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April 1, 2019

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 *An Audit of Formula Funding-Community College 'Ten Pay' Payment System* at the Texas Higher Education Coordinating Board, Report No. THECB-IA-WP-19-213.

The issue 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 it does 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
Director, Internal Audit and
Compliance

EXECUTIVE SUMMARY

Formula funding for the community colleges is effective in ensuring that formula calculations, allocations, reconciliations, and disbursements to the institutions are made according to Texas Education Code and General Appropriations Act. However, access control to sensitive data and information related to this program requires improvement to provide greater assurance over integrity and accuracy of data.

Audit Objective, Scope and Methodologies

Our audit objective was to review the internal administrative activities associated with the community colleges 'ten pay' formula funding payment processes. Our audit scope focused on current process. Our audit included reviewing relevant statutes, rules and 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

An Audit of Formula Funding-Community Colleges 'Ten Pay' Payment System was included on the 2019 Internal Audit Plan. Texas Education Code, Section 130.0031 described the calculation methodologies to determine the disbursements for the community colleges. Calculations are made based on the appropriations as set by General Appropriations Act.

Formula Funding Levels	2016-17 Biennium (millions)	2018-19 Biennium (millions)
Community Colleges	\$1,743.8	\$1,902.6

Detailed Observation, Recommendation, and Management Response

1. **Access controls to sensitive data and information related to the “ten pay” payment system require improvement to strengthen data integrity and accuracy.**

Access controls to sensitive information related to the “ten pay” payment system require improvement to strengthen data integrity and accuracy. Fourteen employees have access to an agency network folder and subfolders that house sensitive formula funding information such as the payment schedule supporting documentation, funding and contact hours, and the ten pay calculation and payment spreadsheet. None of these documents are further password protected. Of the fourteen employees with access to this information, eight do not require access according to their current job responsibilities including two who have the ability to modify data.

Over-broad network folder privileges especially modify access, put sensitive information at risk for accidental or intentional modification. Agency Policy HH-10 Security, Privacy and Data Stewardship Responsibilities, states, “In relation to the agency’s information resources, all users shall: (a) comply with information security controls and agency policies designed to prevent unauthorized or accidental disclosure, modification, or destruction.”

Recommendations:

Implement a periodic review policy to revise and limit employee modify access to the program folder. Implement a routine system of access review to align employee access levels with employee job functions and business needs.

Management Response:

Information about the ‘Ten-Pay’ process has traditionally been kept in the ‘Resource’ folder on the H-Drive that is accessible by the Funding (formerly called Resource) unit staff in the Strategic Planning and Funding Division (SPF). Internal auditors were concerned that a few staff members from outside the unit and division have access to the Resource folder along with, by design, all of the members of the Funding/Resource team. This access was based on a need for access to other areas in the folder, but because of the importance of maintaining the integrity of the Ten-Pay spreadsheet and other documentation we agree that

it is appropriate to further limit access to Ten-Pay documents to only those employees with a legitimate workforce need.

We have requested that a new Ten-Pay subfolder be established in the PAForum folder (SPF's main administrative folder on the H-Drive). This folder will limit access to Ten-Pay materials to funding team staff who administer the Ten-Pay activities, back-up staff from the funding team who are trained to handle these materials, and the Assistant Commissioner, SPF. This special restricted folder will be included in the quarterly review of special permissions folders provided by ISS, and reviewed by the Assistant Commissioner, SPF. Ten-Pay information beginning with the 20-21 biennium will be kept in this folder which will be named 'Ten Pay for Community Colleges.'

Implementation Date:

May 2019

PERFORMED BY:

Ms. Aporajita Ahmed, CPA, CFE, CITP, CGMA, CICA, Certified Cybersecurity Fundamentals for Finance and Accounting Professionals, Internal Audit Lead

cc:

THECB

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