

Agenda Item: I. B.

DATE: July 23, 2009

SUBJECT: Audit Committee Activities

ACTION RECOMMENDED: Approval

BACKGROUND INFORMATION: The creation of an audit committee was required under Public Chapter 310, known as the “State of Tennessee Audit Committee Act of 2005.” The audit committee has authority to conduct or authorize investigations into any matter within its scope of responsibility. The Commission approved the merging of the THEC and TSAC audit committees on July 24, 2008.

Revision of THEC/TSAC Audit Committee Charter

The joint audit committee charter was adopted by the Commission on November 20, 2008. A proposed revision includes the addition of the internal audit director in conjunction with fiscal affairs staff to provide support to the Committee. Terminology is made consistent in the charter to say “internal audit director” and “internal audit department.” Also, “THEC” and “TSAC” are removed in the sentence regarding the Conflict of Interest and Code of Conduct policies. The Committee recommends approval.

Status of TSAC Audits

June 30, 2008 State Audit Weaknesses Outstanding – The June 30, 2008 Financial and Compliance Audit Report contained no findings. A separate list of 32 weaknesses was provided to management. All weaknesses have been addressed with the exception of three. The first item involves the development of an indirect cost allocation plan for TSAC. A draft plan is nearing completion. The other two are regarding the establishment of an accrued liability for Tennessee Student Assistance Awards for the summer term. The current in-charge auditor will be discussing the issue with the new audit manager. Staff is waiting on this information.

June 30, 2009 Financial and Compliance Audit – This effort was initiated with an entrance conference held June 22, 2009. Internal control questionnaires have been distributed and an auditor has been interviewing personnel. They will be completing test work started earlier in the year on the FFEL program. The Audit Committee will be apprised of their progress.

Federal Review of Guaranty Agency Compliance with the Establishment of the Federal and Operating Funds – Conducted by Ollie Green and Associates-

The U.S. Department of Education contracted with Ollie Green & Associates to conduct a field audit of all guarantor agencies operating loan programs using Federal Family Education Loan Program (FFELP) funds. The audit period was October 1, 1997 through September 30, 1999. There were two findings identified by Ollie Green. One indicated there is \$1,016,497 in state funds that he claims should be transferred to the Federal Fund. THEC/TSAC staff research indicates these monies originated from state appropriations earmarked for the Tennessee Education Loan Program (TELP), a state-funded direct loan program in existence prior to the establishment of TSAC as a guarantee agency. The other finding was

that TSAC did not calculate and pay \$2,546.98 in usage fees on 44 non-liquid assets acquired with Federal funds. Federal guidelines indicate only items with a value greater than \$5,000 are subject to the usage fee calculation. THEC/TSAC staff reviewed the inventory lists from the audited time-period and was unable to find a single item with a value in excess of \$5,000. TSAC did not concur with either finding and has appealed to Jerry Wallace the Federal Financial Partner Eligibility and Oversight Director for the Southern Region of the U.S. Department of Education. We are awaiting his review.

Federal Conflict of Interest Review – Conducted by Richard Criswell

The U.S. Department of Education routinely conducts Program Reviews of guarantor agency activities. During the most recent review of TSAC's guarantor activities a finding was made concerning the contract with Nelnet Guarantor Solutions (NGS) who provides scholarship and loan servicing for TSAC. The subject of the finding was NGS having the ability to subcontract both Default Aversion and Collections activities with subcontractors. TSAC is in the process of issuing a Request for Proposals (RFP) for a new contract and the contract will contain default aversion activities but not collections. TSAC will issue and manage a separate RFP for collections.

Internal Audit Plan

The Internal Audit Plan was developed by the internal audit director with appropriate management input. The plan was submitted to and approved by Dr. Rhoda and the members of the Audit Committee. The plan was also submitted to the Comptroller of the Treasury as required.

Annual Risk Assessment Required Under the Financial Integrity Act

The Financial Integrity Act (FIA) TCA 9-8-101, amended in 2008, requires an annual risk assessment to be submitted by December 31st of each year. The State of Tennessee Audit Committee Act of 2005 TCA 4-35-105 (5) refers to the "results of assessment and controls to reduce the risk of fraud". In previous years, separate risk assessments were conducted for compliance with both the Audit Committee Act and the Financial Integrity Act. According to staff in the Division of Accounts at the Department of Finance and Administration, Part 3, Fraud, Section VI, "Control Activities" is in the FIA review to specifically address the Audit Committee Act. A separate risk assessment to satisfy the State of Tennessee Audit Committee Act of 2005 is no longer required. In addition, State Audit staff also agreed that only one risk assessment was necessary. Management is responsible for properly and thoroughly completing the FIA assessment and addressing the risk of fraud. This assessment is due by December 31, 2009, will be performed this fall, and a summary of the results will be sent to the Audit Committee for review and comment.

Revision of "Preventing Fraud, Waste and Abuse" Informational Pamphlet

The pamphlet that is distributed to employees to inform them of the methods available to report dishonest acts has been revised to combine the separate THEC and TSAC pamphlets into one document. The internal auditor's contact information has been added as a reporting option, and website addresses and other information have been updated.