

Tennessee Higher Education Commission/Tennessee Student Assistance Corporation
Audit Committee Meeting Minutes
July 23, 2009

The THEC/TSAC Audit Committee meeting was convened as part of the THEC Commission work session with members Katie Winchester, Chair, Jack Murrah, Robert White, and Clay Petrey in attendance. Ms. Winchester declared a quorum. The agenda, Audit Committee Activities report, proposed revised charter, and revised pamphlet on reporting and preventing fraud, waste and abuse were provided to all members of the committee in advance of the meeting and included in the THEC Commission member notebooks.

Ms. Winchester introduced Ann Collett as the new internal auditor. Dr. Rhoda provided some background on Ms. Collett's prior employment with the State.

Revision of Audit Committee Charter

Ms. Winchester called on Ms. Collett to present the information on the proposed revision of the Audit Committee Charter. Ms. Collett first thanked Mr. Jim Vaden, Mr. O.W. Higley, Mr. Jason Cavender, and Ms. Winchester for their help in preparing for today's committee meeting. The revision: (1) adds the internal audit director in conjunction with fiscal affairs staff to provide support to the committee, deleting the Associate Executive Director, (2) the language is made consistent in the use of "internal audit director" and "internal audit department"; and (3) includes deleting the terms "THEC" and "TSAC" from the last paragraph regarding the conflict of interest and code of conduct policies. Ms. Winchester called for a motion to approve the charter as revised. Mr. Petrey made the motion. Mr. White seconded the motion. Ms. Winchester called for a vote and the motion was duly adopted.

Ms. Winchester asked Ms. Collett to provide a status of TSAC audits.

June 30, 2008 State Audit Weaknesses Outstanding

Ms. Collett reminded attendees that there were no findings in the 2008 report, a significant improvement over the 2007 audit which contained two findings disclosing numerous significant deficiencies. A separate list of 32 weaknesses was provided to management. Management reports that all of these have been addressed except for three. One weakness involves the need to create an indirect cost plan for TSAC. This is currently in development and a draft is forthcoming. Two weaknesses involve the establishment of accrued liabilities for the summer term for Tennessee Student Assistance Awards when classes cross over fiscal years. Management does not agree with these recommendations. A meeting was held at State Audit this week and those issues were discussed. The immateriality and difficulties involved in trying to obtain the needed information was outlined. The auditors will be reviewing those issues during the current audit, which is underway. State Audit has been asked to rescind these items from the weakness list.

June 30, 2009 Financial and Compliance Audit

State auditors have been interviewing personnel and fiscal staff have been completing internal control questionnaires. Work will continue on the Family Federal Education Loan Program (FFELP) testwork started earlier in the year.

After the June 30 closing process, fiscal staff will be preparing financial statements which the auditors will then audit. The auditors anticipate completing the audit fieldwork in November. The audit committee will be kept apprised of their progress and of the date for the exit conference.

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

Dr. Rhoda received the final program review determination letter which contained two findings. Staff did not concur with the findings and recommendations and prepared responses including the request for an appeal on the two findings in the report. One of the primary reasons for THEC requesting a meeting at State Audit this week was to update them on the status of this review. This review is retroactive past the time records are required to be retained by both the State of Tennessee and the U.S. Government. State Audit personnel said they should be able to discuss this through their Governmental Audit Forum. The National Council on Higher Education Loan Programs is also assisting guaranty agencies in this effort. Other guaranty agencies have been reviewed and have similar findings. Mr. Vaden added that the U.S. Department of Education has audited this previously and found no issues.

Federal Program Review – Conducted by Richard Criswell

This review evaluated TSAC's administration of the FFEL program including activities related to the contract with Nelnet Guarantor Solutions (NGS). The report contained one finding. The finding deals with NGS having contracted both the default aversion and collection activities. THEC/TSAC concurred and indicated that, in future contracts, TSAC will issue a separate RFP for collections.

Internal Audit Plan

Ms. Winchester asked Ms. Collett to report on the audit plan.

Ms. Collett reported that the plan was prepared after reviewing prior audit findings and weaknesses and discussions of priorities with management. Ms. Collett noted that Dr. Rhoda approved the plan and the plan was submitted to the audit committee for review and subsequently approved. She indicated the commission members had copies of the plan and she would be happy to elaborate on any items if needed. No questions were asked.

Ms. Winchester reported that the audit committee has reviewed the plan and approved the plan prior to submission to State Audit.

Annual Risk Assessment Required Under the Financial Integrity Act

Ms. Winchester asked Ms. Collett to report on the risk assessment.

Ms. Collett has gotten clarification on the risk assessments required for THEC and TSAC. In the past few years separate assessments were done for compliance with the Audit Committee Act of 2005 using an assessment created in-house. The Financial Integrity Act which was amended in 2008 requires an annual assessment to be completed by December 31 and has shifted more to an enterprise risk management model. Ms. Collett stated she had clarified with personnel at both Finance and Administration and State Audit that only one formal assessment is required. The questionnaires developed by Finance and Administration include a section on fraud specifically designed to satisfy the requirement of the Audit Committee Act. The procedure for this year will include determining if any updates are required to be made to the

questionnaires. Staff does not know if Finance and Administration will provide anything new related to Edison. The audit committee members will be involved in the review of management's assessment. She reminded those in attendance of information presented in materials back to 2005 when the Act came out, and also in the 2007 audit finding that neither the audit committee nor the internal auditor should conduct the documented risk assessment or design and implement mitigating internal controls. Management should seek the advice from the internal auditor while performing the risk assessment and implementing internal controls. Ms. Collett will help coordinate the effort and work with management as they implement the process. The audit committee must review the documentation and approve the assessment. The timeline will be developed and communicated to the audit committee.

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

Ms. Collett reported that previously there were separate documents for THEC and TSAC and the two have now been combined. Revisions include updates of website addresses and contact information, as well as including the internal auditor. The pamphlets will be made available for current employees as well as provided to new employees. The website also will be updated.

Adjournment

Ms. Winchester asked if there were any other issues or items that the audit committee would like to address. Being none, the meeting was adjourned.

Minutes prepared by Ann Collett

Minutes approved by:



Katie Winchester, THEC/TSAC Audit Committee Chair