

Agenda Item: II.D.

DATE: April 29, 2010

SUBJECT: THEC/TSAC Audit Committee Report

ACTION RECOMMENDED: Information

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.

TSAC Federal Family Education Loan Program – Accounting for FFLEP Funds - Overstatement of Cash in the Federal Fund

Internal audit was asked to assist in the review of the accounting for “averted” or “recalled” claims in the FFLEP program, an area of concern found by the fiscal manager and accounting manager. An internal audit report was submitted to Dr. Rhoda and the Audit Committee on the review of FY09. Reviews will continue for FY10 and the fiscal years ended 05-08.

Management has submitted a letter to the U.S. Department of Education requesting approval to transfer \$3,782,145.43 from the Federal Fund to the Operating Fund.

Status of External TSAC Audits

June 30, 2009 Division of State Audit Financial and Compliance Audit

The audit is not yet complete. Management has responded to two draft findings written by State Audit. These include:

1. The Tennessee Student Assistance Corporation did not comply with certain special tests and provisions regarding the collection of delinquent accounts and the recovery of indirect costs.
2. Incorrect accounting entries for the Federal Family Education Loan Program resulted in an overstated balance for the Federal Fund and a corresponding understated balance for the Operating Fund.

On April 19, 2010 TSAC received the approved Indirect Cost Rate Agreement from the U.S. Department of Education, resolving an issue cited in Finding 1. The Audit Committee will be informed if any other issues arise and when the audit is complete.

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. THEC/TSAC submitted an appeal June 15, 2009. TSAC received a letter April 19, 2010 stating that the Department will not pursue the review findings and the program review is considered closed.

Internal Audit Plan

Progress continues on items on the FY10 Audit Plan. A status report will be submitted to the Audit Committee and State Audit in July along with the FY11 plan. The review of FY10 and the fiscal years ended 05-08 will take precedence over other items. As a result, the Lottery Scholarship Program review scheduled for FY10 will be moved to the FY11 plan.

Internal Audit will be evaluating potential areas for review and asking for input from management and the Audit Committee for the FY11 audit plan. The plan will be submitted to Dr. Rhoda and the Audit Committee for review and approval in June.

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 to the Department of Finance and Administration and the Comptroller of the Treasury. Management is responsible for properly and thoroughly completing the FIA assessment and addressing the risk of fraud. The 2009 assessment was submitted December 31, 2009. For the assessment due December 31, 2010, work will begin in early August and the assessment will be submitted to the Audit Committee for review and comment. A conference call will be held to discuss the process and the results.