



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

**Independent Accountant's Report  
On Applying Agreed-Upon Procedures Relating to the Texas  
Commission on Environmental Quality ARRA/TERP Grant**

## Table of Contents

INDEPENDENT ACCOUNTANT’S REPORT .....	1
Schedule A: Schedule of Agreed-Upon Procedures.....	2

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

To the Management of 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 Commission on Environmental Quality's (TCEQ) compliance with the American Reinvestment and Recovery 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 the 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 full details of our agreed-upon procedures and the results are listed in the attached Schedule A. Specifically, under procedure step 4. b., we tested to determine if sub-award monitoring has taken place in accordance with written monitoring procedures. As a result of our review of the Listing of Site Visits provided and sample testing performed, we determined that sub-award monitoring has taken place on a consistent basis in accordance with the stated procedures.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on TCEQ's compliance with the ARRA grant funding policies and procedures. 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  
August 19, 2011

## Schedule A: Schedule of Agreed-Upon Procedures and Results

### Procedure Step 1:

#### General Program Oversight

- a. Verify that the entity's financial recordkeeping system provides for the segregation of THECB ARRA grant funds from other sources of funding.
- b. Determine if 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?
- c. Determine if the entity has written procedures to ensure compliance with the period of availability of federal funds requirements.
- d. 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 (by the fifth day after the end of each calendar month) and reconciliations are reviewed and approved.
  - iv. Verify reconciling items are identified, investigated and resolved in a timely manner.
  - 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.
- e. 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.
- f. TCEQ Reporting to THECB:
  - i. Select the two most recent financial reports to THECB for testing.
  - ii. 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 1:

- a. We verified that TCEQ's financial recordkeeping system provides for the segregation of THECB ARRA grant funds from other sources of funding. TCEQ has a financial system of record that requires separate reporting of grant funds to ensure that the funds are expended in accordance with stipulations of the grant award.
- b. THECB has provided guidance to TCEQ regarding the reimbursement of THECB ARRA grant funds, which are located on its website at: [www.thecb.state.tx.us/ARRA](http://www.thecb.state.tx.us/ARRA). TCEQ incorporates this guidance only by reference. TCEQ makes reference within its written ARRA Funds policy to following all guidelines issued by the Office of Management and Budget (OMB), Government Accountability Office (GAO), as well as all guidelines issued by the federal agencies disbursing ARRA stimulus funds.

- c. We determined that TCEQ has written Fiscal Policies and Procedures and it ensures that the period of availability of federal funds requirements are met by referencing within its Fiscal Policies and Procedures the requirement to follow all guidelines issued by the OMB.
- d. Reconciliations:
  - i. We verified that TCEQ has written procedures to ensure that reconciliation to financial status reports to supporting documentation takes place.
  - ii. The months of February and March of 2011 were selected for review.
  - iii. These reconciliations were used to verify that account reconciliations were performed in a timely manner (by the fifth day after the end of each calendar month); reconciliations were reviewed and approved in a timely manner.
  - iv. We verified that reconciling items were identified, investigated and resolved in a timely manner.
  - v. We verified that reports from the accounting system exist to support each balance for these account reconciliations.
  - vi. We verified that the financial status reports were supported by documentation that reconciles to the general ledger and monthly reimbursement vouchers.
- e. We verified that TCEQ performs a monthly budget to actual comparison as part of its regular monthly financial reporting process. These reports ensure that grant funds will be spent within the grant period in accordance with the approved schedule and budget. In addition, these reports were provided to appropriate management for review on a timely basis.
- f. TCEQ reporting to THECB:
  - i. We obtained the two most recent financial reports (April and May 2011) for testing.
  - ii. We verified that sufficient documentation exists to support the financial results reported and that any discrepancies were identified and corrected appropriately.

Procedure Step 2:

Follow-up on Prior Audit

- a. Review the findings related to the TERP grant program from the report issued by the Texas State Auditor's Office (SAO) on December 1, 2010. Verify that the findings that were implemented as a result of action plans have been put in place in accordance with management assertions:
  - i. Verify that TCEQ validates the recipient vendor identification number (VIN) or social security number (SSN).
  - ii. Verify that SSN's are being checked against the master death list.
  - iii. Verify that TCEQ obtains photo identification for applicants who are individuals and sole proprietors.
  - iv. Verify that TCEQ obtains a Non-Repairable Vehicle Title.

Results of Procedure Step 2:

- a. Through interviews with TCEQ Management and verification of documentation provided, we confirmed that the action plans identified in this procedure step have been put in place for future rounds of TERP Funding. All of the following procedural steps have been put in place:
  - i. TCEQ validation of VIN or social security numbers (SSN),
  - ii. SSN's are being checked against the master death list,
  - iii. Obtaining photo identification for applicants and,
  - iv. Obtaining a Non-Repairable Vehicle Title

However, these procedures could not be applied to the TERP grantees under review in this engagement, since the contracts within this time period were already in effect by the time these procedure steps were put in place by TCEQ.

### Procedure Step 3:

#### Program Operations – Applications and Awards

- a. Determine whether the entity has written procedures to verify the eligibility of sub-recipients, including accepting and evaluating applications, and awarding of grant funding. Ensure that the completed action plan items that resulted from the prior audit have been incorporated into the policies and procedures.
- b. Testing for application and award processes
  - i. Select a sample of 7 individual and 13 corporation award transactions (for a total of 20 transactions) that occurred after implementation of the prior audit recommendations (January through June 2011).
- c. For each line item sample, test the following using hard copy documentation:
  - i. Is the award allowable under federal guidelines?
  - ii. Is the recipient eligible to receive grant funding?
  - iii. Is the award in accordance with grant provisions?
  - iv. Is it recorded in the proper accounting period (the period in which the transaction occurred)?
  - v. Is it recorded to the correct account and program?
  - vi. Is the transaction described in sufficient detail to permit the proper classification?
  - vii. 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?
  - viii. Note any exceptions identified during testing.

### Results of Procedure Step 3:

- a. We verified that TCEQ has written procedures to verify the eligibility of sub-recipients, including accepting and evaluating applications and awarding of grant funding. We also reviewed evidence that ensures that the completed action plan items that resulted from the prior audit have resulted in updated Application Forms, Checklists and Grant Contract shell language. However, we were not able to verify that the written policies and procedures had been updated to incorporate the revised Application Forms, Checklists and Grant Contract shell language that resulted from the prior audit.
- b. We selected a sample of 7 individual and 13 corporation award transactions (20 transactions) for testing application and award processes, which included obtaining and reviewing the completed applications and award information including final payments.
- c. We tested the stated attributes and found:
  - i. The award was allowable under federal guidelines.
  - ii. The recipient was eligible to receive grant funding.
  - iii. The award was in accordance with grant provisions.
  - iv. The award was recorded in the proper accounting period.
  - v. The award was recorded to the correct account and program.
  - vi. The transaction was described in sufficient detail to permit the proper classification of the award.

- vii. Documentation was 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.
- viii. No exceptions were noted during the testing of application and award processes.

Procedure Step 4:

Program Operations – Program Compliance

- a. Determine if the entity established written monitoring procedures to cover this tier of responsibilities and compliance as of January 2011.
- b. Test to determine if sub-award monitoring has taken place in accordance with those procedures.
- c. Obtain and review the complete list of site visits performed by the vendor.
  - i. Select a sample of ten site visits that were performed after January 2011 and review the hardcopy documentation to verify that follow up on issues identified during site visits was performed.
  - ii. Ensure that actions were taken to recover grant funding when grantees fail to comply with vehicle and equipment disposition requirements.
  - iii. Ensure that actions were taken to recover grant funding when grantees fail to submit usage reports according to grant requirements.
  - iv. Ensure that grantees who failed to comply with disposition and usage requirements were promptly invoiced.
  - v. Ensure that warrant holds were applied to non-compliant grantees that owe the commission grant funds.
  - vi. Note any exceptions identified during testing.
- d. Ensure that TCEQ uses available information to focus on usage monitoring on grantees that are most likely not complying with the usage and reporting requirements.
- e. From the sample of site visits, verify the following procedures or alternate procedures have been put in place:
  - i. Verify that TCEQ uses the Department of Motor Vehicles (DMV) data or an alternative procedure to ensure that old vehicles that were reported as destroyed were not re-registered or re-titled.
  - ii. Verify that TCEQ uses DMV data or alternate procedures to verify that vehicle identification numbers of destroyed vehicles are flagged, so that they cannot be re-titled in the State.
  - iii. Determine if the DMV has purchasing agreements or alternate procedures in place with other states that would enable them to identify that destroyed vehicles are not re-titled or re-registered outside of the State.

Results of Procedure Step 4:

- a. We reviewed and verified that established written monitoring procedures covering Program Operations and Program Compliance were in place as of January 2011.
- b. As a result of our review of the Listing of Site Visits provided and sample testing performed, we determined that sub-award monitoring has taken place on a consistent basis in accordance with the stated procedures.

- c. We obtained and reviewed the complete listing of site visits performed by the vendor.
  - i. We selected a sample of ten site visits that were performed after January 2011, and reviewed hardcopy documentation to verify that follow up on issues identified during the site visits were performed noting no exceptions.
  - ii. We verified through observation and review of evidence that actions were taken to recover grant funding when grantees failed to comply with vehicle and equipment disposition requirements noting no exceptions.
  - iii. We could not verify that actions were taken to recover grant funding when grantees failed to submit usage reports according to grant requirements because usage reports were not available for the sample of items under review, since the initial usage report period begins subsequent to the scope of work and this report. For this reason, TCEQ had not implemented the usage reporting requirements at the time the scope period awards were granted.
  - iv. We verified through observation and review of evidence that grantees who failed to comply with disposition and usage requirements were promptly invoiced.
  - v. We could not verify that warrant holds were applied to non-compliant grantees that owe the commission grant funds since none of the warrant holds for the selected sample were due for recovery at the time of this review.
  - vi. No additional exceptions were noted during our testing.
- d. Per review of the Usage Monitoring Process Standard Operating Procedures, TCEQ uses documented procedures in order to ensure a focus on potentially delinquent grantees that are most likely not complying with the usage and reporting requirements. A specific monitoring process is in place, which includes responsibilities for tracking and recording required reports when available, as well as a series of steps that include invoicing and follow up letters in the event a grantee is out of compliance.
- e. The samples in procedure step 4.c. were not able to be used to perform the steps as outlined in step 4.e. i-iii, since the implementation of the DMV data as part of prior audit recommendations were not in effect for this round of TERP funding. These requirements would be placed into effect on a prospective basis since all of the contracts for the round of TERP funding under review were already in effect and could not be amended. As a result, we were unable to perform these procedure steps. However, effective January 2011, Clifton Gunderson obtained and reviewed documentation that shows that TCEQ has added procedures to obtain Non-Repairable Vehicle Titles issued by the Texas Department of Motor Vehicles for all prospective TERP applicants. This alternate procedure step was brought to the attention of THECB Management and approved.