

Agenda Item: II.C.

DATE: January 31, 2013

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 Commission approved the merging of the THEC and TSAC audit committees on July 24, 2008.

Audit Committee Meeting December 3, 2012: The meeting was held with all members represented:

Claude Pressnell, Chair
Sammy Stuard
Greg Turner
Robert White, via conference call
Sharon Hayes, via conference call

The minutes from the December 2011 Audit Committee meeting were approved. These are attached as an information item.

The state’s Financial Integrity Act 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. The assessment due December 31, 2012 was prepared by staff and submitted for review to the audit committee prior to the meeting. At the meeting, the specifics of the assessment were discussed. The committee voted to approve the assessment.

Staff reviewed with the committee the draft of the TSAC FY12 financial statements and the work programs for both agencies.

Updates were provided on external audits including the USDOE review of FFELP, the state financial and compliance audit of TSAC for FY12, and the upcoming performance audits of THEC and TSAC.

Members were provided an opportunity to ask questions on internal audit reports previously received.

Sunset Performance Audit: Staff will provide an update on this process.

**Tennessee Higher Education Commission/Tennessee
Student Assistance Corporation
Audit Committee Meeting Minutes
December 2, 2011**

The THEC/TSAC Audit Committee meeting was convened at 10:00 a.m. in the THEC boardroom with all five members present: Claude Pressnell, Chair, Robert White, Sammy Stuard, Sharon Hayes and Greg Turner.

Dr. Pressnell called the meeting to order and introductions were made. In addition to regular audit committee business this meeting served as an orientation workshop to learn more about everyone's roles as well as more about THEC and TSAC. Dr. Richard Rhoda provided opening comments and stressed the importance of the audit committee.

Adoption of agenda

Dr. Pressnell called for adoption of the agenda. Mr. Stuard made a motion to accept the agenda. Ms. Hayes seconded the motion. The motion was adopted.

Approval of Minutes, November 18, 2010

Dr. Pressnell called for a motion to approve the minutes which had been sent to the audit committee via email and were included in the audit committee notebook. Mr. Stuard made a motion to approve the minutes. Greg Turner seconded the motion; the motion was duly adopted.

Responsibilities of the Audit Committee and Role of Internal Audit

Ann Collett, Director of Internal Audit, provided a history of the combining of the THEC and TSAC audit committees in July 2008. She covered points in the State of Tennessee Audit Committee Act of 2005 and the Audit Committee Charter. Ms. Collett indicated these provide a broad framework of the audit committee responsibilities. Dr. Pressnell stressed the importance of the review of the annual risk assessment and Ms. Collett indicated this is the committee's way of reviewing the agencies' internal controls.

Ms. Collett stated that part of her role as well as other staff members is to keep the audit committee informed of important events. Ms. Collett discussed the internal audit plan and that her role is often that of consultant.

Ms. Collett discussed the means to communicate to staff the responsibility to prevent, detect and report allegations of fraud, waste, and abuse, including the pamphlet, letter from the audit committee and the website.

Organizational Information

Russ Deaton discussed the THEC organization chart and the roles of the different divisions. Descriptions of the programs administered by THEC were in the audit committee notebooks. Dr. Rhoda gave an historical overview of the makeup of THEC.

Peter Abernathy reviewed the TSAC organization chart. The notebooks also contained descriptions of the TSAC programs. He indicated that TSAC's federal loan portfolio is about \$3.5 billion, with 600,000 loans and 250,000 borrowers. The current status of the loan program and the effect on TSAC due to the federal law change to only direct loans effective July 1, 2010 was discussed. Loans continue to be rehabilitated, consolidated, and bank claims paid. Mr. Abernathy explained the Voluntary Flexible Agreement presented to the U.S. Department of Education.

Dr. Rhoda reported that in a couple of weeks TSAC will begin to look at the TSAC mission. The Lottery scholarship program has changed things a lot over the years. He discussed the roles of both TSAC and THEC and how they often work together. An ad hoc committee will be formed to conduct this review.

Financial Information

Jason Cavender presented financial information for both THEC and TSAC, describing how they are separate entities. TSAC as a corporation and component unit of the state has separate financial statements that are reported in the state's comprehensive annual financial report (CAFR). THEC's information is part of the education fund. The budget work programs for FY2011-2012 for both agencies were reviewed. An overview of the TSAC financial statements was made. Ms. Collett explained the details of the presentation for the state's CAFR.

Ms. Collett and Mr. Cavender also covered the FFELP averted claims issue discussed in other meetings and answered committee member questions related to this project. The reviews of the transactions involved are complete. The final request is being submitted to the USDOE.

Dr. Pressnell clarified the differences in the FFELP Operating and Federal Funds and their allowable uses and discussed the process for the TSAA reserves.

Annual risk assessment

Ms. Collett presented information on the state law requiring an annual risk assessment and some history on prior assessments. The assessment had been submitted to the audit committee members for their review. Ms. Collett discussed the process the offices used for completing the assessment. Ms. Collett and Mr. Cavender covered the areas that had been added or modified during the assessment and answered committee member questions. Dr. Pressnell explained the responsibility of the members to understand and approve the assessment. He called for a motion. Ms. Hayes made a motion to approve the assessment. Mr. Turner seconded the motion. The motion was adopted.

Other

Mr. Abernathy provided the details of the issue previously reported to the TSAC board related to the ineligibility of the Art Institute of Tennessee-Nashville to

receive lottery awards. All other institutions have been reviewed to ensure they still meet the eligibility criteria.

Non-public executive session

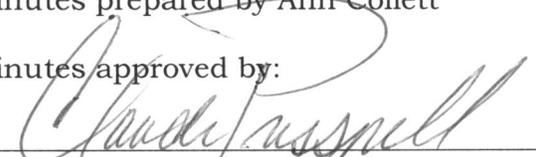
Items in draft status were discussed.

Adjournment

Final comments were made and the meeting was adjourned at 2:00 p.m.

Minutes prepared by Ann Collett

Minutes approved by:

A handwritten signature in cursive script, appearing to read "Claude Pressnell", is written over a horizontal line.

Claude Pressnell, THEC/TSAC Audit Committee Chair