

**Texas Higher Education Coordinating Board
Austin, Texas**

Texas Southmost College

**Independent Accountant's Report
On Applying Agreed-Upon Procedures
May 30, 2011**

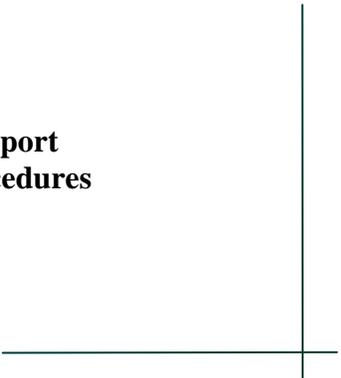


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**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

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 Texas Southmost College's 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 Texas Southmost College. 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
May 30, 2011

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:

Texas Southmost College (TSC) received \$212,439.00 to pay faculty salaries for a four month period. The cost of instruction was outsourced to the University of Texas at Brownsville (UTB). A total of 7,109 hours of work was performed with regard to the ARRA grant. TSC is required under the grant contract to provide the payroll journal each month showing the rate of pay and hours worked for the wage expenditures.

Procedure Step 2:

List any sub-awards the grantee has made using THECB ARRA grant funds.

Results of Step 2:

UTB and TSC have an Educational Partnership agreement to coordinate management and operations through the combination of administrative functions and academic departments. Therefore, the outsourcing of the cost of instruction associated with this grant would not constitute a sub-award. As a result, TSC did not make any sub-awards under this grant. We were therefore unable to perform the procedures included in 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 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. TSC does have general written procedures for its financial and grant management processes that ensure compliance with the requirements of the CMIA.
- b. We verified that TSC's financial recordkeeping system provides for the segregation of THECB ARRA grant funds from other sources of funding. TSC 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.
- c. THECB has provided guidance to TSC regarding the reimbursement of THECB ARRA grant funds. This guidance can be found on its website at: www.thecb.state.tx.us/ARRA. TSC did have written accounting policies and procedures that apply to the reimbursement of THECB ARRA grant funds, but the accounting policies and procedures did not specifically refer to or incorporate THECB's guidance.
- d. Texas Southmost College does have policies and procedures that address the period of availability requirements.
- e. Reconciliations
 - i. Texas Southmost College does have specific written procedures indicating that reconciliations of financial status reports to supporting documentation should take place.
 - ii. We obtained the one reconciliation report that was prepared. The entire amount of the grant was allocated and reconciled only once, and only one reimbursement request was submitted to THECB.
 - iii. The account reconciliation was performed, reviewed and approved by the Vice-President of Business Affairs. However, the reconciliation was performed more than two weeks after the last reconciling entry item.
 - iv. No reconciling items were noted.
 - v. We verified that general ledger reports from the accounting system exist supporting the reconciliation reports.
 - vi. We verified that documentation to support the financial status reports was available and did reconcile to supporting documentation including the monthly reimbursement vouchers, general ledger, and paycheck history report.

- f. Reports from the TSC general ledger are used as a budget vs. actual report. Per TSC, the reconciliation is performed by accounting staff and reviewed by the Account Manager. However, evidence supporting the review was not available. In addition, TSC prepared monthly financial reimbursement requests for THECB. These reimbursement requests included the grant budget, amounts spent in prior requests, amount requested for the current report, and amount of the grant remaining.
- g. We obtained a copy of the entity's most recent single audit reporting form.
 - i. TSC received an unqualified opinion. No material internal control weaknesses, significant deficiencies in controls, or other findings were reported.

Procedure Step 4:

Sub-awards: If the organization has provided sub-awards 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 sub-award monitoring has taken place in accordance with those procedures.

Results of Procedure Step 4:

We were unable to perform the procedures described in Step 4 because TSC did not make any sub-awards.

Procedure Step 5: Testing of purchases of goods or services:

If the entity has made purchases (of 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.
- b. Select a sample of five expenditure transactions for each category of purchases (by budget line item).

- c. 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.
- d. 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. Values 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:

TSC used all the ARRA funds to pay salaries and did not purchase any goods or services, so we were unable to perform Procedure 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 selected all employees who were paid with grant funds for payroll testing during all pay periods from December 2009 to January 2010. We found that the amounts paid to all employees with ARRA grant funds agreed to the amounts reported to the THECB. These salaries were paid to faculty members who taught classes during the Fall 2009 and Spring 2010 semesters. Faculty members were paid monthly during the months of December 2009 to January 2010.

We were able to verify that all personnel, except three, worked sufficient hours to earn the salaries paid for with THECB ARRA grant funds by matching the lectures listed on Course Section detail reports for which the faculty was responsible to the Fall 2009 and Spring 2010 Grade Distribution detail. We obtained additional supporting documentation including Instructor's Workload Plan and Dean of each college's confirmation for three instructors who were not listed on the Course Section detail report to verify they worked full-time during the required period. In this manner, we verified that the personnel worked sufficient hours to earn the salaries paid with THECB ARRA grant funds.

Most colleges do not require faculty to submit timesheets, and timesheets are not required by the THECB ARRA grant. The faculty members were paid on a salary basis. We obtained personnel employment letters to verify their employment and salary.

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:

- a. The most recent monthly performance report with activity provided by TSC to THECB to support their ARRA grant was selected for testing which included the report for December 2009 to January 2010.
- b. We were able to verify sufficient supporting documentation exists to support the information in the performance reports by reviewing the payroll reconciliation and paycheck history.

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:

- a. The most recent financial monthly report submitted to THECB with activity was January 2010, which was filed for the whole grant amount. The amount claimed in January was \$212,439.
- b. We verified that sufficient documentation exists to support the financial results reported for the request. No discrepancies were noted.