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November 12, 2018

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 Nursing Shortage Reduction Program and Related Matters at Coastal Bend College*. There were two findings resulting from this investigation.

1. Coastal Bend College did not properly administer the Nursing Shortage Reduction Program during fiscal years 2016 and 2017. Questioned costs of \$260,287 have been identified.
2. Coastal Bend College did not have processes to appropriately and consistently administer grade changes.

Management responses were excerpted and incorporated into applicable areas of the final report. Auditor follow up comments to management responses were also included. An as-submitted version of management responses is included as an attachment to the final report.

Other matters were communicated in a Management Letter and provided separately.

This Compliance Monitoring investigation report will be presented to the THECB Committee on Agency Operations, a standing committee of the THECB Board, on January 23, 2019.

Sincerely,

A handwritten signature in black ink that reads "Mark A. Poehl".

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

Investigation Overview

We have completed *An Investigation of the Nursing Shortage Reduction Program (NSRP) and Related Matters at Coastal Bend College (CBC)*. While other areas of investigation are still in progress, this letter communicates our NSRP-related findings. Additionally, management issues that fall outside of the scope of Compliance Monitoring authority were communicated to you separately, in a Management Letter.

Scope Limitation

Our investigation was inhibited by:

- a. Some CBC staff members and students would not openly share information regarding the administration of the NSRP, and grade changes. Certain CBC personnel including senior administrators, faculty and staff either refused to meet with us, or communicated with us informally, using non-CBC email accounts and physical meetings away from the CBC campuses to share information. A common theme communicated to the auditors by these individuals was that staff felt intimidated and threatened by the possible loss of their job if they were found to have been providing information or otherwise cooperating with the auditors.

Management Response:

First, we note that THECB audit staff did not communicate their requests for information through CBC management.

Second, the limitation is stated vaguely. CBC management has no knowledge of where such "threats" are originating.

Auditor Follow-up Comment:

Numerous CBC employees (faculty and staff) preferred to be interviewed at a neutral location away from campus due to their stated fears of being associated with the investigation and management reprisal for such. Similarly, numerous CBC employees would only communicate with the auditors using non-CBC email accounts. The auditors acknowledge that "...audit staff did not communicate their requests for information through CBC management...." To do so would have compromised the auditors' ability to conduct an independent investigation. The auditors further acknowledge that all specific documents requested were provided.

- b. CBC elected to retain an attorney for "Legal matters involving the Texas Higher Education Coordinating Board", while the investigation was still in progress. The

ability thereafter to obtain candid information directly from the source, such as CBC staff involved in transactions under review, was compromised. Thus, our findings are limited by the information we were able to obtain as a result of these restrictions.

Management Response:

CBC management feels this limitation is even more unfair and materially misconstrued what transpired.

...THECB had no direct communication with CBC's president concerning the scope or pace of the audit and never mentioned any concerns or limitations to her.

Auditor Follow-up Comment:

The auditor did not ask for assistance of counsel in obtaining information needed for the investigation. To the contrary, the auditor indicated that auditors seek information directly from the source of the information, to enhance the credibility and value of the information.

This engagement was an investigation and not an “audit”, as specified throughout the management response. The management response further asserts that it is not unusual for an institution to have counsel represent it “...with preparation of audit responses.” While this may be the case, the scope limitation did not occur with respect to responses, but rather with respect to obtaining candid information directly from the source, regarding transactions under review in an ongoing investigation. We noted the information provided by counsel predated the investigation reporting phase by several weeks.

It is acknowledged that communication with CBC employees was not expressly, to our knowledge, prohibited by management, and that management assisted in three cases where staff were not responding to emails from the auditors.

Detailed Observations, Recommendations, Management’s Response and Auditor Follow-up Comments

1. Nursing Shortage Reduction Program

CBC administration of the NSRP Grant resulted in substantial noncompliance with Coordinating Board requirements, and questioned costs of \$260,287. The accounting practice used during the 2016 and 2017 fiscal years did not meet the NSRP requirements for separately accounting for grant activity. Although a

separate grant account for NSRP existed, the manner in which the account was used did not account for the grant activity at the time such activity occurred. Grant expenses reported to the Coordinating Board for 2016 were not accounted for in the NSRP account and reported amounts were not supported by underlying documentation. All costs reported for fiscal year 2016, or \$100,923, are considered questioned costs.

In 2017, NSRP non-payroll grant expenses of \$76,564 reported for 2016 were not booked in a timely manner and we were unable to reconcile the amount reported to the amount recorded in the general ledger. Further, travel expense reports did not comply with CBC's travel guidelines for reimbursement. Expense reports were not approved and submitted timely to demonstrate adherence to CBC's travel policy (requiring submission of travel expense documentation within 10 days of the travel). Grant reporting is inhibited when expenses are not booked in a timely manner.

Grant payroll expenses reported for 2016 and 2017 were not supported by time and effort certification, in accordance with CBC policy and sound grant management practices. Staff reported as paid by the grant were unaware that their time and effort was associated with the grant. NSRP payroll expenditures reported in fiscal year 2017 for the 2017 grant period were \$82,800 and are considered questioned costs.

Total questioned costs for the NSRP grant are \$260,287, which includes \$100,923 reported for fiscal year 2016, \$76,564 reported for fiscal year 2016 in fiscal year 2017 (non-payroll expenses), and \$82,800 of payroll expenditures reported for fiscal year 2017. Questioned costs are detailed in **Exhibit 1 Summary of Questioned Costs**.

Recommendations

Refund \$260,287 in reported NSRP expenses to the Texas Higher Education Coordinating Board.

Establish appropriate controls to ensure that the NSRP grant is appropriately accounted for.

Ensure that time and effort reports supporting reported grant amounts adhere to CBC policy and sound grant management principles.

Comply with CBC travel policy regarding timely submission of travel claims to ensure accurate grant reporting.

Management Response:

First, CBC's Chief Financial Officer ("CFO") at the time of the noncompliance relating to the NSRP grant was Ms. Dela Castillo.

Auditor Follow-up Comment:

NSRP program reports dated June 8, 2017, October 12, 2017, and March 20, 2018 were signed by Ms. Shannon McCarron, CFO and Ms. Julia Garcia, Dean of Workforce Training (June and October reports) and Ms. Shannon McCarron, CFO and Ms. Loana Hernandez, Assistant Dean of Allied Health (March report) and submitted to the Coordinating Board.

Management Response:

Of the \$76,564 of non-payroll grant expenses reported for fiscal year 2016, CBC management submits that \$25,906 was accurately reported and should not be refunded.

Although these expenses were initially recorded in CBC's Unrestricted Operating Budget, they were later (prior to the end of the fiscal year) journalized to the NSRP's grant and can be directly reconciled to the CBC's RN program.

Auditor Follow-up Comment:

THECB is not requesting that Coastal Bend College refund any money for failure to comply with travel policy. The travel non-compliance was only an incidental factor for the questioned costs reported in fiscal year 2017, for the fiscal year 2016 grant. These costs were questioned because the accounting entries were not booked until the eleventh month of the fiscal year and the amounts reported to the Coordinating Board did not reconcile to the grant account in the CBC general ledger.

Thus, the Coordinating Board continues to request that CBC repay \$260,287.

Management Response:

CBC management is unaware of any applicable CBC policy that imposes a requirement to track time and effort associated with any particular grant.

Auditor Follow-up Comment:

THECB conducted and reported on a federal desk review of the Carl D. Perkins Act Grant during fiscal year 2017. CBC, in response to the auditor's request for

information as part of the desk review, provided a document titled “Time and Effort Procedure for Grant-Funded Employees” (see **Exhibit 2**).

2. Grade Changes

Processes for making changes to academic grades requires significant improvement. Weaknesses in grade change controls subject CBC to risk of unauthorized and inappropriate grade changes.

a. Policies and procedures for grade changes are not documented

Varying versions of the process to review and execute grade changes were noted, and no written grade change policy exists. The Registrar and staff member who were interviewed regarding the actual practices used for grade changes provided conflicting information regarding the requirement for faculty approval for grade changes.

b. Grade changes were not properly authorized

Nursing curriculum-related grade changes were initiated in 275 instances for 124 students for exams administered throughout the fall 2017 semester. All 275 grade changes were completed on or after January 28, 2018, which was 45 days from the end of the fall 2017 semester (December 15, 2017). Spring semester 2018 began on January 22, 2018.

- 139 (50.5%) grade changes did not contain a faculty signature, as required by the grade change form.
- Eight students were changed from a failing to passing grade, including three students whose grade change form did not contain a faculty signature. Due to the time lag between semester end and grade change processing, student matriculation could have been negatively impacted.
- 16 grade change forms had a blank “reason for change” line.
- 31 grade changes forms were not processed; therefore, the student transcripts do not reflect the changes indicated on the grade change forms.
- Seven grade change forms were unable to be tested, because a transcript was not available or was incomplete.

Grade change forms for 21 instances were reviewed for the spring 2018 semester. Eight of these 21 (38%) grade change forms had an incorrect letter grade typed in the "change letter grade from" box. This error moved the student from a fail to pass status.

The Nursing Faculty Handbook (2012) states that "item analysis will be performed on all exams"; "Adjustments to tests will be according to assessment of the test items and according to applicable and appropriate student challenge of test questions"; "Item analysis will reflect all alterations made to the original, such as multiple correct options, etc." The Assistant Dean of Allied Health described how Item Analysis should be performed, and the description involved a group of faculty members reviewing exam scores and documenting their determination on an item-by-item basis. The available evidence did not substantiate this process description, for grade changes reviewed from the fall 2017 and spring 2018 semesters. Nor does CBC have a documented item analysis policy.

Based on the Nursing Faculty Handbook criteria for item analysis, it can be reasonably inferred that only a faculty member would have the knowledge and information to conduct and approve changes resulting from such an analysis. In comparing practices with other colleges and universities, grade changes at these institutions are faculty-centered and are only executed without faculty authorization when justified by extenuating circumstances (e.g., faculty member death).

Weak controls over both grant administration and grade changes indicate weak institutional integrity and could result in numerous impacts including accreditation issues. The Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) Resource Manual Section 1.1 states, "Institutional integrity is essential to the purpose of higher education. Integrity functions as the basic covenant defining the relationship between the Southern Association of Colleges and Schools (SACSCOC) and its member and candidate institutions."

Recommendations

Reform the grade change process by establishing appropriate controls to ensure that grade changes are authorized, documented, and in agreement with newly created CBC policy and accreditation principles.

Review the 38 exceptions including unprocessed grade change forms and instances of students missing transcripts to determine what, if any, action is necessary for student grades to be accurate.

Management Response:

CBC understands that its process for grade changes needs to be tightened. Therefore, CBC is already diligently at work on creating, adopting and maintaining a clear, concise process and procedure for grade changes in the future. We began this process in the late summer of 2018 and plan to take the new policy to our board for approval before the end of the year, allowing for full implementation in 2019. The new policy addresses the following material points:

- Who may initiate a grade change, including the requirement of documented instructor approval*
- Detailed procedures for filling out and submitting grade change forms*
- Strict deadline for when grade changes must be complete*
- Procedures for grade changes due to extenuating circumstances*
- Comprehensive training for faculty and staff on the new policy and procedures will be mandatory in the first quarter of 2019. On June 5, 2018 and September 1, 2018 all full-time employees were trained in FERPA. Training on the new grade change policy will include brief reminders on FERPA as it relates to grade changes.*

We believe the new policy, when implemented and adhered to, will address all concerns related to previous grade changes noted in the draft report.

As to the past grade changes mentioned in the draft report; CBC wishes to note:

- There were 272 unduplicated grade change forms submitted for 124 students. 142 of those grade change forms were signed by faculty (52%)*
- Eight students were changed from a failing to a passing grade, 4 of those students were allowed to return to the vocational nursing program because that was the only class that they failed*
- Fall grades were submitted on December 21, 2017 which was the same day*

that faculty, staff and administration went on winter leave

- *It was brought to the attention of the Interim Director of the Vocational Nursing Program, Loana Hernandez, that the initial report of a faculty member not performing the required item analysis for their class (4 instructors teach the same class) had not been resolved near the end of the week of January 8, 2018*
- *Item analysis and recalculation was performed through the weekend of January 13, 2018*
- *Spring semester began January 16, 2018*
- *Results of analysis and recalculation were presented to Dean of Workforce and permission was granted to change grades on January 16, 2018*
- *Students that would be able to return to program (4) due to the grade changes were contacted and instructors were informed on January 16, 2018*

Also, please find attached a letter from Loana Hernandez, Assistant Dean of Allied Health, further explaining the grade changes to the Texas Board of Nurses.

Finally, with regard to grade changes the draft report notes that "Due to the time lag between semester end and grade change processing student matriculation could have been negatively impacted. "The reason for the time lag is explained above and as also stated the potential time lag issue will be fully addressed in the new policy requiring prompt processing for grade changes. However, CBC wishes to note that even as to past grade changes, no actual impact on matriculation was noted or occurred and respectfully requests that the final report note that fact.

Auditor Follow-up Comment:

CBC did not address the 31 instances noted in the report finding #2, where the student transcript did not match grade change forms, or the seven instances where the auditors could not test transcripts because documentation was not available or was incomplete. Additional due diligence is needed by CBC before a conclusion can be determined that no actual impact on matriculation occurred.

Exhibit 1 Summary of Questioned Costs

Coastal Bend College Nursing Shortage Reduction Program Reports	Report Date	Reported Expenses 2016	Questioned Costs
Report 1 (2016)	June 22, 2017	\$100,924	\$100,924
Report 2 (2016)	October 12, 2017	\$76,563	\$76,563
			\$177,487
	Report Date	Reported Expenses 2017	Questioned Costs
Report 3 (2017)	March 20, 2018	\$174,494	\$82,800
			\$82,800
Total Questioned Costs			\$260,287

Exhibit 2 Time and Effort Procedures for Grant-Related Employees



Time and Effort Procedures for Grant-Funded Employees

Background

As part of Coastal Bend College's ongoing effort to increase and retain outside funding sources, the procedures for time and effort reporting for grant-funded employees have changed. Time and effort is required of employees paid from federal, state, or other third-party funding. This policy is not new, however the level of enforcement is.

Revised Time and Effort Procedure

Effective March 18, 2014, time and effort reports for each grant-funded employee must accompany the employee's payroll timesheet. Absence of this documentation may result in delays in the processing of the employee's payroll. This documentation should be submitted to the payroll department no later than the regular deadline for each payroll period. Each time and effort submission should be fully-completed and signed by both the employee and the supervisor.

Please contact the Business Office if you have any questions regarding this update.

Attachment: Coastal Bend College As-Submitted Management Response

Beatriz T. Espinoza, Ph.D.
President



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www.coastalbend.edu

November 5, 2018

Mr. Mark Poehl – Director, Internal Audit & Compliance
The Texas Higher Education Coordinating Board
1200 East Anderson Lane
Austin, Texas 78752
Email: mark.poehl@THECB.state.tx.us

Dear Mr. Poehl,

Thank you for the opportunity to review the draft report and findings of THECB Internal Audit and Compliance regarding the Nursing Shortage Reduction Program (NSRP) at Coastal Bend College (CBC). CBC executive management listened and has now reviewed in detail the draft report along with its advisors. This letter is management's initial response and action plan. As you will note below, we are requesting material changes to the draft report and accordingly respectfully request the opportunity to supplement management's response and commit to further remedial action if THECB revises the draft report.

First, let me say that CBC management takes the audit process and THECB's findings very seriously. We strive to operate CBC for the educational benefit of its students in a fiscally responsible manner. Some of the issues noted in the THECB draft report were realized by CBC administration and corrective actions are already underway; as detailed below. We hereby commit to see those remedial measures through to successful implementation and undertake the additional

measures discussed in this letter. We appreciate THECB highlighting these issues and giving us further guidance towards corrective action.

Before moving to our specific responses and action plan, I do want to point out the significant context in which the THECB audit of the NSRP grant and related matters at CBC occurred. As I am sure you are aware, the audit was conducted at a time when there has been a pitched battle raging in Beeville concerning CBC. A group of disgruntled former employees wish to bring down and “re-build CBC.” They care not what CBC means to the community and hear no other voices. They simply want their vision to prevail and look to CBC as their personal benefactor. We know these voices have been in active communication with THECB. We feel their voices have been heard above those currently entrusted to deliver the mission of CBC. The result is that we believe the tone and substance of the draft audit report have been unduly colored by those in the community who want to gain control of CBC going forward. We ask only that you hear our voice through this response letter and any answers we can provide to follow-up questions or requests for information. As noted in the concluding section of this response letter, much has been accomplished at CBC in recent years. As we stated at the debrief, we continue to stand ready to continue progress and provide information and assist in your inquiries. In the end, we pledge whatever additional corrective action is necessary.

Scope Limitations

The draft report sets forth two limitations which THECB alleges “inhibited” its investigation. We strongly object to both and respectfully request that they be removed or substantially modified as discussed below. Simultaneously and/or alternatively we hereby

unequivocally state that CBC management will undertake whatever actions you request of us to alleviate or mitigate any effects of the alleged limitations set forth in the draft report.

Our specific responses to each limitation are as follows:

Limitation 1

“Some CBC staff members and students would not openly share information regarding the administration of the NSRP, and grade changes. Certain CBC personnel including senior administrators, faculty and staff either refused to meet with us, or communicated with us informally, using non-CBC email accounts and physical meetings away from the CBC campuses to share information. A common theme communicated to the auditors by these individuals was that staff felt intimidated and threatened by the possible loss of their job if they were found to have been providing information or otherwise cooperating with the auditors.”

Management Response to Limitation 1

First, we note that THECB audit staff did not communicate their requests for information through CBC management. CBC management was not and still is not precisely aware of what information was sought in all instances. CBC management’s instructions to staff were and remain “cooperate fully.” If THECB had brought (or now brings) to CBC management any instances of staff not complying with requests for information, it would have immediately issued (or will now issue) additional directions to fulfill all requests.

Second, the limitation is stated vaguely. CBC management has no knowledge of where such “threats” are originating. Perhaps THECB doesn’t either. Under these circumstances, it is

grossly unfair to imply CBC management was somehow encouraging non-compliance with the audit. No such actions were ever undertaken by CBC management. Again, if THECB brings any specific instances of “threats” or “intimidation” to our attention we will promptly take appropriate action.

Third, we believe we heard you say in the de-briefing that THECB audit staff has no knowledge of any information it did not receive due to any feelings of “threats” or “intimidation” directed at staff. If THECB feels it is missing any information, please alert us immediately and we will see that it is in the hands of THECB audit staff as soon as possible. Absent more specific detail unknown to us, this seems like a theoretical limitation on the audit at best – CBC management should at least have the opportunity to alleviate your concerns or this limitation of scope should be removed from the final report or substantially modified to be clear that THECB has no knowledge of current management threatening jobs if staff complied with audit requests.

Fourth, and finally, CBC management has recent and definitive evidence that a culture of threats and intimidation does not exist on campus. CBC recently completed a campus-wide anonymous survey of employees. The results – across all categories of employees, 87% report they are “supported in their work at CBC.” Accordingly, any observations by THECB to the contrary during the audit were anomalies and do not reflect the overall culture at CBC.

Limitation 2

“CBC elected to retain an attorney for “Legal matters involving the Texas Higher Education Coordination Board”, while the investigation was still in progress. The ability thereafter to obtain candid information directly from the source, such as CBC staff involved in transactions under review, was compromised.”

Management Response to Limitation 2

CBC management feels this limitation is even more unfair and materially misconstrued what transpired. It is accurate that CBC did retain the services of an attorney to assist it in a) responding to the audit; and b) communicating to THECB its earnest desires to cooperate and begin the post-audit process of any remedial action necessary. It is an undisputable fact that retention of outside counsel did not “inhibit” THECB’s audit. To the contrary, outside counsel expedited and assisted in providing information responses in two instances near the end of the audit. In fact, from the time THECB announced its audit until the time outside counsel was retained, THECB had no direct communication with CBC’s president concerning the scope or pace of the audit and never mentioned any concerns or limitations to her. She was never given any opportunity to alleviate or mitigate these alleged limitations.

The facts of these interactions are not controverted. Retained counsel contacted Mr. Poehl and stated that CBC was anxious to complete the audit and move into the remediation phase. Counsel asked if there were pending/open requests for information. Mr. Poehl responded that there were two items related to: 1) a purchase of furniture; and 2) resurfacing of a parking lot. Counsel, forthwith, contacted CBC management, communicated that exact nature of the information request as relayed to him by Mr. Poehl, and then assembled the information received from CBC and delivered it to THECB. At no time was THECB audit staff told it could not communicate with CBC staff. Far from THECB requests for information being “inhibited” such requests were furthered. In the de-brief, THECB readily agreed that this alleged limitation did not result in the withholding of any information. Accordingly, the inclusion of this limitation seems to fit squarely in the category of “no good deed goes unpunished.”

Continued inclusion of this limitation in the final audit report would have a chilling impact on a college's right to retain counsel and would ironically impinge on its desire to be as responsive to audits as possible. It is no secret that audits by a higher education regulatory authority are not a usual occurrence. Staff responsible for the day-to-day operations of the campus are not uniformly familiar with the audit process. Attorneys are routinely involved in assisting with audit responses both behind the scenes and forward-facing to the auditor in both public and private entities. Large institutions of higher education have whole armies of in-house attorneys (sometimes specifically charged with and specializing in audits and tax matters) who routinely assist with preparation of audit responses. CBC's retained counsel for this matter has himself sat in on audit de-briefs for other institutions of higher education and never has his presence been raised as a limitation on the scope of the audit. Is CBC to be denied that right to efficiently respond to an audit because it is a small community college that cannot afford a large in-house legal team? In fact, CBC has no in-house attorneys at its beck and call.

In sum, this alleged limitation of scope is grossly unfair and inaccurately implies CBC's earnest desire to efficiently respond to the audit somehow created an impingement on the performance of the audit. The limitation language inaccurately and unfairly strongly implies CBC was attempting to curtail the audit by seeking legal counsel. CBC respectfully requests that this alleged limitation be removed from the audit report especially in light of the fact that THECB audit staff admits that no interference with the audit occurred and outside counsel's interaction with THECB actually expedited the delivery of information to THECB.

Next, we address the draft reports' findings.

1. Nursing Shortage Reduction Program

“CBC management of the NSRP Grant resulted in substantial noncompliance with Coordinating Board requirements, and questioned costs of \$260,287. The accounting practice used during the 2016 and 2017 fiscal years did not meet the NSRP requirements for separately accounting for grant activity. Although a separate grant account for NSRP existed, the manner in which the account was used did not account for the grant activity at the time such activity occurred. Grant expenses reported to the Coordinating Board in 2016 were not accounted for in the NSRP account and reported amounts were not supported by underlying documentation. All costs reported in fiscal year 2016, or \$100,923, are considered questioned costs.

In 2017, NSRP non-payroll grant expenses of \$76,564 reported for 2016 were not booked in a timely manner and we were unable to reconcile the amount reported to the amount recording in the general ledger. Further, travel expense reports did not comply with CBC’s travel guidelines for reimbursement. Expense reports were not approved and submitted timely to demonstrate adherence to CBC’s travel policy (requiring submission of travel expense documentation within 10 days of the travel). Grant reporting is inhibited when expenses are not booked in a timely manner.

Grant payroll expense reported for 2016 and 2017 were not supported by time and effort certification, in accordance with CBC policy and sound grant management practices. Staff reported as paid by the grant were unaware that their time and effort was associated with the grant. NSRP payroll expenditures reported in fiscal year 2017 for the 2016 grant period were \$82,800 and are considered questioned costs.

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In 2017, NSRP non-payroll grant expenses of \$76,564 reported for 2016 were not booked in a timely manner and we were unable to reconcile the amount reported to the amount recording in the general ledger. Further, travel expense reports did not comply with CBC’s travel guidelines for reimbursement. Expense reports were not approved and submitted timely to demonstrate adherence to CBC’s travel policy (requiring submission of travel expense documentation within 10 days of the travel). Grant reporting is inhibited when expenses are not booked in a timely manner.

Grant payroll expense reported for 2016 and 2017 were not supported by time and effort certification, in accordance with CBC policy and sound grant management practices. Staff reported as paid by the grant were unaware that their time and effort was associated with the grant. NSRP payroll expenditures reported in fiscal year 2017 for the 2016 grant period were \$82,800 and are considered questioned costs.

Total questioned costs for the 2016 NSRP grant are \$260,287, which includes \$100,923 reported in fiscal year 2016, \$76,564 reported in fiscal year 2017 (non-payroll expenses), and \$82,800 of payroll expenditures reported in fiscal year 2017.”

Management’s Response to NSRP Audit Findings

Regarding THECB concerns with CBC’s administration of the NSRP grant for fiscal years 2016 and 2017, CBC acknowledges the shortcomings of its grant administration process and procedures relating to the NSRP grant and is taking measures to ensure compliance with grant requirements in the future.

First, CBC’s Chief Financial Officer (“CFO”) at the time of the noncompliance relating to the NSRP grant was Ms. Dela Castillo. Errors were made by the CFO at that time when the NSRP general ledger numbers were set up, which caused the time and effort of employees not at the Pleasanton campus to not be properly reflected with regard to the NSRP grant. Ms. Castillo resigned from her position in April 2017 and CBC has been without a permanent CFO since that time, despite active and continuous posting for the position. The absence of a qualified CFO has materially contributed to the deficiencies identified by THECB.

Moving forward, however, Olga Mendez joins CBC as its new CFO during the first week of November. Ms. Mendez comes to CBC from West Oso Independent School District, where she has served for more than 15 years as the Accounting Manager. As West Oso ISD’s Accounting Manager, Ms. Mendez’s primary duties were maintaining internal control procedures, reconciliations, annual audit compilation, and financial software administrator. Prior to West Oso ISD, Ms. Mendez worked at a consulting firm that specialized in audits of public sector institutions

and grants compliance. We fully anticipate that Ms. Mendez will oversee a revitalization and enhancement of CBC's grant administration.

Additionally, as a result of CBC management's internal investigation into NSRP grant compliance matters, CBC management recognized the need for centralized ownership of grants reporting and management functions. Steps are being implemented to further centralize and standardize grant management at CBC, but frankly, these changes, among others, are the types of management processes that have drawn the most vocal protests from the "Rebuild CBC" crowd.

CBC has added a grants Compliance and Reporting Manager, Anna Tarver, to its staff. Ms. Tarver assumed her role in August 2018, after previously working with the Texas Comptroller of Public Accounts. Ms. Tarver has extensive experience conducting tax audits, trainings, and account reconciliations. Her experience with both state and federal will assist CBC with ensuring accurate and timely reporting requirements and general compliance practices are met in the future.

CBC management is confident that with the significant additions of a knowledgeable CFO and experienced grants Compliance and Reporting Manager, coupled with extensive training for both new and existing CBC staff, CBC will be able to ensure compliance with federal, state, and local business-related requirements in the future.

Second, at no time prior to THECB's review of CBC's NSRP grant was CBC management alerted that an issue existed with respect to its administration of the grant. CBC's external auditing firm that performs CBC's annual audit did not conduct a review CBC's state grants in the auditing process. The auditors informed CBC management that CBC did not possess a sufficient amount of state grants to warrant a sampling review of CBC's state grants. Indeed, as reflected in the most recent audit report, operating revenues stemming from state grants and contracts amounted to \$608,382 in fiscal year 2017 and \$239,327 in fiscal year 2016, compared to total CBC operating

revenues of \$9,236,224 in 2017 and \$9,430,920 in 2016. Consequently, all state grants and contracts amounted to less than 6.6% of CBC's operating revenues in 2017 and approximately 2.5% of CBC's operating revenues in 2016.

Third, CBC has already begun the process of reviewing and revising its procurement, internal control, accounting, budgeting, and grants management policies and procedures. In addition to working with its outside legal counsel, where appropriate, in the review and revision process, CBC is exploring the engagement of one or more experienced consultants to not only assist CBC with the documentation review and revision process, but also to conduct hands-on training of CBC staff to ensure that the revised policies and procedures are implemented timely and accurately.¹ One of the consultants being evaluated by CBC for a potential partnership has assisted several K-12 institutions with becoming compliant with applicable rules, regulations, and best practices applicable to business offices after those institutions were under scrutiny by the Texas Education Agency for their financial-related practices. CBC management expects to complete this review and implementation of necessary changes by the end of the first quarter of 2019.

It is the paramount goal of CBC management to ensure CBC's compliance with applicable laws, rules, and regulations as well as CBC policies and procedures. CBC's efforts to ensure compliance detailed above will, we believe, prevent any similar findings issued by THECB or any other auditor in the future.

With regard to the findings by THECB relating to the NSRP grant for fiscal years 2016 and 2017, CBC management provides the following additional information and clarification, to assist THECB in finalizing its NSRP-related findings. Should THECB auditors require additional

¹ In addition to future training, CBC employees in the business office have recently attended a training relating to the NSRP Grant on August 16, 2018.

information, please contact CBC management and we will promptly provide all additional information requested.

a) CBC did not separately account for grant activity in fiscal years 2016 and 2017.

THECB states that the accounting practices used during fiscal years 2016 and 2017 did not separately account for grant activity. Although journal entries were recorded relating to the NSRP grant toward the end of the applicable fiscal year, CBC management acknowledges that direct expense entries to a separate grant account were not made. In addition to the NSRP training recently attended by several CBC employees involved in the administration of the NSRP grant, CBC management is confident that the measures already undertaken and that will be taken will remedy any future compliance issue in this area.

b) Of the \$76,564 of non-payroll grant expenses reported for fiscal year 2016, CBC management submits that \$25,906 was accurately reported and should not be refunded.

Non-payroll grant expenses of \$76,564 were reported for fiscal year 2016. THECB asserts that these expenses were not booked in a timely manner and cannot be reconciled. CBC management believes that \$25,906 was accurately reported and documentation was submitted during the audit showing that those expenses were properly attributed to the NSRP grant. Although these expenses were initially recorded in CBC's Unrestricted Operating Budget, they were later (prior to the end of the fiscal year) journalized to the NSRP grant and can be directly reconciled to the CBC's RN program. In sum, the original error in reporting was corrected and no malfeasance occurred with regard to these journalized entries. Consequently, CBC management requests that THECB reduce its requested refund amount by \$25,906 – i.e. – \$50,658 refund.

c) Travel expense reports did not comply with CBC's rigid travel guidelines for reimbursement, and those guidelines are currently being revised.

THECB states that "travel expense reports did not comply with CBC's travel guidelines for reimbursement. Expense reports were not approved and submitted timely to demonstrate adherence to CBC's travel policy "requiring submission of travel expense documentation within 10 days of the travel." Although CBC management is unaware of any state law or THECB requirement for travel expense documentation to be submitted within 10 days of travel, CBC's travel procedures² at the time did provide that travel expense forms were required to be submitted within 10 days of travel for reimbursement. This was a policy inherited by current CBC management. It imposes an unduly rigid and unrealistic requirement on those seeking travel reimbursement. Given this, CBC management acknowledges that the travel expense reports related to the NSRP grant were not submitted within 10 days of travel. Because it does not appear the submission and approval of the expense reports in question violates any terms of the NSRP grant, state law, THECB policy or even widely accepted expense control procedures, CBC management believes these travel expenses should not be subject to refund.

CBC management is currently revising its travel guidelines, including revising the documentation submission requirement to reflect a 30-day deadline post-travel for submission of documentation to qualify for reimbursement. The 30-day deadline is widely accepted across educational institutions and indeed by most private and public institutions as an appropriate time

² Although THECB refers to CBC's travel guidelines as a "policy," these guidelines are not, in fact, part of CBC Board-approved policy. CBC's travel guidelines appear to take the form of an exhibit to policy (specifically, DEE (Exhibit)), but these guidelines do not appear in CBC Board-approved policies listed in CBC's TASB Policy Online service. See <https://pol.tasb.org/home/index/155>. Rather, the guidelines are administrative procedures. Therefore, CBC management requests that all references to the travel guidelines as "policy" in THECB's correspondence be revised to reflect the accurate term of "procedures" or "guidelines" and not "policy."

period for submission of documentation for travel. CBC should not be penalized when the travel reimbursements in question did not violate the widely and near-universal standard in state government.

d) Grant payroll expenses for 2016 and 2017 were not supported by time and effort certification. CBC management is implementing corrective measures to ensure compliance with time and effort reporting requirements in the future.

THECB states that “[g]rant payroll expenses reported for 2016 and 2017 were not supported by time and effort certification, in accordance with CBC policy and sound grant management practices.” CBC management is unaware of any applicable CBC policy that imposes a requirement to track time and effort associated with any particular grant. Indeed, a search of the phrase “time and effort” in CBC’s Policy Online revealed no such applicable requirement. CBC management requests that the final report indicate which CBC policy imposes a time and effort reporting requirement or in the event no such applicable policy can be identified, CBC management requests that THECB revise its final report relating to this issue to remove any reference to CBC’s failure to comply with its own policy.

Notwithstanding the foregoing, CBC management recognizes that it is a best practice and almost universal standard in grant management to maintain time and effort documentation. Going forward, CBC management will implement this best practice in grants management. The new personnel identified above will ensure prompt action on this issue. Finally, it is worth noting that the grant periods remain open until 2020 and 2021 respectively and CBC might yet allocate appropriate expenses to the grants.

2. Grade Changes

The draft report's finds regarding grade changes:

"Processes for making changes to academic grades requires significant improvement. Weaknesses in grade change controls subject CBC to risk of unauthorized and inappropriate grade changes.

- a. Policies and procedures for grade changes are not documented

Varying versions of the process to review and execute grade changes were noted, and no written grade change policy exists. The Registrar and staff member who were interviewed regarding the actual practices used for grade changes provided conflicting information regarding the requirement for faculty approval for grade changes.

- b. Grade changes were not properly authorized

Nursing curriculum-related grade changes were initiated in 275 instances for 124 students for exams administered throughout the fall 2017 semester. All 275 grade changes were completed on or after January 28, 2018, which was 45 days from the end of the fall 2017 semester (December 15, 2017). Spring semester 2018 began on January 22, 2018."

Management's Response to Audit Report Findings Regarding Grade Changes

CBC understands that its process for grade changes needs to be tightened. Therefore, CBC is already diligently at work on creating, adopting and maintaining a clear, concise process and

procedure for grade changes in the future. We began this process in the late summer of 2018 and plan to take the new policy to our board for approval before the end of the year, allowing for full implementation in 2019. The new policy addresses the following material points:

- Who may initiate a grade change, including the requirement of documented instructor approval
- Detailed procedures for filling out and submitting grade change forms
- Strict deadline for when grade changes must be complete
- Procedures for grade changes due to extenuating circumstances
- Comprehensive training for faculty and staff on the new policy and procedures will be mandatory in the first quarter of 2019. On June 5th, 2018 and September 1st, 2018 all full-time employees were trained in FERPA. Training on the new grade change policy will include brief reminders on FERPA as it relates to grade changes.

We believe the new policy, when implemented and adhered to, will address all concerns related to previous grade changes noted in the draft report.

As to the past grade changes mentioned in the draft report; CBC wishes to note:

- There were 272 unduplicated grade change forms submitted for 124 students. 142 of those grade change forms were signed by faculty (52%)

- Eight students were changed from a failing to a passing grade, 4 of those students were allowed to return to the vocational nursing program because that was the only class that they failed
- Fall grades were submitted on December 21st, 2017 which was the same day that faculty, staff and administration went on winter leave
- It was brought to the attention of the Interim Director of the Vocational Nursing Program, Loana Hernandez, that the initial report of a faculty member not performing the required item analysis for their class (4 instructors teach the same class) had not been resolved near the end of the week of January 8, 2018
- Item analysis and recalculation was performed through the weekend of January 13, 2018
- Spring semester began January 16, 2018
- Results of analysis and recalculation were presented to Dean of Workforce and permission was granted to change grades on January 16, 2018
- Students that would be able to return to program (4) due to the grade changes were contacted and instructors were informed on January 16, 2018

Also, please find attached a letter from Loana Hernandez, Assistant Dean of Allied Health, further explaining the grade changes to the Texas Board of Nurses.

Finally, with regard to grade changes the draft report notes that “Due to the time lag between semester end and grade change processing, student matriculation could have been

negatively impacted.” The reason for the time lag is explained above and as also stated the potential time lag issue will be fully addressed in the new policy requiring prompt processing for grade changes. However, CBC wishes to note that even as to past grade changes, no actual impact on matriculation was noted or occurred and respectfully requests that the final report note that fact.

Concluding Comments

In the face of THECB audit findings, it is important not to lose focus on the big picture. Those who are disgruntled over changes made at CBC over the past six years can be unhappy, but they cannot argue with the results, especially the fact that CBC has gone from near bankruptcy to a debt-free institution with reserves (growing each year) in the time the current administration has been at its helm.

The program excellence is superb and leading in the state, student enrollment is up and community partnerships are strong. Graduation rates at CBC exceed the statewide average after three years, four years and six years, and our average time to achieve an associate degree is ahead of the state average.

Once graduated, students have less student loan debt – almost \$4,000 less – than other comparable students from around the state of Texas. The most important factor: Students are more likely to be employed or pursuing additional academic programs than the statewide average of other community colleges.

All in all, CBC is a good value and a great partner for the region. This change is because of efforts to enhance the culture of excellence, accountability and affordability. Goals THECB has always indicated it embraces.

CBC will of course address the issues identified by THECB audit staff. In short order its grant administration will rival its other administrative functions as best in class.

Sincerely,



Dr. Beatriz Espinoza, President
Coastal Bend College

Enclosure: Letter from Loana Hernandez to Texas Board of Nursing



MEMORANDUM

TO: Texas Board of Nurses
From: Loana Hernandez
Date: May 28, 2018
Subject: Information regarding grade changes

Our vocational nursing program has 4 sites operating under one program code. The instructors ensure the consistent delivery of instruction across all four sites by creating one syllabus and schedule for each course that the instructors follow. There is one "lead" instructor for each course who creates the schedule, assignments and exams for the course. The following points are the events that occurred that led up to grades being changed in the vocational nursing program:

1. A student contacted the lead course of a course to inform her that her test was compromised. The student sent the instructor a copy of the test bank that had been used to create the exam. Instructors had been informed that test banks were available online and they were not to be used to make exams prior to this instance. The instructor changed future exams rewording the test bank questions to trick the students.
2. All of the students failed the following two exams and all of the faculty members became upset because that lead instructor sent a message to the faculty that she was not going to do an item analysis and not going to throw out any questions. This upset all of the faculty.
3. We had a faculty meeting to address everyone's concerns. In this meeting the faculty decided that each faculty member would contribute 10 questions for each exam in the courses that they teach. I instructed all of the faculty members to run item analysis on all of their exams and review the results as a team and decide which questions to "throw out".
4. After the final exams, one instructor approached me stating that one of the instructors didn't perform the item analysis. I told the instructor to get with the team and discuss the issue. The day after that we went on our winter break.
5. When we returned from break the instructor informed me that the item analysis was never performed in that course. She said that the lead instructor stated that she was not going to do the item analysis or throw any questions out because she had a student that she didn't want to pass. The instructor that gave me this information voiced her concern that it was unfair to her students.
6. I asked the lead instructor for that course if she had done the item analysis. She told me that she had and that her team decided to throw out questions that less than 30% of students got correct.
7. I ran item analysis on all the course exams and gave credit for any questions that less than 30% of students got correct. I adjusted the grades accordingly. This led to four students passing that



had been dropped from the program for academic failure. This all occurred on the first day of classes so the students and faculty were informed at that time.

8. I submitted all of the grade change forms to the admissions office for all of the number grades that were changed (275 grades for 129 students) regardless if the letter grade changed (56 grades) or not. Out of the 56 letter grades that were changed only 7 of them were from failing to a passing grade. There were 3 grade changes that were done because the instructor put the wrong grade in for the wrong student. Other than those 3 grades, all the grade changes were 2-3 points only.
9. I submitted a disciplinary form against the faculty that did not perform the item analysis.
10. Our VN program received grant funds to update the equipment in our labs but the spring enrollment of students had no bearing on this grant. Our ADN program receives grant funds for the NSRP but the grade changes did not involve the ADN students.

I hope that this clarifies the situation that had been reported in the news media. If you have any other questions, please let me know.

PERFORMED BY:

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cc:

THECB

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