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March 13, 2019

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Dr. Beatriz Espinoza, President
Coastal Bend College
3800 Charco Rd
Beeville, TX 78102

Dr. Espinoza,

I am attaching the final report on *An Investigation of the Carl D. Perkins Basic Grant at Coastal Bend College* (CBC) for the time period fiscal year 2016 through fiscal year 2018. There were two findings resulting from this investigation.

1. Payroll expenses reported for CBC employees budgeted and paid entirely with Perkins grant funds were not supported by accurate time and effort certifications, in accordance with CBC policy and sound grant management practices. Evidence indicated that employees routinely performed tasks that were not career or technical education oriented. Additionally, an employee was instructed by the Dean of Workforce Training to charge all of their time to the Perkins grant despite the employee's statement that not all activities were Perkins-related. Questioned payroll costs of \$160,051.60 were identified.
2. Equipment charged to the Perkins grant was either lost, not used directly to teach CTE skills to students, or used solely by teachers, administrators, or other staff members and was therefore an unallowable Perkins grant expense. An inventory control system, including written procedures and routine physical inventory verification, was not present. Questioned equipment costs of \$22,451.24 were identified.

Management responses have been incorporated in the final report (excerpted in the report and as-submitted¹ as attachments, due to the length of the responses). Auditor follow up comments have been added to address certain inadequacies in these responses.

Further, since the management responses indicate a continuing lack of understanding of the requirements of participation in the Perkins grant program, the auditors have recommended to Coordinating Board management that CBC be placed on

¹ Additional information was redacted from management's response to prevent the disclosure of sensitive information.

heightened monitoring for continued participation in the program, pursuant to 2 CFR §200.338. If heightened monitoring results indicate continued noncompliance, the Coordinating Board may “Withhold further federal awards for the project or program.”

The final report will be presented to the Agency Operations Committee, a standing committee of the Coordinating Board, at the April 24, 2019 meeting. We request the opportunity to brief the board of Coastal Bend College on the results of our investigation.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl". The signature is written in a cursive, flowing style.

Mark A. Poehl, CPA, CIA, CISA, CFE
Director, Internal Audit and Compliance

Investigation Overview

We have completed our investigation of the Carl D. Perkins Basic Grant (Perkins) at Coastal Bend College (CBC). This letter communicates our Perkins-related findings.

The Carl D. Perkins Career and Technical Education Act of 2006 (Perkins IV) is a principal source of federal funding to states and discretionary grantees for the improvement of secondary and postsecondary career and technical education programs across the nation.

CBC received the following funds in the fiscal years noted below:

- FY2015 - 2016: \$270,220.00
- FY2016 - 2017: \$293,474.00
- FY2017 - 2018: \$410,615.00

The remainder of the report provides detailed observations, recommendations and management's responses.

Detailed Observations, Recommendations and Management's Responses

CBC administration of the Perkins Grant resulted in substantial noncompliance with Perkins Grant requirements, and questioned costs of \$182,502.84. See Schedule 3.

Discrepancies Identified for Payroll (Schedule 1)

CBC payroll expenses reported for FY 2016 through FY 2018 for employees paid with Perkins grant funds were not supported by accurate time and effort certifications, in accordance with CBC policy and sound grant management practices.

Time and Effort Reports for a former employee (Employee #1) paid with Perkins grant funds submitted from September 2015 – August 2016 did not match the certified reports signed by the supervisor, (Executive Dean of Student Services) as s noted below:

- Of the 46 Time and Effort Reports submitted, only four (9%) were accurate.
- Actual time and effort reports are incomplete, inconsistent, and do not conform with documented guidance.

- One CBC staff member was instructed by the CBC Dean of Workforce Training to charge all their time to the Perkins Grant despite the employee's statement that not all activities were Perkins-related.

The following charts provide employee payroll information for CBC staff members that were paid with Perkins grant funds. These amounts are considered unallowable costs for failing to comply with Perkins grant requirements.²

FY2015 – 2016 (including benefits)

Questioned costs for Employee #1	\$36,830.00
Questioned costs for Employee #2	\$14,487.98
Total Questioned Payroll Costs for FY2016	\$51,317.98

FY2016 – 2017 (including benefits)

Questioned costs for Employee #2	\$ 4,372.62
Questioned costs for Employee #3	\$18,068.00
Questioned costs for Employee #4	\$16,259.44
Total Questioned Payroll Costs for FY2017	\$38,700.06

FY2017 – 2018 (including benefits)

Questioned costs for Employee #3	\$37,784.95
Questioned costs for Employee #5	\$32,248.61
Total Questioned Payroll Costs for FY2018	\$70,033.56

Total Questioned Payroll Costs	\$160,051.60
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Total questioned costs related to Perkins Grant payroll expenditures reported in fiscal years 2016 through 2018 are \$160,051.60.

Recommendations

1. Refund \$160,051.60 in reported Perkins payroll expenditures to the Texas Higher Education Coordinating Board.

² Perkins Request for Application Sections 7.4.2.2, 9.29
Coastal Bend College's Time and Effort Procedures for Grant Funded Employees
Uniform Grant Guidance 2 CFR §200.430(i)
Perkins Act, Section 135

2. Establish appropriate controls to ensure that payroll expenses related to the Perkins grant are accurately and timely documented and reported.
3. Ensure that time and effort reports accurately support the amounts charged to the grant and adhere to CBC policy and sound grant management principles.

Management Response to Recommendation 1.

The THECB's preliminary investigative findings regarding questioned payroll costs arise from time and effort reports submitted by five current and former CBC employees between 2015 and 2018, identified in the THECB's preliminary report as "Employees 1-5." Each of these five employees' positions were one-hundred percent grant funded positions during each of the three grant periods in question. In general, the THECB's questioned costs arising from these payroll expenditures are based on the timing and appearance of employee and supervisor signatures on time and effort reports and task entries that the THECB investigation preliminarily found to be unallowable.

The CBC administration respectfully disagrees with the THECB's preliminary investigative findings regarding its time and effort reporting for Employees 1-5. From the outset, Section 9.32 of the Perkins Grant Request for Applications for each of the three fiscal years in question explicitly states that time and effort record keeping is only required "[f]or those personnel whose salaries are prorated between or among different funding sources" Employees 1-5 positions were funded entirely with Perkins Grant funds, and time and effort reports were not required by the plain language of the relevant grant documents or any controlling federal regulations.

*Setting aside the requirements set forth in the applicable grant language and regulations, during the course of the THECB's investigation, the CBC administration was informed that the preliminary investigative findings related to time and effort reporting was premised on a single-page document titled "Time and Effort Procedures for Grant Funded Employees." See March 18, 2014 Time and Effort Procedure, attached as **Exhibit 1**. This procedure, which purports to have been effective as of March 18, 2014, but has now been superseded, required time and effort reports for "employees paid from federal, state, or other third-party funding." This procedure stated that "time and effort reports must accompany the employee's payroll time sheet. *Id.* By way of contrast, however, the procedure goes on to provide that the documentation "should" be submitted to the payroll department no later than the regular deadline for each payroll period," and that a time and effort submission "should be fully-completed and signed by both the employee and the supervisor." *Id.* Even in common vernacular, "should" does not*

equate to "must," and it is CBC management's position that questioning personnel costs amounting to, in some cases, nearly all of an employee's annual salary and benefits, is disproportionate to the extent such findings are based on payroll actions that do not actually deviate from this vague procedure.¹

Finally, the THECB investigation team provided CBC with a list of "Common Unallowable Descriptions of Activity," which is a representative sample of time entries that the THECB has preliminarily determined to be unallowable. See *Common Unallowable Descriptions of Activity*, attached as **Exhibit 2**. By way of example, the THECB noted that the following entries on time and effort reports were unallowable:

- "Advised Students (not specific to CTE)," "registering students," "attended advising day," and "Registered Students in Education 1300" (hereafter "Student Advising Activities");
- "Title IX Presentation," "Office Training 365," "Time Management Presentations," "Stress Management Presentations," "FMLA Training," "Safety Training," "Advising Training with Admissions and Financial Aid," "Colleague and Office 365 Training," "Safety Training," and "Adobe Photo Workshop" (hereafter "Professional Development Activities")
- "Graduation Applications," "Diploma Policy Meeting," and "Attended Commencement and Award Ceremony" (hereafter "Commencement Activities").

The applicable federal regulations and grant requirements, however, belie the preliminary findings that such costs are unallowable: (1) Student Advising Activities (Perkins Grant Request for Applications Appendix H, "Permissible Use of Funds" and 2 C.F.R. § 200.430(h)(8)(x) ("It is recognized that teaching, research, service, and administration are often inextricably intermingled in an academic setting. When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected.";

¹ As explained further below, CBC management has already implemented a new Grants Administration procedure, which should alleviate any ambiguity in time and effort practices moving forward.

(2) Professional Development Activities (2 C.F.R. § 200.472 ("The cost of training and education provided for employee development is allowable.")); (3) Commencement Activities (2 C.F.R. Appendix III to part 200 at <J[B.9).

*In light of the authorities above, it is CBC management's position that the THECB's preliminary questioning costs \$160,051.61 in personnel expenditures is unconscionable and disproportionate. This position is based not only on the applicable regulations and grant language, but also on the indisputable conclusion that Employees 1-5 worked tirelessly and successfully in furtherance of Perkins Grant-related functions. See CTE Student Documentation, attached as **Exhibit 3**.² Whether the THECB agrees with CBC's management's position or not, CBC management wants to make it abundantly clear that the hard work of its current and former employees geared toward the success of CBC students in CTE programs, including Employees 1-5, is beyond reproach, and their efforts in working with CBC students is the largest contributing factor to CBC's nationwide recognition as an Achieving the Dream Leadership College.³*

In the event the THECB continues to question any personnel costs from the 2015-2016, 2016-2017, and 2017-2018 grant years, however, CBC management intends to move forward with the corrective actions detailed below, including recommending that the CBC Board of Trustees approve refunding the final amount determined by the THECB. CBC management will do so not because it concedes to the validity of such findings, but because CBC management does not believe that the costs of pursuing state and federal remedies to challenge such findings would be reflective of good stewardship of public funds. CBC management is committed to making sound financial decisions so that funding can be properly expended in furtherance of CBC's central mission of providing students with a first-rate education to prepare them to successfully contribute to the workforce in Texas and beyond.

- *Responsible person(s)*

The CBC administration will recommend to that CBC Board of Trustees authorize a refund of \$160,051.60 at its regular meeting on March 19, 2019.

² CBC management has redacted personally identifiable student information from the documents attached as **Exhibit 3** in accordance with the Family Educational Rights and Privacy Act (FERPA).

³ See https://www.achievingthedream.org/college_profile/681/coastal-bend-college.

- *Projected completion date*

Should the CBC Board of Trustees vote to authorize the refund of \$160,051.60 to the THECB, CBC management expects to accomplish the refund on or before April 1, 2019.

Management Responses to Recommendations 2 & 3.

- Responsible person(s):
Chief Financial Officer
Grants Compliance and Reporting Manager
- **Projected completion date:**

*CBC management has already enacted a more clear and comprehensive Grants Management procedure. See Grants Management Procedure, attached as **Exhibit 4**.*

*CBC management has undertaken many corrective measures regarding its grants management and general purchasing and procurement practices. See Corrective Actions Chart, attached as **Exhibit 5**. Relevant here, CBC engaged Dr. Jesus Amezcua, Assistant Superintendent for Business at the Harris County Department of Education, to consult with CBC's business office professionals to strengthen internal controls.⁴ Dr. Amezcua assisted CBC's business office professionals in developing the procedure attached as **Exhibit 4**.*

Auditor Follow-Up Comments

TIME AND EFFORT CONTROLS PROVIDING ASSURANCE OF ACCURACY REQUIRED

The THECB respectfully disagrees with CBC's Management response.

CBC's management response indicates a lack of understanding of internal control systems supported by evidence that demonstrates consistent application.

For example, CBC's management response cited Perkins Basic Grant Request for Application (RFA), Section (9.32 on FY2019 RFA, 9.29 on FY2018 RFA) Time and Effort Recordkeeping as justification for why "time and effort reports were not required by the plain language of the relevant grant documents or any controlling federal regulations."

CBC's claim however, that "time and effort reports were not required", is not accurate. THECB agrees that the RFA does not explicitly state the format of time and effort reporting, however, 2 CFR §200.430(i) Standards for Documentation of Personnel Expenses, of the Uniform Grant Guidance does state:

(i) Standards for Documentation of Personnel Expenses

- (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:
- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

CBC’S TIME AND EFFORT CONTROLS INADEQUATE

The THECB respectfully disagrees with CBC’s Management response.

CBC’s management response states “the preliminary investigative findings related to time and effort reporting was premised on a single page document titled “Time and Effort Procedures for Grant Funded Employees.” The auditors note that this “single page document” was submitted by CBC as the official procedures for CBC’s Perkins Grant funded personnel, as part of THECB’s annual federal desk review of the Perkins funded grants. Thus, CBC failed to adhere to its own “vague procedure” as characterized in its management response.

UNALLOWABLE ACTIVITY

The THECB respectfully disagrees with CBC’s Management response.

CBC’s response overly relies on the fact that all five employees were budgeted to be funded 100% by the Perkins grant, instead of the actual activity of the employees.

The page titled “Common Unallowable Descriptions of Activity” showed sample descriptions of employee effort from the time and effort reports that were not indicative of an employee who is funded 100% by the Perkins grant. “Advising students” is a description that could mean advising CTE students, advising academic students, or any point of the spectrum in between.

Although CBC may be able to point to some activities that might qualify as Perkins activity, there are ample examples of non-CTE activity to substantiate that none of these employees’ activities were 100% Perkins.

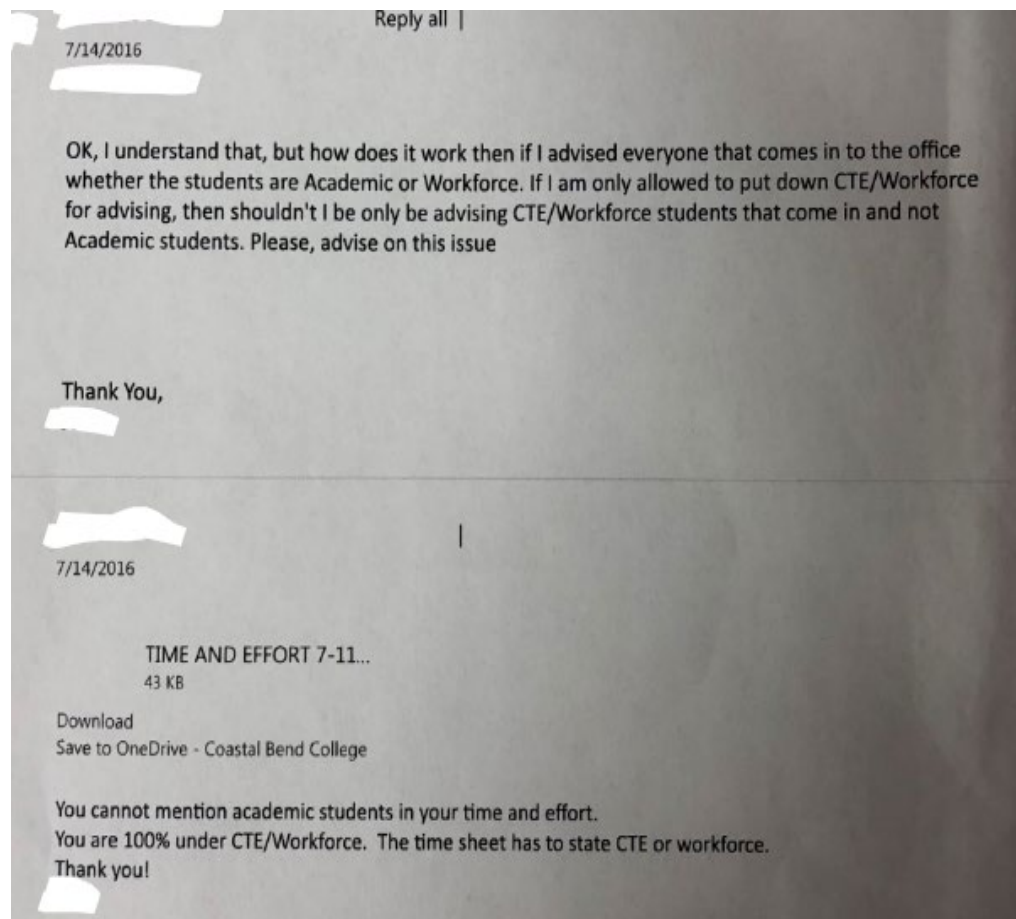
The focus of the activities listed on the reports did not always demonstrate intent to improve career and technical education programs, as required. 2 CFR §200.430(i)(1)(x) does state that “a precise assessment of factors that contribute to costs is therefore not always feasible, nor it is expected.” The Uniform Grant Guidance is in place as guidance for all federally funded projects. The Perkins Act is specific to its purpose. 2 CFR §200.331(a)(2) states that the pass-through entity (in this case, THECB) must ensure that “All requirements imposed by the pass-through entity on the subrecipient so that the Federal award is used in accordance with

Federal statutes, regulations and the terms and conditions of the Federal award” are met. Hence the inclusion of Appendix H Required and Permissible Uses of Funds, Section 135 of the Perkins Act, in the Perkins Grant Request for Applications.

DEAN OF WORKFORCE TRAINING ADVISING EMPLOYEE TO ADJUST TIME AND EFFORT REPORT

The THECB respectfully disagrees with CBC’s Management response.

CBC management response states that the questioned costs in personnel expenditures is “unconscionable.” However, documentation submitted during this investigation clearly indicated how an employee was instructed by the Dean of Workforce Training to change their time and effort report, despite that employee’s reservations to charge all their time to the Perkins grant.



Discrepancies Identified during the Inventory Review

Our review included fixed assets and other items purchased with Perkins grant funds. Items purchased with Perkins grant funds must be for Career and Technical Education (CTE) students and instructional programs.

Expenditures deemed unallowable by the Perkins Grant guidelines include:

- Equipment or supplies not used directly to teach CTE skills to students, and
- Equipment solely for use by the teacher, administrator or other staff members.

The following issues were noted:

1. CBC requested, and purchased, 17 Dell Latitude computers in its FY 2016 - 2017 application plan/request for funding. Based on the CBC approved Perkins Application, these computers were planned for use in the trailer (Go Trailer) designed for CTE student recruiting throughout the CBC service area. Sixteen of these computers are now located in a CBC staff training room in the Robert A. Beasley Administration Building and one is assigned to a non-CTE staff member.

CBC asserts that computers were determined to be of no further use to Perkins grant activities upon completion of the first year of use. We have calculated the Dell Latitude computers' remaining value after one year of stated use, and consider that amount as a questioned cost. See Schedule 4.

2. During our site visits conducted December 12-13, 2018 and January 14-15, 2019, we determined that a Dell Latitude laptop was missing in the Dental Program area. No loss report had been filed for the missing computer.
3. During our site visit conducted on January 14-15, 2019, we determined that a Dell Latitude laptop was missing in the Early Childhood Program area. CBC had completed an Incident Report on January 10, 2019 for this item.
4. CBC purchased a 3D scanner as approved in its FY 2015 grant fund request. During our site visit on December 12-13, 2018, we were unable to locate the scanner. We interviewed the Drafting and Design Professor regarding the location of the 3D scanner that was purchased and used in conjunction with the 3D printer.

The professor indicated that during the Spring 2016 semester, an instructor borrowed the scanner and further stated that the device had not been returned at the time of our site visit. A CBC Police Report was prepared on December 18, 2018 to report the missing item. This police report confirmed the item as missing since “2016” with no actual date of loss.

Each year since FY 2016 CBC reported the 3D scanner on the required Perkins inventory report. CBC erroneously certified to the Coordinating Board the existence and location this item.

CBC asserts that the equipment was determined to be of no further use to the Perkins grant activities at an unknown point in time after the device was used in the initial year of purchase. We have calculated the 3D scanner’s remaining value after one year of stated use, and consider that amount a questioned cost. See Schedule 4.

The following chart provides a summary of the unallowable and unaccounted for items purchased with Perkins funds:

Computer Equipment	Dell Latitudes	17	\$12,669.76
Computer Equipment	Dell Latitude ³	1	\$1,159.38
Computer Equipment	Dell Latitude ⁴	1	\$978.10
Computer Equipment	3D Scanner	1	\$7,644.00
Total Questioned Equipment Costs			\$22,451.24

Improper procurement, use of, and missing items related to, the Perkins expenditures reported in fiscal years 2015 through 2018 grant periods results in \$22,451.24 of questioned costs.

Recommendations

4. Refund \$22,451.24 in reported Perkins funded equipment and fixed asset expenses to the Texas Higher Education Coordinating Board.

³ Dental Program missing computer

⁴ Early Childhood Program missing computer

5. Comply with grant reporting and control requirements for the purchase and use of equipment and supplies related to CTE in the Perkins grant activities.⁵ This should include appropriate procurement, delivery, and assignment of equipment.
6. CBC should implement an inventory control system that is updated in a timely manner for all receipt, assignment, and re-assignment of Perkins inventory items.⁶

Management Response to Recommendation 4

CBC management is taking the opportunity to explain the circumstances surrounding the THECB's preliminary findings in its report under the section heading "Discrepancies Identified during the Inventory Review," relating to the purchase of 17 Dell Latitude laptops in fiscal year 2016-2017, two Dell Latitude laptops that have been reported as missing,⁵ and the 3D scanner that has been reported missing from the Drafting and Design Program.

17 Dell Latitude Laptops: *Regarding the 17 Dell Latitude laptops purchased in fiscal year 2016- 2017, the THECB's preliminary investigation finding is correct in that CBC management purchased 17 Dell Latitude laptop computers for use in the Go Trailers in the 2016-2017 academic year. Based on the purchase of these laptops with Perkins Grant funding, the Dell Latitude laptops were used in the Go Trailer at student outreach functions throughout the CBC service area during the applicable one-year grant period.*

Thereafter, CBC management purchased tablet computers using CBC funds (not grant funds) to use in the Go Trailers lieu of the Dell Latitude laptop computers that were initially purchased for this purpose. This decision was made because the tablet computers were more portable and more attractive to younger students than the more utilitarian and less transportable Dell Latitude laptops.

*The documents attached as **Exhibit 6** demonstrate the functions at which CBC utilized the Go Trailer and, therefore, the Dell Latitude laptop computers, during the applicable Perkins Grant period. After that time, fifteen of the Dell Latitude laptops were placed in a computer lab in the CBC administration building in Beeville for both employee and faculty use.*

According to 2 C.F.R. § 200.313, title in property purchased with federal grant funds vests in a non-federal entity during the period in which "[u]se of the

⁵ Perkins Request for Application Section 10.5

⁶ Uniform Grant Guidance 2 CFR §200.313, 2 CFR§200.314

equipment for the authorized purposes of the project during the period of performance, or until the property is no longer needed for the purpose of the project." See 2 C.F.R. § 200.313(a)(l) (alteration added). Moreover, "Use for non-federally-funded programs or projects is also permissible," so long as the use of equipment purchased with federal funds in non-federally-funded projects does "not interfere with the work on the projects or program for which it was originally required." See 2 C.F.R. § 200.313(c).

⁵ *CBC reported the loss of the Dell Laptop computer, which discovered to be missing from the Dental Hygiene Program by the THECB during its visit in January 2019, to the CBC Police Department on March 5, 2019. The report was made after CBC management exhausted efforts to locate the missing equipment.*

Here, after the one-year grant period for which the Dell Latitude laptops had expired, the Dell Latitude laptops were no longer necessary for use in the Go Trailers, as they were replaced by tablet computers at CBC's own expense. In accordance with the federal regulations quoted above, CBC management then continued to use the laptops for other purposes that in no way conflicted with CBC management's continued use of the Go Trailers, which remained fully equipped with computer equipment when being used for remote outreach. In short, the 17 Dell Latitude laptops were used for their intended purpose during the grant period, and when these laptops were no longer necessary to support the Go Trailer program, CBC management continued to use these computers in conformance with applicable federal regulations related to the use of equipment purchased with grant funds.

3D Scanner: *At this time, the last preliminary finding that the CBC management is prepared to address relates to the missing 3D scanner, which was purchased in fiscal year 2015 for \$9,955.00 with Perkins Grant funds. As the THECB's preliminary report correctly notes, CBC management first learned that the 3D scanner in question was missing in the 2018-2019 academic year, when the faculty member thought to be in possession of this item reported that it had actually been missing since the Spring 2016 semester. Upon learning of this circumstance, CBC management filed a police report to allow an investigation to be undertaken and to, hopefully, have the 3D scanner returned.*

*The 3D scanner was utilized from the date of purchase (May 5, 2015) through the Spring 2016 semester, and the 3D printer, of which the scanner was a component part, is still in use in drafting courses, as evidenced by **Exhibit 7**. The absence of the 3D scanner has had little impact to no impact on the drafting course, as students are still able to utilize the 3D printer by using pictures downloaded from online sources. Accordingly, because the 3D scanner was no longer useful in the drafting course after the Spring 2016 semester, and in light*

of the scanner's depreciation since its purchase nearly four years ago, CBC management requests that the questioned costs related to the 3D scanner be, at a minimum, reduced to the 3D scanner's depreciated value of \$5,733.

In light of the circumstances above, and in order to bring finality to the current investigation, CBC management proposes the following corrective actions related to the THECB's inventory findings:

- **Responsible person(s):**

The CBC administration will recommend to that CBC Board of Trustees authorize a refund of \$22,451.24 at its regular meeting on March 19, 2019.

- **Projected completion date:**

Should the CBC Board of Trustees vote to authorize the refund of \$22,451.24 to the THECB, CBC management expects to accomplish the refund on or before April 1, 2019.

Recommendations:

5. Comply with grant reporting and control requirements for the purchase and use of equipment and supplies related to CTE in the Perkins grant activities. This should include appropriate procurement, delivery, and assignment of equipment.
6. CBC should implement an inventory control system that is updated in a timely manner for all receipt, assignment, and re-assignment of Perkins inventory items.

Management Responses to Recommendations 5 & 6

- **Responsible person(s):**

Director of Information Technology (inventory control system) Grants Compliance and Reporting Manager (coordination with inventory control system and grant reporting and control requirements)

- **Projected completion date:**

*As discussed above, CBC management has already implemented a new Grants Management Procedure, attached as **Exhibit 4**. Further, CBC's updated Information Technology Inventory Procedure, effective February 1, 2019, is attached as **Exhibit 8**.*

Auditor Follow-Up Comments

MISSING LAPTOPS AND 3-D SCANNER

The investigation led to the discovery that the 3-D Scanner (costing \$9,555.00) and two laptops were missing. Subsequently, a police report was prepared for the scanner and an incident report was filed for one laptop. One laptop remains missing and no report has been filed. The missing scanner had been erroneously included on at least two Perkins inventory reports that were certified and submitted to the Coordinating Board by the Dean of Workforce Training.

Management's response states "*The absence of the 3D scanner has had little impact to no impact on the drafting course, as students are still able to utilize the 3D printer by using pictures downloaded from online sources.*" If the equipment was not needed for purposes of the federal grant, then the auditors question the lack of due diligence in using Perkins grant funds to purchase equipment that is not necessary.

Regarding the re-purposing of computers purchased with Perkins grant funds, the auditors agree that grant-funded equipment can be repurposed after the grant period has ended. However, it is important to note that there was no evidence provided to substantiate that the repurposing decision was a deliberate, documented decision made with the approval of management *at the time of repurposing*.

In fact, the only evidence provided for the repurposing decision is the management response to the investigation. Inventory control procedures, including routine physical inventory verification, should also include the process by which repurposing decisions are made and documented in a timely manner.

Perkins Payroll: Schedule 1.

FY2015 – 2016 (including benefits)	
Questioned costs for Employee #1	\$36,830.00
Questioned costs for Employee #2	\$14,487.98
Total Questioned Payroll Costs for FY2016	\$51,317.98
FY2016 – 2017 (including benefits)	
Questioned costs for Employee #2	\$ 4,372.62
Questioned costs for Employee #3	\$18,068.00
Questioned costs for Employee #4	\$16,259.44
Total Questioned Payroll Costs for FY2017	\$38,700.06
FY2017 – 2018 (including benefits)	
Questioned costs for Employee #3	\$37,784.95
Questioned costs for Employee #5	\$32,248.61
Total Questioned Payroll Costs for FY2018	\$70,033.56
Total Payroll	\$160,051.60

Perkins Equipment: Schedule 2.

Computer Equipment	Dell Latitudes	17	\$12,669.76
Computer Equipment	Dell Latitude ³	1	\$1,159.38
Computer Equipment	Dell Latitude ⁴	1	\$978.10
Computer Equipment	3D Scanner	1	\$7,644.00
Total Equipment			\$22,451.24

Perkins Total Questioned Costs: Schedule 3.

Payroll Costs	160,051.60
Equipment Costs	\$22,451.24
Total Questioned Costs	\$182,502.84

Allowance for Depreciation: Schedule 4.

Description	Fiscal Year Purchased	Purchase Price	Useful Life	Years of Depreciation	Depreciation Amount	Undepreciated Questioned Costs
Dell Latitudes	2016 - 2017	\$15,837.20	5	1	\$3,167.44	\$12,669.76
3D Scanner	2014 - 2015	\$9,555.00	5	1	\$1,911.00	\$7,644.00

PERFORMED BY

Mr. Mark Poehl, CPA, CIA, CISA, CFE, Director, Internal Audit and Compliance
Ms. Jamyen Robinson-Hall, Compliance Specialist
Ms. Elizabeth Steele, Compliance Specialist
Mr. Bobby Lane, CFE, CICA, Compliance Specialist

cc:

THECB**Board Members****Commissioner's Office**

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Ms. Linda Battles, Deputy Commissioner for Agency Operations and
Communication/COO
Dr. David Gardner, Deputy Commissioner for Academic Planning and Policy
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Mr. John Colyandro, Policy Director

Legislative Budget Board

Ms. Julie Ivie, Assistant Director

Attachment 1

CBC Management Responses



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President

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March 7, 2019

Mr. Mark Pochl – Director, Internal Audit & Compliance
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Austin, Texas 78752
Email: mark.pochl@THECB.state.tx.us

Re: Management Response--An Investigation of the Carl D. Perkins Basic Grant at Coastal Bend College

Dear Mr. Pochl,

This letter constitutes Coastal Bend College's (CBC) management response to the Texas Higher Education Coordinating Board's (THECB) investigation titled *An Investigation of the Carl D. Perkins Basic Grant at Coastal Bend College*. This investigation preliminarily resulted in questioned costs of \$182,502.84 and recommendations for corrective actions arising from Carl D. Perkins Basic Grant (Perkins) expenditures from three grant periods: (1) 2015-2016; (2) 2016-2017; and (3) 2017-2018. CBC management responds below to each of the THECB's investigative findings in the order in which they are listed in the February 21, 2019 draft report. Pursuant to the above-mentioned draft report, CBC management timely submits this response on March 7, 2019.

1. Discrepancies Identified for Payroll

Recommendation:

Refund \$160,051.60 in reported Perkins payroll expenditures to the THECB.

Management Response:

The THECB's preliminary investigative findings regarding questioned payroll costs arise from time and effort reports submitted by five current and former CBC employees between 2015 and 2018, identified in the THECB's preliminary report as "Employees 1-5." Each of these five employees' positions were one-hundred percent grant funded positions during each of the three grant periods in question. In general, the THECB's questioned costs arising from these payroll expenditures are based on the timing and appearance of employee and supervisor signatures on time and effort reports and task entries that the THECB investigation preliminarily found to be unallowable.

The CBC administration respectfully disagrees with the THECB's preliminary investigative findings regarding its time and effort reporting for Employees 1-5. From the outset, Section 9.32 of the Perkins Grant Request for Applications for each of the three fiscal years in question explicitly states that

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time and effort record keeping is only required "[f]or those personnel whose salaries are prorated between or among different funding sources" Employees 1-5 positions were funded entirely with Perkins Grant funds, and time and effort reports were not required by the plain language of the relevant grant documents or any controlling federal regulations.

Setting aside the requirements set forth in the applicable grant language and regulations, during the course of the THECB's investigation, the CBC administration was informed that the preliminary investigative findings related to time and effort reporting was premised on a single-page document titled "Time and Effort Procedures for Grant Funded Employees." See March 18, 2014 Time and Effort Procedure, attached as **Exhibit 1**. This procedure, which purports to have been effective as of March 18, 2014, but has now been superseded, required time and effort reports for "employees paid from federal, state, or other third-party funding." This procedure stated that "time and effort reports must accompany the employee's payroll time sheet. *Id.* By way of contrast, however, the procedure goes on to provide that the documentation "should" be submitted to the payroll department no later than the regular deadline for each payroll period," and that a time and effort submission "should be fully-completed and signed by both the employee and the supervisor." *Id.* Even in common vernacular, "should" does not equate to "must," and it is CBC management's position that questioning personnel costs amounting to, in some cases, nearly all of an employee's annual salary and benefits, is disproportionate to the extent such findings are based on payroll actions that do not actually deviate from this vague procedure.¹

Finally, the THECB investigation team provided CBC with a list of "Common Unallowable Descriptions of Activity," which is a representative sample of time entries that the THECB has preliminarily determined to be unallowable. See Common Unallowable Descriptions of Activity, attached as **Exhibit 2**. By way of example, the THECB noted that the following entries on time and effort reports were unallowable:

- * "Advised Students (not specific to CTE)," "registering students," "attended advising day," and "Registered Students in Education 1300" (hereafter "Student Advising Activities");
- * "Title IX Presentation," "Office Training 365," "Time Management Presentations," "Stress Management Presentations," "FMLA Training," "Safety Training," "Advising Training with Admissions and Financial Aid," "Colleague and Office 365 Training," "Safety Training," and "Adobe Photo Workshop" (hereafter "Professional Development Activities");
- * "Graduation Applications," "Diploma Policy Meeting," and "Attended Commencement and Award Ceremony" (hereafter "Commencement Activities").

¹ As explained further below, CBC management has already implemented a new Grants Administration procedure, which should alleviate any ambiguity in time and effort practices moving forward.

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The applicable federal regulations and grant requirements, however, belie the preliminary findings that such costs are unallowable: (1) Student Advising Activities (Perkins Grant Request for Applications Appendix H, "Permissible Use of Funds" and 2 C.F.R. § 200.430(h)(8)(x) ("It is recognized that teaching, research, service, and administration are often inextricably intermingled in an academic setting. When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected."); (2) Professional Development Activities (2 C.F.R. § 200.472 ("The cost of training and education provided for employee development is allowable.")); (3) Commencement Activities (2 C.F.R. Appendix III to part 200 at § B.9).

In light of the authorities above, it is CBC management's position that the THECB's preliminary questioning costs \$160,051.61 in personnel expenditures is unconscionable and disproportionate. This position is based not only on the applicable regulations and grant language, but also on the indisputable conclusion that Employees 1-5 worked tirelessly and successfully in furtherance of Perkins Grant-related functions. See CTE Student Documentation, attached as **Exhibit 3**.² Whether the THECB agrees with CBC's management's position or not, CBC management wants to make it abundantly clear that the hard work of its current and former employees geared toward the success of CBC students in CTE programs, including Employees 1-5, is beyond reproach, and their efforts in working with CBC students is the largest contributing factor to CBC's nationwide recognition as an Achieving the Dream Leadership College.³

In the event the THECB continues to question any personnel costs from the 2015-2016, 2016-2017, and 2017-2018 grant years, however, CBC management intends to move forward with the corrective actions detailed below, including recommending that the CBC Board of Trustees approve refunding the final amount determined by the THECB. CBC management will do so not because it concedes to the validity of such findings, but because CBC management does not believe that the costs of pursuing state and federal remedies to challenge such findings would be reflective of good stewardship of public funds. CBC management is committed to making sound financial decisions so that funding can be properly expended in furtherance of CBC's central mission of providing students with a first-rate education to prepare them to successfully contribute to the workforce in Texas and beyond.

- **Responsible person(s):**

The CBC administration will recommend to that CBC Board of Trustees authorize a refund of \$160,051.60 at its regular meeting on March 19, 2019.

- **Projected completion date:**

Should the CBC Board of Trustees vote to authorize the refund of \$160,051.60 to the THECB, CBC management expects to accomplish the refund on or before April 1, 2019.

² CBC management has redacted personally identifiable student information from the documents attached as **Exhibit 3** in accordance with the Family Educational Rights and Privacy Act (FERPA).

³ See https://www.achievingthedream.org/college_profile/681/coastal-bend-college.

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Recommendations:

Establish appropriate controls to ensure that payroll expenses related to the Perkins grant are accurately and timely documented and reported.

Ensure that time and effort reports accurately support the amounts charged to the grant and adhere to CBC policy and sound grant management principles.

Management Response:

- **Responsible person(s):**

Chief Financial Officer

Grants Compliance and Reporting Manager

- **Projected completion date:**

CBC management has already enacted a more clear and comprehensive Grants Management procedure. See Grants Management Procedure, attached as **Exhibit 4**.

CBC management has undertaken many corrective measures regarding its grants management and general purchasing and procurement practices. See Corrective Actions Chart, attached as **Exhibit 5**. Relevant here, CBC engaged Dr. Jesus Amezcua, Assistant Superintendent for Business at the Harris County Department of Education, to consult with CBC's business office professionals to strengthen internal controls.⁴ Dr. Amezcua assisted CBC's business office professionals in developing the procedure attached as **Exhibit 4**.

2. Discrepancies Identified during Inventory Review

Recommendation:

Refund \$22,451.24 in reported Perkins funded equipment and fixed asset expenses to the THECB.

Management Response:

CBC management is taking the opportunity to explain the circumstances surrounding the THECB's preliminary findings in its report under the section heading "Discrepancies Identified during the Inventory Review," relating to the purchase of 17 Dell Latitude laptops in fiscal year 2016-2017, two

⁴ Dr. Amezcua's biographical information is available at <http://www.gfoa.org/jesus-amezcua>.
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Dell Latitude laptops that have been reported as missing,⁵ and the 3D scanner that has been reported missing from the Drafting and Design Program.

17 Dell Latitude Laptops: Regarding the 17 Dell Latitude laptops purchased in fiscal year 2016-2017, the THECB's preliminary investigation finding is correct in that CBC management purchased 17 Dell Latitude laptop computers for use in the Go Trailers in the 2016-2017 academic year. Based on the purchase of these laptops with Perkins Grant funding, the Dell Latitude laptops were used in the Go Trailer at student outreach functions throughout the CBC service area during the applicable one-year grant period. The documents attached as **Exhibit 6** demonstrate the functions at which CBC utilized the Go Trailer and, therefore, the Dell Latitude laptop computers, during the applicable Perkins Grant period.

Thereafter, CBC management purchased tablet computers using CBC funds (not grant funds) to use in the Go Trailers lieu of the Dell Latitude laptop computers that were initially purchased for this purpose. This decision was made because the tablet computers were more portable and more attractive to younger students than the more utilitarian and less transportable Dell Latitude laptops. After that time, fifteen of the Dell Latitude laptops were placed in a computer lab in the CBC administration building in Beeville for both employee and faculty use.

According to 2 C.F.R. § 200.313, title in property purchased with federal grant funds vests in a non-federal entity during the period in which "[u]se of the equipment for the authorized purposes of the project during the period of performance, or until the property is no longer needed for the purpose of the project." See 2 C.F.R. § 200.313(a)(1) (alteration added). Moreover, "Use for non-federally-funded programs or projects is also permissible," so long as the use of equipment purchased with federal funds in non-federally-funded projects does "not interfere with the work on the projects or program for which it was originally required." See 2 C.F.R. § 200.313(c).

Here, after the one-year grant period for which the Dell Latitude laptops had expired, the Dell Latitude laptops were no longer necessary for use in the Go Trailers, as they were replaced by tablet computers at CBC's own expense. In accordance with the federal regulations quoted above, CBC management then continued to use the laptops for other purposes that in no way conflicted with CBC management's continued use of the Go Trailers, which remained fully equipped with computer equipment when being used for remote outreach. In short, the 17 Dell Latitude laptops were used for their intended purpose during the grant period, and when these laptops were no longer necessary to support the Go Trailer program, CBC management continued to use these computers in conformance with applicable federal regulations related to the use of equipment purchased with grant funds.

3D Scanner: At this time, the last preliminary finding that the CBC management is prepared to address relates to the missing 3D scanner, which was purchased in fiscal year 2015 for \$9,955.00 with Perkins Grant funds. As the THECB's preliminary report correctly notes, CBC management first learned that the 3D scanner in question was missing in the 2018-2019 academic year, when the faculty member

⁵ CBC reported the loss of the Dell Laptop computer, which discovered to be missing from the Dental Hygiene Program by the THECB during its visit in January 2019, to the CBC Police Department on March 5, 2019. The report was made after CBC management exhausted efforts to locate the missing equipment.

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thought to be in possession of this item reported that it had actually been missing since the Spring 2016 semester. Upon learning of this circumstance, CBC management filed a police report to allow an investigation to be undertaken and to, hopefully, have the 3D scanner returned.

The 3D scanner was utilized from the date of purchase (May 5, 2015) through the Spring 2016 semester, and the 3D printer, of which the scanner was a component part, is still in use in drafting courses, as evidenced by Exhibit 7. The absence of the 3D scanner has had little impact to no impact on the drafting course, as students are still able to utilize the 3D printer by using pictures downloaded from online sources. Accordingly, because the 3D scanner was no longer useful in the drafting course after the Spring 2016 semester, and in light of the scanner's depreciation since its purchase nearly four years ago, CBC management requests that the questioned costs related to the 3D scanner be, at a minimum, reduced to the 3D scanner's depreciated value of \$5,733.

In light of the circumstances above, and in order to bring finality to the current investigation, CBC management proposes the following corrective actions related to the THECB's inventory findings:

- **Responsible person(s):**

The CBC administration will recommend to that CBC Board of Trustees authorize a refund of \$22,451.24 at its regular meeting on March 19, 2019.

- **Projected completion date:**

Should the CBC Board of Trustees vote to authorize the refund of \$22,451.24 to the THECB, CBC management expects to accomplish the refund on or before April 1, 2019.

Recommendations:

Comply with grant reporting and control requirements for the purchase and use of equipment and supplies related to CTE in the Perkins grant activities. This should include appropriate procurement, delivery, and assignment of equipment.

CBC should implement an inventory control system that is updated in a timely manner for all receipt, assignment, and re-assignment of Perkins inventory items.

Management Response:

- **Responsible person(s):**

Director of Information Technology (inventory control system)

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Grants Compliance and Reporting Manager (coordination with inventory control system and grant reporting and control requirements)

• **Projected completion date:**

As discussed above, CBC management has already implemented a new Grants Management Procedure, attached as **Exhibit 4**. Further, CBC's updated Information Technology Inventory Procedure, effective February 1, 2019, is attached as **Exhibit 8**.

Sincerely,

A handwritten signature in blue ink, appearing to read "Beatriz", is written over a circular blue ink stamp.

Dr. Beatriz Espinoza, President
Coastal Bend College

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Attachment 2

CBC Management Response

Exhibits 1-8 (Available upon Request)

Exhibit 1: CBC Time and Effort Procedures for Grant-Funded Employees, 1 page

Exhibit 2: Common Unallowable Descriptions of Activity, 1 page

Exhibit 3: a. Performance Improvement Plan 5P1 – CTE Programs and Activities to Meet 2017-2018 Target – Non-traditional fields, non-traditional student’s progress, and non-traditional participants.

b. Performance Improvement Plan 5P2 – Non-traditional careers, dual credit courses, and non-traditional programs. 158 pages for a. and b.

Exhibit 4. CBC Business Operating Procedures Manual – Grants Administration 10 pages.

Exhibit 5. CBC President Monthly Update to the Board on Corrective Measures RE: THECB investigation and Related Issues, 11 pages.

Exhibit 6. “Go Trailer” functions, 60 pages.

Exhibit 7. DFTG 2302 Course Syllabus -drafting class with 3D scanner, 2 pages.

Exhibit 8. Information Technology Inventory Procedure, 4 pages.