate the results. (COSO Principle 16; Green Book 16.01 and 16.05)

Management Response:

Agree. While some regular reconciliation activities do occur, they are not as robust as they could be. Reconciling at the borrower-level, rather than the voucher level, will require programming changes to the software utilized in LRP operations. We will meet with ISS to discuss options for implementing a reconciliation process between the LRP database and financial data on WebFOCUS.

Implementation Date:

Exploratory meetings to be held with ISS by October 1, 2018.

Responsible Parties:

Ron Stroud, Assistant Director – Operations Center

Agency-wide Detailed Observations, Recommendations, and Management Responses

8. **Risk Management policy needs more comprehensive and consistent execution to better position the agency to identify and manage the array of risks it faces.**

Risk management policy needs more comprehensive and consistent execution to better position the agency to identify and manage the array of risks it faces. Although current risk management policy identifies the importance of internal control and risk management, the execution of policy requires strengthening.

Tools, such as a risk matrix consistent with COSO or the Green Book, (Also see 2 CFR §200.303 for Federal Grant applicability[1]), would enable users such as PELRP

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[1] 2 CFR §200.303 Internal Controls. The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller

managers to utilize the agency's Risk Management Handbook and Addendum to the Risk Management Handbook, in a more meaningful way. An example Risk Identification and Evaluation Matrix, used with PELRP managers, is included as an Appendix and could be adapted for broader use in the agency.

Recommendation:

Management should determine how to better leverage current risk management policy and training resources, to provide users a framework, such as COSO or the Green Book, and corresponding tools like the risk Identification and Evaluation Matrix. Once tools are made more readily available, management should train staff and incorporate the use of tools in periodic assessments (such as annually for key agency processes) and use them to enhance accountability or risk management. (COSO Principle 5; Green Book 5.03)

Management Response:

Agree. The Executive Officers will develop and implement a standard process for assessing risk in their respective divisions and departments, building on the existing agency risk management policy and handbook. This risk assessment will include the use of an Identification and Evaluation Matrix that identifies possible risk, the likelihood and impact of the risk occurring (high, medium, low), the identification of mitigating factors, and the determination whether additional controls can or should be implemented, taking into account available resources.

Implementation Date:

November 1, 2018

Responsible Party(ies):

Executive Officers

General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

PERFORMED BY:

Mr. Paul Maeyaert, JD, MBA, CIA, CGAP, Internal Auditor
Ms. Michelle Koog, CISA, Internal Auditor

cc:

THECB

Board Members

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Stacy Johnson, Program Manager – Loan Repayment Programs

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Risk Identification and Evaluation Matrix: PELRP

Group & Number			Risk/Fraud			Control Activities	Source	COSO Components				
								CE	RA	CA	I/C	M
Group	#	Risks	Risk/ Likelihood	Fraud Risk: Y/N		Control Activities	Source					
Eligibility	1	PELRP Loans payments exceed threshold levels ($ or %) and per statute.	HM	N		Initial Enrollment Checklist and End of Service period Checklist, System thresholds are set for each award year. Excel spreadsheet process for calculating lesser amounts	TAC 23.70, TEC 61.538; TEC Interview with Rinn, B.1.16			X		
Process	2	One user is able to create, update, and approve a LRP record.	HM	Y		Detective control: audit logging captures record created and last updated, voucher approved by, and BSS approval. However, this control is not reviewed.	Interview with Stacy Johnson, see B.1.35		X	X		X
User Access	3	Users gain access to LRP, Laserfiche, Voucher system, and/or paper files without a legitimate need for access	MM	Y		Periodic User access review and User access provisioning, and paper file physical control. Written ISS policies and procedures regarding application and data access and control	Auditor Judgment			X		
Information	4	Data used to create the LBB retention report is inaccurate.	HM	Y		None identified	TAC 21.262, 23.73, A-B				X	
Oversight	6	Checklist/processes outdated and do not adequately administer the program	MM	N		Application checklist reviewed by reviewer(Stacy)	Interview with Stacy Johnson, see B1.35	X				X

Select portions of Risk Identification and Evaluation Matrix conducted as a cooperative effort between Internal Audit and PELRP management.

List of Acronyms used in the chart:
1. CE: Control Environment
2. RA: Risk Assessment
3. CA: Control Activities
4. I/C: Information and Communication
5. M: Monitoring