Texas Higher Education Coordinating Board
Austin, Texas

Grayson County College

Independent Accountant's Report
On Applying Agreed-Upon Procedures
November 23, 2010

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Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Texas Higher Education Coordinating Board
Austin, TX

We have performed the procedures in the attached Schedule A, which were agreed-to by the Texas Higher Education Coordinating Board (THECB), solely to assist you in evaluating Grayson County College's (GCC) compliance with the American Recovery and Reinvestment Act (ARRA) grant funding policies and procedures. This agreed-upon procedures engagement was conducted in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of THECB. Consequently, we make no representation regarding the sufficiency of the procedures described in the attached Schedule A, either for the purpose for which this report has been requested, or for any other purpose.

The agreed-upon procedures and the results are listed in the attached Schedule A.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the accounting records of GCC. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the management of THECB and is not intended to be, and should not be, used by anyone other than those specified parties.

Clifton Gunderson LLP

Austin, Texas
November 23, 2010

Offices in 17 states and Washington, D.C.

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Schedule A: Schedule of Agreed-Upon Procedures and Results

Procedure Step 1:
Describe the specific projects or activities the entity supported with THECB ARRA grant funds. State the amount of funds to be spent by category and any performance measures (such as hours worked, etc.) specified in the grant agreement.

Results of Step 1:
GCC used the grant funds to pay salaries for seven full-time faculty members. Its grant agreement with THECB states that the grant award is worth $ 122,400.00, and the total amount is to be used for Working Capital – Personnel. The performance measure listed is for hours worked in support of the jobs created/retained calculation THECB must make.

Procedure Step 2:
List any subawards the grantee has made using THECB ARRA grant funds.

Results of Step 2:

GCC did not make any subawards. Therefore, we are unable to complete the procedures for Step 2.

Procedure Step 3:
Fiscal and Programmatic Oversight:

a. Verify that the entity has written procedures to ensure that it complies with the requirements of the Cash Management Improvement Act (CMIA).
b. Verify that the entity's financial recordkeeping system provides for the segregation of THECB ARRA grant funds from other sources of funding.
c. Has the THECB provided guidance to the entity regarding the reimbursement of THECB ARRA grant funds? If so, has the entity incorporated this guidance into its written policies and procedures in some fashion?
d. Determine if the entity has written procedures to ensure compliance with the period of availability of federal funds requirements.
e. Reconciliations:
    i. Does the entity have written procedures to ensure that reconciliations of financial status reports to supporting documentation take place?
    ii. Select two monthly/quarterly account reconciliations.
    iii. Verify account reconciliations are performed in a timely manner (one week for monthly and two weeks for quarterly) and reconciliations are reviewed and approved.
    iv. Verify reconciling items are identified, investigated and resolved in a timely manner (one week for monthly and two weeks for quarterly).
    v. Verify that reports from the accounting system exist to support each balance for these account reconciliations.
    vi. Verify that financial status reports are supported by documentation that reconciles to the general ledger and monthly reimbursement vouchers.

f. Comparison of Data:
   i. Verify whether the entity produces reports, such as comparison of budget to actual, to ensure that THECB ARRA grant funds will be spent within the grant period in accordance with the approved schedule and budget, and provides them to appropriate management for review on a timely basis.
g. Obtain a copy of the entity's most recent single audit report and:
   i. Describe any significant or material internal control weaknesses or other findings.
   ii. Describe what actions entity management asserts it is taking to address those findings.

Results of Step 3: Fiscal and Programmatic Oversight:

a. At the time of the review, GCC did not have written procedures to ensure that it complies with the requirements of CMIA.
b. We verified that GCC's financial recordkeeping system provides for the segregation of THECB ARRA grant funds from other sources of funding but that the ARRA grant funds were recorded as general state appropriations at the time of the review and not segregated. GCC staff indicated that they would be making reversing entries in their general ledger to properly account for ARRA grant funds amongst their other restricted accounts in accordance with federal requirements. GCC has a financial system of record that requires separate tracking numbers for grant funds that allows for separate reporting of grant funds to ensure that the funds are expended in accordance with the time period required and in the amount that was budgeted according to the grant award, but they were not used when accounting for the ARRA grant.
c. THECB has provided guidance to GCC regarding the reimbursement of THECB ARRA grant funds. This guidance can be found on its website at: www.thecb.state.tx.us/ARRA. GCC did not incorporate this guidance in its policies and procedures for tasks to be performed when requesting, budgeting, receiving, and expending federal grant monies.
d. We reviewed GCC's written procedures and found that these procedures are not designed to ensure compliance with the period of availability of federal funds requirements.
e. We:
   i. Found that GCC did not have written procedures in place for periodic reconciliations of financial status reports to supporting documentation, but did perform these reconciliations.
   ii. Selected reconciliations for the months of March and June of 2010 for testing.
   iii. Verified these reconciliations were performed, reviewed, and approved in a timely manner. Periodic reconciliations were performed on a monthly basis when the reimbursement requests were submitted to the THECB. The $122,400 grant award was made in October of 2009, the money was expensed by GCC from January to May of 2010, and GCC was reimbursed by THECB on a monthly basis.
   iv. Verified that reconciling items are identified, investigated, and resolved in a timely manner.
   v. Verified that reports from the accounting system exist to support each balance for the account reconciliations.
   vi. Verified that financial status reports are supported by documentation that reconciles to the general ledger and monthly reimbursement vouchers.

f. We verified that GCC produces monthly budget reports to ensure that grant funds will be spent within the grant period in accordance with the approved schedule and budget, and provides them to appropriate management for review on a timely basis. GCC produced monthly status reports that it submitted to THECB which tracked the total amount of the grant, the amount reimbursed to date, and the current period activity.
g. We obtained a copy of the entity's most recent single audit report that was released as a part of the 2009 Combined Annual Financial Report. No significant or material internal control weaknesses or other findings were reported.

Procedure Step 4:
Subawards: If the organization has provided subawards to other entities in support of the THECB ARRA grant award:

a. Determine whether the entity has written procedures to verify the eligibility of sub-recipients.
b. Determine whether all applicable federal laws and grant terms were included in the sub-award grant contract.
c. Determine if the entity established written monitoring procedures to cover this tier of responsibilities and compliance.
d. Test to determine if subaward monitoring has taken place in accordance with those procedures.

Results of Procedure Step 4:
GCC did not make any sub-awards and we were therefore unable to complete Procedure Step 4.

Procedure Step 5: Testing of purchases of goods or services:
If the entity has made purchases (or goods or services):
a. Verify whether the entity has written procedures to:
    i. Ensure compliance with relevant federal and state procurement and contracting laws and regulations.
    ii. Ensure that activities are allowable.
    iii. Ensure that costs are allowable.
    iv. Ensure that the purchases comply with procurement standards for suspension and debarment.
    v. (If applicable) Ensure that the purchases comply with real property acquisition and relocation assistance requirements.
    vi. (If applicable) Ensure that the purchases comply with Buy American provisions of the ARRA law.
    vii. (If applicable) Ensure that vendors are compliant with the provisions of the Davis-Bacon Act.
a. Select a sample of five expenditure transactions for each category of purchases (by budget line item).
b. For each budget line item sample, test the following:
    i. Is the expenditure allowable (as an activity and/or cost) under federal guidelines?
    ii. Is the expenditure in accordance with grant provisions?
    iii. Is it recorded in the proper accounting period (the period in which the transaction occurred)?

iv. Is it recorded to the correct account and program?
v. Is the transaction described in sufficient detail to permit the proper classification?
vi. Is documentation maintained to permit the tracing of funds to a level of detail that establishes that the funds have been used in compliance with grant requirements?
vii. If the expenditure was paid for out of multiple sources of funds, are the sources adequately identified for each fund application?
viii. If Buy American provisions apply, was the expenditure made in accordance with these provisions?
ix. Note any exceptions identified during testing.

c. If the entity has purchased inventory or equipment:
   i. Verify that the entity has written procedures to ensure that it:
      1. Maintains adequate property records (description, acquisition information, cost, estimated useful life, depreciation, location, disposition (condition, sale records, etc.),
      2. Safeguards against loss, theft, or damage,
      3. Valuates the items properly, and
      4. Keeps items in good working condition through repair and maintenance.
   ii. Obtain an inventory report for all inventory or equipment purchased with THECB ARRA grant funds.
   iii. Select 10 items (or the population if less than 10) and verify that the items are located where the inventory report indicates.

Results of Procedure Step 5:
GCC did not purchase any goods or services, and we therefore were unable to perform the procedures in Step 5.

Procedure Step 6: Testing of salaries
If the entity has used THECB ARRA grant funds to pay salaries, select a sample of 10 personnel (or the population if less than 10) for two pay periods and verify that these personnel worked sufficient hours to earn the salaries paid for with THECB ARRA grant funds.

Results of Procedure Step 6:
We tested all seven personnel whose salaries were funded by the THECB ARRA grant funds for all pay periods for two months. We found that the amounts paid to all seven employees paid with ARRA grant funds agreed to the amounts reported to THECB. These salaries were paid to adjunct faculty members who taught classes during the spring semester of 2010. Faculty members were paid during the months of January through May of 2010 and we tested January and March 2010.

We verified that personnel worked sufficient hours to earn the salaries paid with THECB ARRA grant funds by matching the number of fall and spring lecture hours for which the faculty members were responsible to the Spring 2010 printed course schedules. We reviewed supplementary documentation from the employment contracts and grade reports which included information on any laboratory sections or other office hours to be worked as part of the classes.

Procedure Step 7: Verify monthly performance reports

Test of Monthly Performance Reports:

a. Select the two most recent monthly performance reports for testing.
b. Verify that sufficient documentation exists to support the actual hours worked as reported in those performance reports.

Results of Procedure Step 7:

We selected the monthly performance report from March and April of 2010 submitted by GCC to the THECB for testing. Although all staff worked sufficient hours to earn the salaries for which they were paid with ARRA grant funds, we found that GCC over-reported the number of hours worked reflected in these performance reports. Instructors are not paid by the hour, but rather based on a set amount for each class taught and then pro-rated over each month. GCC personnel thus had to calculate the number of hours worked to report to THECB. In March of 2010, GCC reported 1,638 hours worked to THECB. Then in April of 2010, they reported 2,478. According to GCC's methodology, both months should have reported 1,560 hours worked. This error was due to a calculation error on the part of GCC personnel.

Procedure Step 8: Verify financial reports:

Verify financial reports:

a. Select the two most recent financial reports to THECB for testing.
b. Verify that sufficient documentation exists to support the financial results reported and that any discrepancies were identified and corrected appropriately (i.e., verify that the reconciliations described in procedures above occurred as described and were conducted properly).

Results of Procedure Step 8:

We selected the monthly financial reports from March and April of 2010 submitted by GCC to THECB for testing. We verified that sufficient documentation exists to support the financial results reported and that any discrepancies were identified and corrected appropriately by verifying that the reconciliations described in procedures above occurred as described and were conducted properly.