



Lawrence F. Alwin, CPA
State Auditor

July 17, 2002

Members of the Legislative Audit Committee:

The Water Development Board (Water Board) and the Department of Transportation (TxDOT) both ended fiscal year 2001 with large balances in their revolving loan funds. These two agencies as well as the Higher Education Coordinating Board (Coordinating Board) can make improvements to their revolving loan funds as follows:

Maximizing Funds Available to Citizens. While the Water Board and TxDOT did not maximize the funds available to citizens, the Coordinating Board loaned most of its available funds. Specifically, as of August 31, 2001:

- The Water Board had \$235 million available that was not loaned to eligible political subdivisions for wastewater treatment facilities and public drinking water systems.
- TxDOT did not loan \$182 million in funds available in its State Infrastructure Bank (SIB) program. After our fieldwork ended, TxDOT approved an additional loan for \$144.7 million to the North Texas Tollway Authority (Authority). However, this SIB loan only enabled the Authority to pay TxDOT for the outstanding balance of a 1995 loan from TxDOT's Fund 6.

Sustainability of Revolving Loan Fund Programs. During fiscal year 2001, the Water Board's Clean Water and Drinking Water programs and the Coordinating Board's Student Loan Program were self-sustaining. However, the Coordinating Board had opportunities to improve its collection process for defaulted loans. We could not determine if TxDOT's SIB program was self-sustaining because TxDOT did not maintain the SIB program's administrative cost information separately.

Compliance with Laws, Regulations, and Policies. The Water Board, TxDOT, and the Coordinating Board are generally managing their revolving loan programs in compliance with applicable laws, regulations, and agency policies.

Information to Manage Programs. In fiscal years 1999 through 2001, decision makers at all three agencies generally had accurate and timely information with which to manage the revolving loan programs.

TxDOT does not agree with two of our recommendations. It does not believe that it should track the costs of its SIB program separately from other costs, and it does not want to develop more detailed goals for the SIB program. Otherwise, the agencies plan to implement all of the recommendations.

An Audit Report on Revolving Loan Funds

Revolving Loan Fund

A fund whose balance is used to make loans to eligible recipients and covers at least the cost of administering the loan program. Loan repayments replenish the fund's balance.

Revolving Loan Funds Audited

Water Development Board:

- Clean Water State Revolving Fund (Clean Water)
- Drinking Water State Revolving Fund (Drinking Water)

Department of Transportation:

- State Infrastructure Bank (SIB)

Higher Education Coordinating Board:

- Hinson-Hazlewood College Student Loan Program (Student Loan Program)

Our audit objectives were to determine:

- Whether agencies manage their revolving loan programs to ensure that funds reach citizens and program objectives are met
- Whether the revolving loan funds are self-sustaining
- Compliance with laws, regulations, and policies
- Whether decision-makers have accurate, timely, and complete information necessary to account for and manage the programs

Members of the Legislative Audit Committee
July 17, 2002
Page 2

We appreciate the cooperation of the audited agencies. The attachment to this letter contains more information on the results of our audit. It also contains summaries of our recommendations and of management's responses. Each agency also received a letter with detailed information on our findings and recommendations. If you have any questions, please call Sandra Vice, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

khm

Attachment

cc: Texas Water Development Board
Chair and Board Members
Mr. J. Kevin Ward, Executive Administrator
Texas Higher Education Coordinating Board
Chair and Board Members
Dr. Don W. Brown, Commissioner
Department of Transportation
Chair and Commissioners
Mr. Michael W. Behrens, P.E., Executive Director

Do Agencies' Management of Revolving Loan Fund Programs Ensure that Funds Reach Citizens and Program Objectives are Met?

The Water Development Board (Water Board) and the Department of Transportation (TxDOT) did not loan all funds available through their revolving loan fund programs. While the Water Board, TxDOT, and the Higher Education Coordinating Board (Coordinating Board) have made loans for their intended purposes, the agencies have not met program-related performance measures. Specifically, as of August 31, 2001:

- The Water Board had \$235 million available that was not loaned to eligible political subdivisions for wastewater treatment facilities and public drinking water systems. Also, the Water Board has not met one of its program-related performance measures since 1998.
- TxDOT did not loan \$182 million in funds available in its State Infrastructure Bank (SIB) program. After our fieldwork ended, TxDOT approved an additional loan for \$144.7 million to the North Texas Tollway Authority (Authority). This SIB loan only enabled the Authority to pay TxDOT for the outstanding balance of a 1995 loan from TxDOT's Fund 6. TxDOT does not have performance measures for the SIB.
- The Coordinating Board loaned the majority of its available funds. However, it did not meet two out of three program-related performance measures in fiscal year 2000.

We found that the revolving loan programs at the three agencies were used for their intended purposes of providing:

- Low-interest loans to political subdivisions for planning, design, and construction of wastewater treatment facilities and public drinking water systems (Water Development Board)
 - Loans to eligible cities and counties for highway construction and right-of-way purchases (TxDOT)
 - College loans to students (Coordinating Board)

Contents	
Do Agencies' Management of Revolving Loan Fund Programs Ensure that Funds Reach Citizens and Program Objectives are Met?.....	1
Are the Revolving Loan Fund Programs Self-Sustaining?.....	6
Are the Agencies Managing the Revolving Loan Fund Programs in Compliance with Laws, Regulations, and Agency Policies?.....	9
Do Decision-Makers Have Accurate, Timely, and Complete Information to Account for and Manage the Revolving Loan Fund Programs?	12
Objective, Scope, and Methodology.....	15

Chapter 1.1

The Water Board's Clean Water and Drinking Water Programs Did Not Loan \$235 Million and Did Not Meet A Program-Related Performance Target

Since the programs began, funds available and demand have exceeded the amount of funds the Water Board has committed to loan from the Clean Water and Drinking Water programs. These two programs had \$235 million available for loans at the end of fiscal year 2001 (see Table 1 on the next page).

The purpose of these programs is to help communities finance infrastructure projects for waste treatment facilities and public drinking water systems.

Table 1

An additional \$235 million was available for loans as of the end of fiscal year 2001.

	Clean Water (Since 10/1/87)	Drinking Water (Since 9/1/98)
Total funds	\$ 3,364,039,709	\$ 340,944,611
Total commitments at 8/31/01	3,191,592,766	278,245,235
Excess Capacity	\$ 172,446,943	\$ 62,699,376

Source: data provided by the Texas Water Development Board

One reason that the Water Board did not lend all its funds is its loan approval process. The current process does not provide the Board with sufficient opportunity to redirect funds when potential borrowers miss application deadlines. In fiscal year 1998, faced with an escalating demand for funds, the Water Board stopped approving loans on a first-come, first-served basis and began prioritizing applications. The Water Board prioritized the eligible potential borrowers and determined how many could be invited to apply based on the funds available. Those who were invited had several months to complete an application before the August 31 funding cut-off date. Because the Board limited invitations for applications to the amount of available funds, there was not enough time to allow other potential borrowers to apply for funds. The Board has addressed this issue effective in fiscal year 2002 by inviting more communities to apply for loans through the Clean Water Program. Although there would not be enough money to fund all applications, the Board will use historical averages to better determine the actual funding commitments that result from invitations to apply for loans.

Since fiscal year 1998, the Water Board has not met its performance target for the number of “Small Communities Provided Financial Assistance/Loan Commitments.” The target number has been 86, and the number of actual communities assisted has ranged from 58 to 65. According to the Water Board, it also did not meet its target for fiscal year 2001. The Water Board links the decline in the number of loans to the increase in the average project cost. The Water Board thought its target was too high and has worked with the Legislative Budget Board to lower the target. The Legislative Budget Board lowered the Water Board’s target to 63 beginning in fiscal year 2002.

Even with a lower target, it is uncertain whether the Water Board will meet the target unless it aligns its strategies with the desired result. The Water Board recommends financial assistance and loan commitments according to an entity’s priority level in the loan approval process. The Water Board could give small communities a higher priority in the loan approval process using weighted factors or it could set aside an amount of funding for small communities.

Recommendations

The Water Board should:

- Determine whether its revised procedures work to ensure that more of its funds are loaned to eligible borrowers.
- Develop a strategy for providing financial assistance to small communities to meet revised performance targets.

Management's Response

- *Board staff will continue to monitor annual loan commitment performance to determine the effectiveness of the previous changes, and to identify the need for additional changes.*
- *The Board is in the process of implementing a strategy for the Clean Water SRF to impose a cap on the amount of funding any single applicant may receive. We anticipate this will enable us to invite all small communities, with projects on the Intended Use Plan, to submit applications and ensure greater opportunity for small community projects to be funded.*

Chapter 1.2

TxDOT's SIB Program Did Not Loan \$182 Million and Does Not Have Measurable Goals or Objectives

As of the end of fiscal year 2001, TxDOT had not loaned \$182.2 million of funds available in its SIB revolving loan fund. On May 30, 2002, after our fieldwork ended, TxDOT approved an additional loan for \$144.7 million to the North Texas Tollway Authority. This SIB loan only enabled the North Texas Tollway Authority to pay TxDOT for the outstanding balance of a 1995 loan from TxDOT's Fund 6. No new roads will be built as a result of this loan.

SIB Loans

The State Infrastructure Bank (SIB) lends money to communities to fund a portion of their eligible projects. Cities and counties combine low-interest SIB loans with other funds for construction projects and right-of-way purchases. According to TxDOT, a community can advance its project by several years by borrowing money from the SIB.

Through fiscal year 2001, TxDOT used the SIB fund for its intended purpose of providing loans to eligible cities and counties for highway construction and right-of-way purchases. TxDOT, however, cannot know how well it has done in providing loans to borrowers until it identifies desired program outcomes.

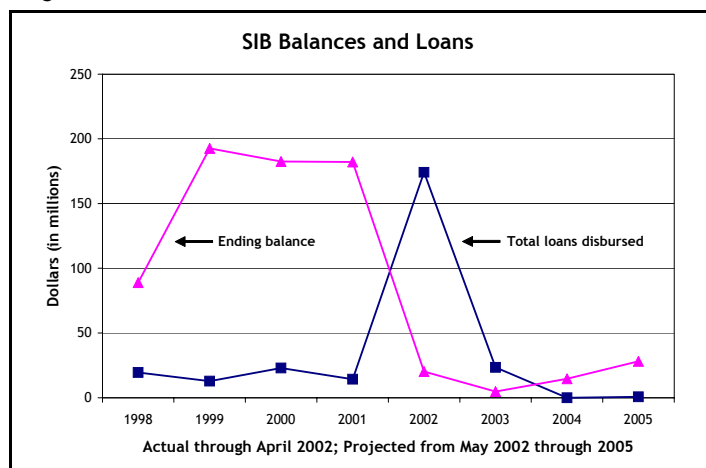
Although TxDOT has reduced the available fund balance since the end of our fieldwork, it has not clarified the goals of the program such that it can determine whether specific loans will help the program achieve its goals.

The SIB handbook lists many goals for the program, including:

- Expanding the availability of funding for transportation projects and reducing direct state costs
- Encouraging public and private investment in transportation facilities
- Improving the efficiency of the state transportation system
- Leveraging funds to increase the program's activity through a revolving loan fund structure

These goals, while consistent with TxDOT's mission, are not sufficiently measurable to evaluate the success of the program. Measurable goals could guide the approval process and would help TxDOT determine how each proposed loan moves TxDOT toward its desired outcomes. For example:

Figure 1



Source: Texas Department of Transportation's *Cash Forecast of the State Highway Fund 006*, April 2002

- Although one of the goals of the SIB is to leverage funds to increase the program's activity, it loaned out \$144.7 million (57 percent of the value of all SIB loans to date) for a single 27-year loan. This SIB loan will not result in additional roadway construction, because it was made to repay a loan for a road that had already been completed. For comparison, most loans approved by the SIB are for less than 20 years and less than \$20 million, and are for projects that have yet to start.
- TxDOT's historical and projected fund balance amounts vary widely (see Figure 1), but TxDOT has not identified the necessary balances to keep the fund self-sustaining.

- While TxDOT has a goal of encouraging public and private investment, it has not set a goal for a desired level of private investment.

Without tools for evaluating the overall success of the program, the Department cannot provide information about the program's performance. According to the SIB manager, the Department calculates the number of loans and the amount that is leveraged, but it does not use the information to formally evaluate the program.

Recommendations

TxDOT should:

- Identify the goals and desired outcomes for the SIB program. These should be specific and measurable so that they will be useful in determining whether the program is achieving its desired outcomes.
- Manage the program to achieve these outcomes.

Management's Response

The department is hesitant to expand the goals for the SIB beyond those currently in place. The concern with more detailed goals is that they could potentially cause deserving projects to be denied/ delayed because a specific goal may have already been attained in a particular year. The department's focus for the SIB program continues to be to provide funding to assist projects that increase the efficiency of the transportation system, while also reducing direct costs to the state.

State Auditor's Follow-Up Comment

We do not recommend that TxDOT expand the SIB's goals. Rather, we recommend that it clarify and prioritize its current goals for the SIB, which can then be used to guide decision-making.

Chapter 1.3

The Coordinating Board's Student Loan Program Did Not Meet All of Its Performance Targets

The Coordinating Board's Student Loan Program loans most of its available funds. Limited testing of Coordinating Board loan agreements did not find loans made for any purpose other than the intended purpose of providing college loans to students. Additional funds are kept in a reserve account to pay the debt service on bonds that fund the loans. In addition, the Coordinating Board notifies the colleges and universities when additional funds are available.

However, the Coordinating Board did not meet two out of three related performance measures in recent years:

- From fiscal year 1999 to fiscal year 2001, the "Number of Students Receiving Loans" declined from 15,837 to 13,588. The performance target remained about 17,000 for the same time frame.
- For fiscal years 2000 and 2001, the "Dollar Amount of Outstanding Loans" did not meet the targeted amount by approximately \$40 million. The "Dollar Amount of Outstanding Loans" measures the amount of loans that borrowers have not repaid. It was not a measure in fiscal year 1999.

- For fiscal years 2000 and 2001, the Coordinating Board met the target for “Default Rate on Hinson-Hazlewood Loans.” It was not a measure in fiscal year 1999.

In addition, the measures may not completely evaluate whether the Coordinating Board is accomplishing its program objectives. Student Loan Program personnel indicated that the “Number of Students Receiving Loans” and the “Dollar Amount of Outstanding Loans” were not meaningful performance measures. Coordinating Board personnel said they have not discussed with the Legislative Budget Board changing the targets and/or measures.

Recommendation

The Coordinating Board should develop strategies for meeting current performance measures and consider whether the current measures provide useful information for decision-makers. The Coordinating Board should discuss these issues with the Legislative Budget Board.

Management’s Response

We agree that we did not meet the two strategies stated in the above performance measures. When we submit our LAR, we will ask for these measures to be changed to non-key measures.

State Auditor’s Follow-Up Comment

Our focus is on the need for measures that provide useful information for decision-makers. We encourage the Coordinating Board to pursue that issue with the Legislative Budget Board.

Chapter 2

Are the Revolving Loan Fund Programs Self-Sustaining?

During fiscal year 2001, the Water Board’s Clean Water and Drinking Water programs and the Coordinating Board’s Student Loan Program were self-sustaining. However, the Coordinating Board had opportunities to improve its collection process for defaulted loans. The Coordinating Board estimates that its uncollectible amount of student loans has increased by over \$1 million for each of the last two years.

TxDOT does not know how much it spent to administer the SIB program. As a result, we could not determine if TxDOT’s SIB program was self-sustaining.

Self-Sustaining

For a revolving loan to be self-sustaining, the administrating agency must collect revenue sufficient to continue to provide loans to qualified applicants. This revenue consists of interest payments and other sources of funding, such as federal grants, bonds, or administrative fees.

The Water Board's Clean Water Program Was Self-Sustaining Because It Has an Administrative Fund Reserve

The Water Board's Clean Water program was self-sustaining during fiscal years 1999 through 2001, primarily because it has an administrative fund reserve (\$8.8 million as of August 31, 2001). According to the Water Board, it uses the reserve fund to balance timing differences between loan commitments and closings. The reserve was the result of additional fees collected in fiscal years 1997 through 1998, before the origination fee was lowered to the current 1.85 percent. (United States Code, Title 33, Section 1383 allows the Clean Water program to draw federal funds for administrative costs. Texas Administrative Code, Title 31, Chapter 375, requires the Clean Water program to charge borrowers a fee to cover administrative costs.) Besides not needing to use federal funding for Clean Water administrative costs, this reserve allowed the Water Board to charge borrowers \$1.7 million less in fees than actual expenses during fiscal year 2001.

The Sustainability of TxDOT's SIB Program Could Not Be Determined

We could not determine whether the SIB program was self-sustaining. TxDOT does not separately track the SIB program's administrative costs, information necessary to determine whether the SIB program is self-sustaining. Instead, administrative costs for the SIB program are included with those of the Funds Management Division. TxDOT estimates that its annual administrative costs are less than \$100,000. If this estimate is correct, then the SIB was self-sustaining in fiscal year 2001.

Subsequent Event

According to TxDOT's "Cash Forecast of the State Highway Fund No. 006," published in late April, 2002, TxDOT's daily cash balance for its State Highway Fund (Fund 6) fell to a low of \$4.1 million in October 2001. (TxDOT tries to maintain a minimum daily balance of \$75 million in this account.) On October 10, 2001, TxDOT requested that districts take steps to delay work on some construction and maintenance contracts until spring of 2002. By limiting new construction, TxDOT hoped to improve the Fund 6 daily cash balance through August 2002.

Even with these steps, there were days each month on which the lowest daily balance was significantly lower than the target. In addition, TxDOT's cash forecasts warned that it would have trouble meeting its obligations without additional inflows by the end of September 2002.

On May 30, 2002, TxDOT's State Infrastructure Bank Revolving Loan Fund (SIB) loaned \$144.7 million to the North Texas Tollway Authority. This loan allowed the North Texas Tollway Authority to pay off an existing loan from Fund 6.

Because this loan occurred after the end of our fieldwork, we did not review details of this transaction, and we do not express an opinion at this time on whether the loan from the SIB to the North Texas Tollway Authority was in compliance with federal and state requirements.

TxDOT is authorized to spend up to two percent of the federal funds contributed to a SIB to pay the reasonable administrative costs of the program (Transportation Equity Act for the 21st Century, Title 1, Subtitle E, Chapter 2, Section 1511[1][1]). According to TxDOT, as of January 2002 federal funds deposited into the SIB program totaled \$170.7 million. Therefore, if TxDOT had known what its

administrative costs were, it could have applied actual costs of up to \$3.4 million of the program funds to pay administrative costs of the SIB program.

Recommendation

TxDOT should track and analyze the SIB program administrative costs separately from other administrative costs, and consider using available federal funds to pay for the SIB program administrative costs.

Management's Response

Administrative costs are estimated to be less than \$100,000 per year and TxDOT has considered and made a decision to not charge these costs to the SIB program. TxDOT has the authority and expects to issue bonds on behalf of the SIB in the future. We understand that if the administrative costs are not charged to the SIB program the credit rating of the SIB program will be enhanced. A stronger credit rating resulting in lower interest rates could result in substantial cost savings over the life of a bond issue. Therefore, it is not necessary to spend additional money to track and analyze these costs.

State Auditor's Follow-Up Comment

After our fieldwork was completed, TxDOT provided us with documentation that indicates that balances are expected to fluctuate widely for the next several years, and the fund may not receive enough in payments in 2004 to make any loans. This suggests to us that the future sustainability of the fund is in question.

Chapter 2.3

The Coordinating Board's Student Loan Program's Balance Of Uncollectible Accounts Has Increased By More Than \$1 Million Per Year Since 1999

The Coordinating Board's Student Loan Program was self-sustaining during fiscal years 1999 through 2001. The Coordinating Board has an opportunity to increase the fund balance by better following its procedures for collecting on defaulted loans.

As of August 2001, the Coordinating Board estimated that the uncollectible balance for the Hinson-Hazlewood College Student Loan Program (Student Loan Program) had increased by over one million dollars for each of the prior two years. (See Table 2.) Since the inception of the program, the Coordinating Board reports having loaned \$1.9 billion, and it estimates that \$30 million may not be collected. According to the Coordinating Board, the

Table 2

Coordinating Board's Cumulative Uncollectible Account Balance	
Fiscal Year	Amount
1999	\$ 28,036,238
2000	\$ 29,103,430
2001	\$ 30,883,165

Source: Higher Education Coordinating Board

Texas Constitution prohibits dismissal of a debt owed to the government. As a result, the Coordinating Board carries on its books all of the defaulted loans since the inception of the program.

One reason for a balance to be uncollectible is that the Coordinating Board does not always follow its procedures for monitoring the repayment status and pursuing payment on loans that are in danger of defaulting. A limited test of case files for defaulted loans showed that the Coordinating Board did not always follow its required procedures.

Recommendation

The Coordinating Board should follow the established due diligence process for all past due loans.

Management's Response

We agree that we should follow program compliance requirements and we do follow them. However, human error does occur. The Coordinating Board will continue to improve procedures for monitoring claims filed with guarantors. Ongoing monitoring and quality control for our processes should identify any irregularities and deficiencies. Management welcomes any opportunities to improve our procedures.

Chapter 3

Are the Agencies Managing the Revolving Loan Fund Programs in Compliance with Laws, Regulations, and Agency Policies?

The Water Board is managing the Clean Water and Drinking Water programs in compliance with laws, regulations, and agency policies. However, it would benefit from formalized policies, procedures, and guidance for its financial operations.

TxDOT should improve its management of the SIB program by ensuring consistency among the terms of the loan agreement, the rules in the Texas Administrative Code, and TxDOT's internal policies and procedures. In addition, the procedures for the SIB program should be formalized.

The Coordinating Board is generally managing the Student Loan Program in compliance with laws, regulations, and agency policies in order to provide loans to eligible students. However, the Coordinating Board does not appear to have regularly evaluated the interest rate for one of its non-guaranteed student loan programs.

Chapter 3.1

The Water Board Complies with Applicable Laws and Regulations, But Has Not Finalized Its Policies and Procedures

The Water Board is managing the Clean Water and Drinking Water programs in compliance with applicable laws, regulations, and agency policies. The Water Board has draft policies and procedures for the Fiscal Services Division, but has not finalized them. Policies and procedures for the Fiscal Services Division would help ensure that division employees perform duties more consistently. The Water Board has experienced a high turnover rate in its accounting and finance positions, which underscores the need for written policies and procedures. The average turnover rate for the past three fiscal years has been 18 percent for the accounting and finance job class, which is higher than the statewide average of 15 percent for the same job class.

Recommendation

The Water Board should formalize written policies and procedures pertaining to the Fiscal Services Division operations.

Management's Response

Policies and procedures pertaining to the Fiscal Services operations are being reviewed and approved.

Chapter 3.2

TxDOT Has Not Ensured That Its Loan Agreement, Its Rules, And Its Policies Are Consistent

Although we found no violations of applicable laws, we identified inconsistencies between the standard loan agreement, the rules published in the administrative code, and actual practice. For example:

- Currently, the Texas Administrative Code (Title 43, Section 6.42[b][3]) requires that projects managed by the applicant must provide an annual audit on project records. However, that requirement is not in the loan agreement, and TxDOT has not received these audits.
- The standard loan agreement states that, at the end of a project, “the State shall use generally accepted accounting procedures to determine the actual cost of the project.” However, TxDOT does not perform close-out audits of these funds, and instead relies on its own set of records related to the projects.

In addition, TxDOT's SIB program lacks formalized, comprehensive procedures. Although TxDOT has developed draft SIB procedures, the procedures are not comprehensive and have not been formalized. TxDOT's internal audit division brought this issue to management's attention in reports dated April 1999 and July 2000. Formalized, comprehensive policies and procedures will help ensure that staff members perform their duties as intended and that management oversees the program

consistently. As of November 2001, there were no approved written procedures to perform the following:

- Review and approve loan applications. (Different divisions, districts, and offices review each loan application before making recommendations to the Transportation Commission.)
- Calculate late payment penalty and interest.
- Monitor and evaluate the SIB program.

Recommendations

- TxDOT should review its standard loan agreement and the rules governing the program in the Texas Administrative Code, to ensure consistency. TxDOT should then conform its process to the rules and the agreement.
- TxDOT should complete, formalize, and implement comprehensive procedures to manage the SIB program.

Management's Response

- *TxDOT agrees with SAO's recommendation to review standard loan agreements and make sure they are in conformity with the rules.*
- *Comprehensive SIB procedures are being completed to ensure consistency.*

Chapter 3.3

The Coordinating Board Has Not Regularly Adjusted Interest Rates

The Coordinating Board is generally managing the Student Loan Program in compliance with laws, regulations, and agency policies in order to provide loans to eligible students. However, the Coordinating Board does not appear to have regularly evaluated the interest rate for one of its non-guaranteed student loan programs.

The Coordinating Board does not have a written methodology for evaluating the interest rates of the non-guaranteed student loan programs. For example, the interest rates for the College Access Loan (CAL) program remained at 9 percent from April 1992 through January 2002, almost 10 years, and the Health Education Loan Program (HELP) remained at 8 percent from January 1995 through December 2001, a period of six years. The federal government regularly adjusts the interest rates for guaranteed loans. (Rates for guaranteed loans ranged from 5.39 percent to 8.19 percent during the years 1999 to 2001.) Texas Administrative Code (Title 19, Part 1, Chapter 21.62[a]) requires that the Coordinating Board commissioner set the interest rate and periodically adjust it as needed.

Recommendation

The Coordinating Board should develop and apply a written methodology for periodically evaluating its interest rates and changing them as appropriate.

Management's Response

We have reviewed interest rates in our program periodically and informally, but have determined that the rates on the bonds did not warrant a lowering of our rates until recently. We will formalize the process for reviewing interest rates before our next General Obligation bond sale, and review them annually.

Chapter 4

Do Decision-Makers Have Accurate, Timely, and Complete Information to Account for and Manage the Revolving Loan Fund Programs?

In fiscal years 1999 through 2001, decision-makers generally had accurate and timely information about the revolving loan fund programs. Based on an information systems questionnaire completed by the three agencies and other audit tests, we determined that controls over the availability, security, integrity, and maintainability of its loan tracking system were generally adequate (see text box). Areas for improvement include:

Information Systems Questionnaire Definitions

- Availability - Information system is available for operation and use.
 - Security - Information system is protected against unauthorized physical and logical access.
 - Integrity - Information system processing is complete, accurate, timely, and authorized.
 - Maintainability - Information system can be updated when required in a manner that continues to provide availability, security, and integrity.
- The Water Board can provide additional assurance on the integrity of information and eliminate duplication of effort by interfacing two internal systems.
 - TxDOT could improve controls over the SIB loan tracking system's integrity and security.
 - The Coordinating Board could eliminate some duplication of effort caused by two internal systems maintaining student loan program performance measure data.

Chapter 4.1

The Water Board's Financial Information System and the General Ledger Accounting System Do Not Interface

The Water Board's Financial Information System (FIS), which tracks loans and bonds, and the general ledger accounting system (Micro Information Products, Inc., or MIP) cannot automatically share data. The systems' inability to share data creates duplicative work. FIS creates accounting entries for all loan, grant, and bond transactions (about 13,000 for fiscal year 2001). FIS transactions must be summarized and entered manually into MIP. In addition to creating duplicative work, manual entries make the information in the systems more susceptible to error than information in fully automated systems. An automated reconciliation process

with requisite controls would provide additional assurance that information in both systems is complete, accurate, and timely.

The two systems used to be compatible. However, the MIP chart of accounts changed, so the MIP codes no longer match the codes in FIS. The Water Board plans to make the systems compatible again.

Recommendation

The Water Board should ensure that its financial and accounting systems (FIS and MIP) are fully integrated and that controls are in place.

Management's Response

The integration of FIS and MIP is under review. As the first step in this process, the MIP chart of accounts is being analyzed for compliance with current reporting requirements, including changes required under GASB 34. Once this is complete, interface of appropriate information and controls over the interface can be implemented.

Chapter 4.2

TxDOT's SIB Tracking System Does Not Automatically Adjust Loans as Necessary and Needs Stronger Access Controls

TxDOT's SIB tracking system is not programmed to make adjustments when borrowers make early payments or must be assessed penalties for late payments. Also, the SIB tracking system currently allows all designated users the same level of access. Specifically:

- TxDOT's SIB tracking system is not programmed to recalculate the amount owed when a borrower makes an early payment. Currently, program personnel manually adjust the loan information in the SIB tracking system when a payment date changes. Program personnel did not properly adjust the amount owed for one of three loans that received an early payment. In this case, program personnel's manual adjustment would have resulted in the borrower overpaying \$7,745 to TxDOT over the life of the loan. Making manual adjustments increases the risk that errors will occur when calculating the amount owed.
- The SIB tracking system is not calculating penalties and interest for late payments. SIB program personnel believed the SIB tracking system was automatically calculating the additional interest. However, it was not programmed to do so. Borrowers have generally repaid their loans on time. We found only 2 instances in which payments were late out of the 33 total SIB loans. TxDOT did not assess penalties in these 2 cases. While the SIB borrower's handbook requires a penalty for payments over 30 days past due, the loan agreements do not always mention penalties for late payments. As a result, it may be difficult for TxDOT to enforce the penalty.

- The SIB tracking system is not programmed to assign users different levels of access. In addition, the system does not record who made a change or when. According to TxDOT, as of October 2001, five individuals had access to the SIB tracking system to revise, add, or delete records. Some of these employees could continue to perform their duties with read-only access. Full access to the files by all users and the inability to determine who made a change creates unnecessary data integrity and security risks.

Recommendations

TxDOT should:

- Program the SIB tracking system to automatically recalculate the amount owed when borrowers pay early.
- Revise the payment schedules based on the latest transaction and inform the borrower of changes.
- Program the SIB tracking system so that it automatically calculates and charges the penalty for late payments.
- Include a late payment clause in all loan agreements.
- Increase security by assigning different levels of access.
- Modify the SIB tracking system to identify the date and user whenever a user changes a record.

Management's Response

- *TxDOT agrees with SAO's recommendations and will make changes to the SIB program to address the early and late payment issues. A late payment clause will also be included in all future loan agreements.*
- *TxDOT will research assigning levels of security for access to the SIB tracking program and recording a date and user when changes are made to the SIB database.*

Chapter 4.3

The Coordinating Board Maintains Duplicate Information in Two Internal Systems

The Coordinating Board's Student Loan Program personnel are creating reports on their own system to report the "Dollar Amount of Outstanding Loans" to the Automated Budget and Evaluation System of Texas (ABEST), rather than using available monthly financial reports generated by the Accounting Department's financial system. Both the program and financial systems calculate the dollar amount of outstanding loans, but they do so for different reporting periods. (The program

system reports by school year and the financial system reports by fiscal year.) In fiscal year 2001, the amounts reported differed by approximately \$13.5 million.

Having two systems perform the same calculation could confuse some users of the information, and it could cause staff members to duplicate their efforts. Student Loan Program staff members could use the amount calculated in the financial system to report to ABEST. In addition, they might be able to use the financial system's calculation for their internal purposes.

Recommendations

The Coordinating Board should:

- Rely on its financial system to calculate the "Dollar Amount of Outstanding Loans" for reporting to ABEST.
- Determine if Student Loan Program personnel can use the dollar amount of outstanding loans from the financial system for their internal purposes.

Management's Response

We will begin using the financial system for reporting to ABEST. We will continue to use our historical report for internal purposes because it breaks down all of our loan portfolios into forty-six different statuses. These statuses help us analyze trends in repayments, delinquencies, deferments and other areas of the loan program.

Objective, Scope, and Methodology

The overall objective was to determine if agencies manage their revolving loan fund programs to comply with laws, meet program objectives, and protect state funds. Specifically, we analyzed functions related to four revolving loan programs in three agencies to determine the following:

- Do agencies manage their revolving programs to ensure that the funds reach citizens and that program objectives are met?
- Are the programs self-sustaining?
- Are agencies managing their revolving loan programs in compliance with applicable laws, regulations, and policies?
- Do decision-makers have accurate, timely, and complete information to account for and manage their revolving loan programs?

The scope of this audit included the Water Board's Clean Water State Revolving Fund and Drinking Water State Revolving Fund, TxDOT's State Infrastructure Bank, and the Coordinating Board's Hinson-Hazlewood College Student Loan Program. Other state revolving loan funds were identified during our risk assessment process, but were not included in our review. They were programs at the Department of Housing and Community Affairs, the Department of Agriculture, and the Comptroller of Public Accounts (see text box).

Our audit methodology included collecting and analyzing loan information and performing selected audit tests and procedures. Audit testing and analysis generally included information for fiscal years 1999, 2000, and 2001. Fieldwork was conducted from August 2001 through December 2001. The audit was conducted in accordance with generally accepted government auditing standards.

Other Revolving Loan Fund Programs Considered

Texas Department of Housing and Community Affairs:

- Housing Trust Fund
- Single-Family Down Payment Assistance Program

Texas Department of Agriculture:

- Loan Guaranty Program
- Direct Loan Program
- Farm and Ranch Finance Program
- Participation Purchase Program
- Young Farmer Guarantee Program

Texas Comptroller of Public Accounts (State Energy Conservation Office):

- LoanSTAR Revolving Loan Fund