



An Audit Report on

The College Access Loan Program at the Higher Education Coordinating Board

- The Coordinating Board has established controls over the College Access Loan Program to ensure that borrowers were eligible, account information was updated, and loan payments were accurately applied.
- The Coordinating Board should review error reports from its Higher Education Loan Management System within a specified time period to ensure that accounts are updated in a timely manner.

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

The Higher Education Coordinating Board (Coordinating Board) administered the College Access Loan Program (CAL) in accordance with applicable criteria. It established controls to ensure that borrowers met CAL eligibility requirements and that loan accounts were updated accurately. However, the Coordinating Board should specify a time period to review error reports from its Higher Education Loan Management System to ensure that accounts are updated in a timely manner.

• *Audit Objective* | p. 9

This audit was conducted in accordance with Texas Government Code Sections 321.013 and 321.0132.

MEDIUM

ADMINISTRATION OF CAL

The Coordinating Board established controls for loan applications and administered loan payments properly; however, loan accounts were not always updated in a timely manner.

[Chapter 1 | p. 3](#)

LOW

INFORMATION TECHNOLOGY

The Coordinating Board effectively maintained the completeness, integrity, and availability of CAL data.

[Chapter 2 | p. 7](#)

LOW

PRIOR AUDIT RECOMMENDATION

The Coordinating Board fully implemented corrective action in response to a recommendation in a prior audit report.

[Chapter 3 | p. 8](#)

Summary of Management Response

Auditors made a recommendation to address the issues identified during this audit, provided at the end of Chapter 1 in this report. Coordinating Board management agreed with the recommendation.

Ratings Definitions

Auditors used professional judgment and rated the audit findings identified in this report. The issue ratings identified for each chapter were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

PRIORITY: Issues identified present risks or effects that if not addressed could *critically affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.

HIGH: Issues identified present risks or effects that if not addressed could *substantially affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.

MEDIUM: Issues identified present risks or effects that if not addressed could *moderately affect* the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

LOW: The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks *or* effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

For more on the methodology for issue ratings, see [Report Ratings](#) in Appendix 1.



MEDIUM

Chapter 1 Administration of CAL

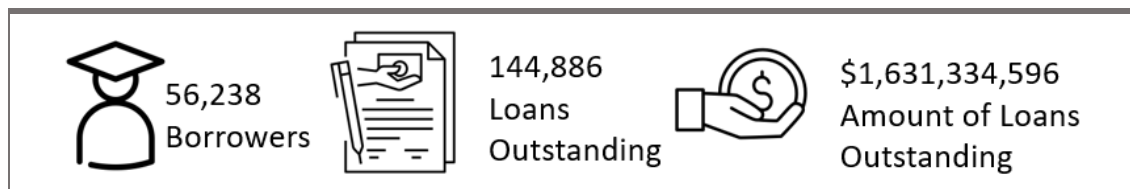
The Higher Education Coordinating Board (Coordinating Board) administered the College Access Loan Program (CAL) in accordance with applicable criteria. It also established controls to ensure that borrowers met CAL eligibility requirements and that loan accounts were updated accurately. However, the Coordinating Board should specify a time period to review error reports from its Higher Education Loan Management System (HELMS) to ensure that accounts are updated in a timely manner.

The Coordinating Board established controls for loan applications and administered loan payments properly.

The Coordinating Board implemented CAL in 1988 under the Hinson-Hazlewood College Student Loan Program. Loans are awarded based on a borrower’s need, as determined by the cost of attendance and any other financial aid that the borrower was eligible to receive. Figure 1 shows the number of borrowers and loans outstanding and the amount of those loans for CAL as of November 30, 2022. (See Appendix 2 for additional CAL data.)

Figure 1

CAL Key Statistics



Source: Coordinating Board, as of November 30, 2022.

Loan Applications. Borrowers and cosigners, if applicable, complete the loan application in the HELMS portal, HELMSNet. The Coordinating Board has established controls in HELMSNet to ensure that borrowers are eligible for loans (see text box for eligibility requirements). In addition, HELMSNet prevents borrowers who have defaulted on a loan through the Coordinating Board from completing a new application. Before an application can be processed, HELMSNet controls require that:

- Higher education institutions certify borrower enrollment status, cost of attendance, and other financial aid awarded.
- Required loan disclosures are provided to borrowers.

Loan Payments. For all 25 loan payments tested, the Coordinating Board accurately applied loan payments in accordance with applicable criteria. For all 23 of those 25 loans tested that had a repayment schedule, the Coordinating Board appropriately billed amounts based on the repayment schedule and interest rate. Additionally, controls over loan payments in HELMS ensured that payments were applied in the appropriate order (fees, interest, and principal) and that automated payments were applied to loans.

CAL Eligibility Requirements

Borrowers must:

- Be classified by a higher education institution as a Texas resident.
- Be enrolled at least half-time at an eligible Texas institution.
- Meet satisfactory academic progress requirements for the Texas institution.
- Provide a statement with the estimated cost of attendance and have insufficient resources.
- Provide two references at different addresses.
- Receive a favorable credit evaluation or provide a qualified cosigner.
- Sign a promissory note.

Sources: Texas Education Code, Section 52.32; and Texas Administrative Code, Title 19, Rule 22.46.

However, loan accounts were not always updated in a timely manner.

For 59 of 60 loan accounts tested, the Coordinating Board updated loan accounts based on changes in school enrollment or repayment status accurately. However, loan accounts that required manual updating were not always resolved in a timely manner. Specifically, for 1 (2 percent) of 60 loan accounts tested, the loan account was in an incorrect status due to a system issue and was not appropriately updated for 336 days.

Additional analysis identified that a system issue with a loan account generates an error report that requires review by Coordinating Board staff. However, the Coordinating Board did not have a documented requirement for timely review

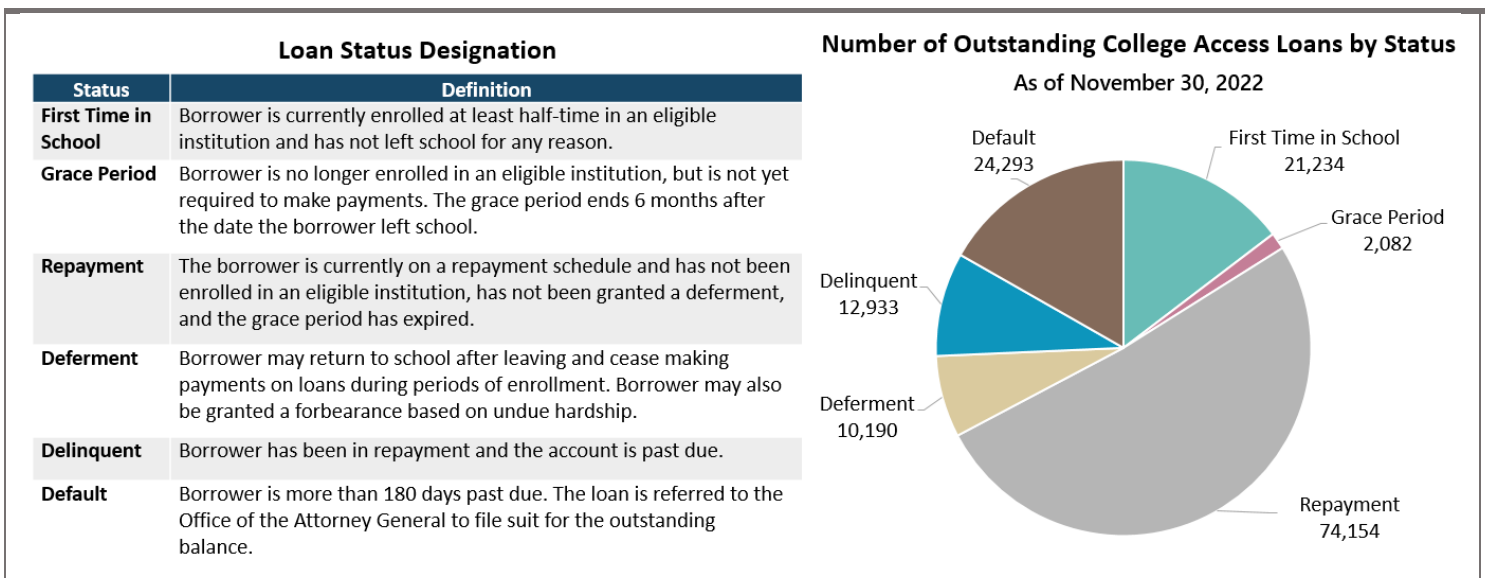
and resolution of loans on the error report. Auditors identified 68 (31 percent) of 221 loan accounts that had been on an error report for at least 318 days that the Coordinating Board had not resolved.

Reviewing and resolving errors routinely helps ensure that loan accounts are up to date and that repayment schedules are established as required.

Figure 2 identifies loan account statuses and the total number of loans outstanding by status as of November 30, 2022.

Figure 2

CAL Loans by Status



Source: Coordinating Board.

Recommendation

The Coordinating Board should develop, implement, and document a requirement to review error reports from HELMS within a specified time period to ensure that accounts are updated timely.

Management's Response

Management agrees with the finding. We have reviewed system-generated error reports to ensure reports have been appropriately assigned for review on a timely basis. Other than the RPGEN error report identified in this audit finding, no other error reports were identified as not being reviewed timely by staff.

Regarding the error report specifically addressed in this audit report (RPGEN), the RPGEN error report generates daily after each batch run. We have assigned staff (Customer Service Representative IV) in Account Services to work this error report on Tuesday and Thursday of each week and have created a separate network location to track each report is worked, assigning management oversight to ensure the error reports have been worked in a timely manner.

Person Responsible for Implementation: Student Financial Aid Program
Division Manager

Date of Implementation: March 3, 2023

LOW

Chapter 2 Information Technology

The Coordinating Board effectively maintained the completeness, integrity, and availability of CAL data.

For the three key information technology systems audited (see text box), the Coordinating Board:

- Implemented and maintained information security policies, standards, and procedures that met or exceeded regulatory and legal requirements.
- Appropriately limited access to current employees whose job duties required the access.
- Implemented controls to manage changes made to HELMS and HELMSNet.

Key Systems

The Coordinating Board uses the following information systems to administer CAL:

- The Higher Education Loan Management System (HELMS) is used to service loans and maintain borrower data.
- HELMSNet is a Web portal used by borrowers, universities, and cosigners to apply and access accounts.
- Laserfiche is used to store electronic copies of documentation supporting borrower account information in HELMS.

Source: Coordinating Board.

LOW

Chapter 3 Prior Audit Recommendation



The Coordinating Board fully implemented¹ corrective action in response to a recommendation in a prior audit report.

The recommendation in Chapter 3-B of [An Audit Report on Financial Management Processes at the Higher Education Coordinating Board](#) (SAO Report No. 20-035, June 2020) stated:

The Coordinating Board should verify that all purchasing personnel involved in its contracts, including bid evaluation team members, sign forms that contain all the required disclosures prior to the award of contracts.

For the one contract tested², the Coordinating Board obtained the required forms in accordance with Texas Government Code, Chapter 2262; and the *State of Texas Procurement and Contract Management Guide* (Version 2.0).

¹ Fully implemented means the successful development and use of a process, system, or policy to implement a recommendation.

² Auditors selected a nonstatistical sample from a population of five active contracts valued at more than \$100,000 that were (1) executed after the date when the Coordinating Board stated that it would implement corrective action and (2) were not contracts with another state agency. The sample was not necessarily representative of the population; therefore, it would not be appropriate to project those test results to the population.



Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Higher Education Coordinating Board (Coordinating Board) has processes and related controls to help ensure that it administers the College Access Loan Program (CAL) in accordance with applicable requirements.

Scope

The scope of this audit included (1) CAL balances outstanding as of November 30, 2022, (2) CAL payments between September 1, 2021, and November 30, 2022, and (3) following up on the implementation status of a recommendation from *An Audit Report on Financial Management Processes at the Higher Education Coordinating Board* (SAO Report No. 20-035, June 2020). The scope also included a review of significant internal control components related to the administration of CAL.

The following members of the State Auditor's staff performed the audit:



- Jennifer Brantley, MS, CPA (Project Manager)
- Armando S. Sanchez, MBA (Assistant Project Manager)
- Charlotte Carr, M.Ed.
- Joe Kozak, CPA, CISA
- Thanh Le, MBA
- Jessica McGuire, MSA
- Robert G. Kiker, CFE, CGAP (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

Methodology

We conducted this performance audit from September 2022 through April 2023 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. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Coordinating Board management for consideration.

Addressing the Audit Objective

During the audit, we performed the following:

- Determined whether the Coordinating Board had processes and related controls to administer CAL in accordance with Texas Education Code, Chapter 52; Texas Administrative Code, Title 19, Chapter 22; and the Coordinating Board’s documented procedures, by:
 - Interviewing Coordinating Board management and staff to gain an understanding of the processes and controls related to the administration of CAL.
 - Testing nonstatistical random samples of loan accounts and loan repayments. A nonstatistical random sample is representative. This sample design was chosen so the sample could be evaluated in the context of the population. The sample results may be projected to the population, but the accuracy of the projection cannot be measured. The following samples were selected:
 - 60 loan accounts, from a population of 233,954 loan disbursements, to determine if loans were maintained with current and accurate records.
 - 25 loan payments that customer service representatives entered into the Higher Education Loan Management System (HELMS), from a population of 85,826, to determine if the payment was applied to the correct loan account and the amounts were accurate.

- Testing controls in information systems over the (1) borrower application process, (2) changes in loan status, and (3) automated payment processes to determine if they were adequately designed, in place, and operating effectively.
- Determined whether the Coordinating Board had effective controls over information systems in accordance with Texas Government Code, Chapter 2054; Texas Administrative Code, Title 1, Chapter 202; the Department of Information Resources' *Security Control Standards Catalog* (Version 1.3); and the Coordinating Board's information technology policies and procedures by:
 - Testing user access controls for the HELMS, HELMSNet, and Laserfische applications to determine if that access was restricted appropriately.
 - Testing controls for HELMS and HELMSNet to determine if changes were adequately managed.
- Determined if the Coordinating Board implemented the recommendation made in Chapter 3-B of *An Audit Report on Financial Management Processes at the Higher Education Coordinating Board* (SAO Report No. 20-035, June 2020).

Data Reliability and Completeness

To determine data reliability and completeness, auditors (1) reviewed data queries, (2) analyzed the populations for reasonableness and completeness, and (3) conducted testing of HELMS and HELMSNet user access and certain application controls for HELMS and HELMSNet. Auditors determined that the following data sets were sufficiently reliable and complete for the purposes of the audit:

- Population of loan data in HELMS as of November 30, 2022.
- Population of CAL payment data in HELMS from September 1, 2021, to November 30, 2022.

Report Ratings

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Appendix 2

CAL Data

Figure 3 shows the College Access Loan Program (CAL) balances and number of loans by loan status as of November 30, 2022.

Figure 3

Loans by Balance and Status

Loan Status	Total CAL Balances ^a	Number of Outstanding Loans
First Time in School	\$ 300,613,891	21,234
Grace Period	\$ 32,830,184	2,082
Repayment	\$ 761,937,383	74,154
Deferment	\$ 132,246,547	10,190
Delinquent ^b	\$ 403,706,592	37,226
Totals	\$1,631,334,596	144,886

^a Total balances include principal, interest, and fees. Total balances do not sum exactly due to rounding.

^b Delinquent loans include loans that are in default.

Source: Coordinating Board, as of November 30, 2022.

Figure 4 shows the average outstanding balance and number of loans per borrower, the largest outstanding loan balance, and the most loans for one borrower as of November 30, 2022.

Figure 4

Outstanding Balance and Number of Loans per Borrower

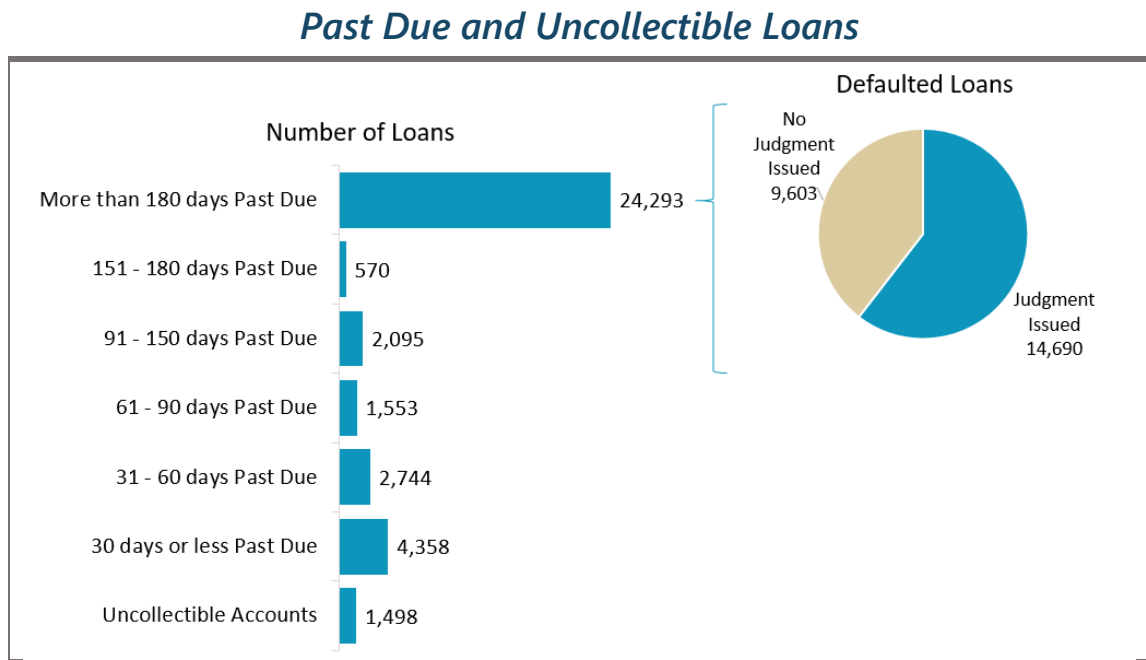
Outstanding Balance	Number of Loans
 <p>Average per Borrower \$29,008 Largest \$365,137</p>	 <p>Average per Borrower 2.58 Most for One Borrower 20</p>

Source: Coordinating Board, as of November 30, 2022.

Figure 5 shows the number of loans based on the days past due and the number of loans that were uncollectible as of November 30, 2022. Loans become uncollectible when the borrower incurs a permanent disability or dies.

Loans that are more than 180 days past due are referred to the Office of the Attorney General so that a suit may be filed to collect the outstanding balance. Figure 5 identifies the number of loans for which a judgment to collect the outstanding balance had been issued.

Figure 5



Source: Coordinating Board, as of November 30, 2022.

Appendix 3

Related State Auditor's Office Report

Figure 6

Report Number	Report Name	Release Date
20-035	<u>An Audit Report on Financial Management Processes at the Higher Education Coordinating Board</u>	June 2020



Copies of this report have been distributed to the following:

Legislative Audit Committee

The Honorable Dan Patrick, Lieutenant Governor, Joint Chair

The Honorable Dade Phelan, Speaker of the House, Joint Chair

The Honorable Joan Huffman, Senate Finance Committee

The Honorable Robert Nichols, Member, Texas Senate

The Honorable Greg Bonnen, House Appropriations Committee

The Honorable Morgan Meyer, House Ways and Means Committee

Office of the Governor

The Honorable Greg Abbott, Governor

Higher Education Coordinating Board

Members of the Higher Education Coordinating Board

Dr. Harrison Keller, Commissioner of Higher Education



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