

**Agenda Item:** II.F.

**DATE:** January 26, 2012

**SUBJECT:** 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.

**Audit Committee Meeting December 2, 2011**

The meeting was held with all five members present: Claude Pressnell, Chair; Robert White, Sharon Hayes, Sammy Stuard, and Greg Turner. THEC and TSAC staff members also participated. This meeting served as an orientation and working session to discuss items in detail.

The background and responsibilities of the audit committee and the role of the internal auditor were discussed. Staff provided overviews of the THEC and TSAC divisions. Staff reviewed with the committee the draft of the TSAC FY11 financial statements and the work programs for both agencies.

The accounting issue related to averted claims in the loan FFELP program was discussed. The analysis is now complete and the final request to transfer funds from the Federal Fund to the Operating Fund was sent to the USDOE. Below is a summary of the averted claims by year.

FY05	\$2,038,264.81	request being reviewed by USDOE
FY06	2,629,871.94	request being reviewed by USDOE
FY07	2,015,988.81	request being reviewed by USDOE
FY08	2,519,166.25	Approved
FY09	3,782,145.43	Approved
FY10	1,751,007.93	Approved

Action items included the approval of the minutes from the November 18, 2010 Audit Committee meeting. These are attached as an information item.

The state’s Financial Integrity Act requires an annual risk assessment to be submitted by December 31<sup>st</sup> of each year to the Department of Finance and Administration and the Comptroller of the Treasury. The assessment due December 31, 2011 was prepared by management and submitted to the audit committee prior to the meeting for review. At the audit committee meeting, the specifics of the assessment were discussed. The committee voted to approve the assessment.

**Tennessee Higher Education Commission/Tennessee  
Student Assistance Corporation  
Audit Committee Meeting Minutes  
November 18, 2010**

The THEC/TSAC Audit Committee meeting was convened at the end of the THEC work session with members Katie Winchester, Chair, Robert White, and Cathy Pierce in attendance. The agenda, minutes from the April 29, 2010 meeting, and the THEC/TSAC Audit Committee Report were provided to all members of the committee in advance of the meeting and were included in the THEC member notebooks.

Dr. Rhoda welcomed Cathy Pierce as the newest member of the committee. She is the Commissioner of Finance and Administration designee to the TSAC board.

Katie Winchester called the meeting to order.

Approval of Minutes, April 29, 2010

Ms. Winchester called for a motion to approve the minutes which had been sent to the audit committee via email. Robert White made a motion to approve the minutes. Cathy Pierce seconded the motion; the motion was duly adopted.

Audit Committee Charter – Status of charter revisions

Ms. Winchester called on Ann Collett, Director of Internal Audit, to present. The Commission had approved revisions at the July 29, 2010 meeting. At the TSAC Board meeting in September, an amendment suggested by Claude Pressnell was approved by the Board to add the words “with representation from both organizations” so that the sentence would read “The Audit Committee shall consist of five members with representation from both organizations who are generally knowledgeable in financial, management, and auditing matters.” The charter revision was submitted to the Comptroller’s office and has been approved.

Annual risk assessment

Ms. Winchester noted that the assessment had been submitted to the audit committee members for their review. Ms. Collett discussed the process of completing the assessment. Part of the process of the assessment is for the agencies to do their own analysis, adding items specific to the agencies. Jason Cavender asked staff to review their prior year assessments and modify as needed. The information was reviewed and compiled. Ms. Collett stated she had been in touch with each committee member about the assessment. Dr. Pressnell and Mr. Murrah, members who were not present had indicated they did not have any additional comments or questions.

Ms. Winchester noted the importance of the risk assessment and that staff and Ms. Collett had satisfied the audit committee’s questions during this process. Ms. Winchester called for a motion to approve. Ms. Pierce made a motion to approve the assessment. Robert White seconded the motion; the motion was duly adopted.

TSAC Federal Family Education Loan Program (FFELP)–Status of averted claims review

Ms. Collett noted that this is an issue discussed with the committee previously. This involves an accounting issue going back to a practice in FY05. Ms. Collett explained the Federal and Operating funds, the process of default claims paid to lenders, and why funds would be returned to TSAC. FY 09 was completed first. TSAC has received approval from the USDOE to transfer \$3,782,145.43 to the Operating Fund.

Requests have been submitted to USDOE to transfer \$4,270,174.18 for FY08 and FY10. Ms. Collett had submitted a report on each of those years to the audit committee, explaining the process used to reach concurrence with the fiscal staff on the amounts. The amount of supporting documentation was discussed with the anticipation that the review by USDOE will not take as long for these and the remaining years.

Ms. Collett added that after all the years have been completed she will do a final report that will include management's comments.

Division of State Audit – Status of TSAC Financial and Compliance Audit  
Auditors are conducting their final review of the report for FY09. The committee will be notified if an exit conference is scheduled. The state's Single Audit Report for FY09 was released in August and included the two findings previously discussed. These will be in the FY09 TSAC report. Auditors are currently working on the FY10 audit.

Other

Dr. Rhoda discussed the makeup of the audit committee and how the numbers will shift back and forth between three and two representatives from THEC and TSAC. He stated that Jack Murrah has resigned from the Commission effective December 1 and that Sammy Stuard, a new TSAC board member has agreed to serve on the audit committee.

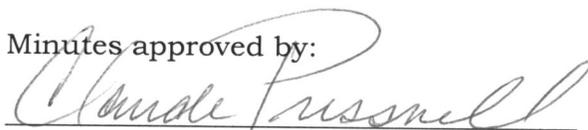
Ms. Collett reported she had followed up with the Comptroller's office on the frequency of audit committee meetings and they confirmed that the wording in the charter of at least one meeting a year was adequate. Ms. Collett also provided a handout on conducting meetings via conference call.

Adjournment

Ms. Winchester asked if there were any other issues that need to come before the audit committee. Being none, the meeting was adjourned.

Minutes prepared by Ann Collett

Minutes approved by:



Claude Pressnell, THEC/TSAC Audit Committee Chair