

Monitoring Plan
for the
State Fiscal Stabilization Fund (SFSF)
Government Services Fund (GSF)
U.S. Department of Education Award No. S397A090044

Updated July 2010

Introduction

This will serve as an update to the monitoring plan the Texas Higher Education Coordinating Board initially submitted to the US Department of Education on March 12, 2010. Changes to the original monitoring plan were made as part of our continuing process to evaluate risk and ensure appropriate allocation of resources for monitoring.

The American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law on February 17, 2009. Under ARRA, the Texas portion of the SFSF is almost \$4 billion, with approximately \$3.2 billion allocated to the Education Stabilization Fund and approximately \$723 million to the Government Services Fund (GSF).

The monitoring plan contained in this document covers the \$723,165,683 in GSF funding awarded to Texas. These GSF funds were appropriated by the Texas Legislature in Article XII of Senate Bill 1, as contained in the General Appropriations Act for the 2010-2011 biennium. Because the majority of the subrecipients of GSF funds are public institutions of higher education, the Office of the Governor assigned administrative and monitoring responsibility for the Government Services Fund to the Texas Higher Education Coordinating Board (THECB). The Texas Education Agency is responsible for administering and monitoring the \$3.2 billion Education Stabilization Fund and has developed a separate monitoring plan related to these funds.

Governor Rick Perry issued Executive Order (EO) RP-72 on August 25, 2009, relating to the management of ARRA funding in Texas. EO RP-72 is included in this monitoring plan as *Attachment A – Executive Order*. The EO mandates all state agencies and institutions of higher education that engage in the management and administration of ARRA funds to:

- maintain transparency and accountability in all cases throughout the processes involving receipt, deployment, management, administration and reporting of ARRA funds,
- develop strategies that maximize the use of ARRA funds without creating ongoing expenses to the state or localities after stimulus funds expire, and
- adhere to all state and federal statutes, rules and policies relating to ARRA and maintain current and proficient knowledge of them, including any training necessary to certify compliance with state and federal law.

Consistent with the EO RP-72, the THECB has established this monitoring plan to thoroughly and systematically monitor subrecipient's implementation of the GSF program. Included as attachments to this plan are the protocols that the THECB will use in monitoring subrecipients, and a preliminary monitoring schedule is provided to assess the scope and timeline of the overall monitoring plan. The monitoring plan, schedule, and protocols will be reviewed and revised periodically, as appropriate.

Application of Government Services Funds in Texas

GSF funds in Texas were appropriated by the Texas Legislature in Article XII of Senate Bill 1, as contained in the General Appropriations Act for the 2010-2011 biennium. The majority of these funds will be used by public universities, community colleges, and state agencies for operational costs such as salaries, fringe benefits, travel, equipment, procurement, subawards and other direct expenses.

The distribution of GSF funding received by Texas consists of approximately:

- \$327,000,000 to Institutions of Higher Education
- \$362,000,000 for the Texas Education Agency's purchase of public education textbooks
- \$34,000,000 for projects administered by state Agencies and ARRA related administrative costs

Monitoring Plan

To monitor ARRA funding, the THECB has created an ARRA Grants Program which will conduct pre-payment and data quality reviews of all monthly data submitted by subrecipients. A secure web-based reporting system has been implemented by the THECB for GSF subrecipients to promote timely and accurate submission of required financial and performance reports to support these reviews. The ARRA Grants Program will also conduct desk reviews and conduct and manage on-site monitoring of GSF subrecipients. In addition, the ARRA Grants Program will facilitate federal, state and other agency audits. Monitoring activities will focus on areas assessed as being of higher risk to help ensure the most effective use of monitoring resources. The ARRA Grants Program has ensured that this monitoring plan addresses the following areas:

- a monitoring schedule,
- monitoring policies and procedures,
- data collection instruments (e.g., interview guides and review checklists),
- monitoring reports and feedback to subrecipients, and
- processes to verify that required corrective actions are implemented.

Risk Assessment

Two risk assessments have been conducted by the ARRA Grants Program to define the need, extent, frequency, and type of monitoring needed for each subrecipient. The first assessment, completed in March 2010, considered general risk factors in determining who should receive on-site monitoring or desk reviews. It included, but was not limited to:

- the subrecipient's past performance on federal and ARRA programs,
- the dollar amount of the award,
- factors from pre-payment and desk reviews conducted by the ARRA Grants Program, such as the variance between expected and actual performance and budgets,
- significant problems with payment requests,
- results of previous monitoring visits,
- the length of time since the last monitoring visit, and
- how experienced the subrecipient is with the type of work to be performed.

In addition to these considerations, subrecipients were assessed from both a targeted GSF appropriation standpoint and at an enterprise level that considered the subrecipient as a whole. In accordance with this assessment, the larger Institutions of Higher Education (IHE), Health Related Institutions (HRI), and state agencies were generally determined to have lower elements of risk, given that they

- (1) are likely to have managed federal programs in the past,
- (2) are likely to have more sophisticated financial control systems related to state and federal grant awards already in place, and
- (3) are likely to have regularly received oversight by external auditors.

As additional data has become available during program execution, the ARRA Grants Program has updated its risk assessment process with this additional information. In a second assessment completed in July 2010, a factor was added to identify those subrecipients that submitted late monthly reports to the ARRA Grants Program or had persistent errors or duplications in these reports. In addition, entities appropriated specific projects by the Texas Legislature in Section 25 of Article XII, and those using funds towards payroll and equipment procurement were quantified as having elements of higher risk. Using these considerations, subrecipient risk was measured against the criteria found in *Table 1: GSF Risk Assessment Factors*, with one point being assigned for each factor.

RISK ASSESSMENT FACTORS				
A	B	C	D	
Reporting Continuity (Value 1 pt.)	Section 25 Project(s) (Value 1 pt.)	Payroll Expenses (Value 1 pt.)	Equipment Expenses (Value 1 pt.)	Total points (Max. value 4 pts.)

Table 1: GSF Risk Assessment Factors

Subrecipients’ assigned points were then totaled to come to the risk assessment score. Subrecipients that had total scores of “0-1” are considered low risk, “2-3” are considered medium risk, and “4” are considered high risk.

When the preliminary GSF risk assessment was conducted in March 2010, several subrecipients were selected for on-site monitoring. During this current assessment phase, a few additional subrecipients have been selected. The updated assessment has also modified the entities assigned to other types of oversight.

Overview of Monitoring Activities

The THECB monitoring plan includes three (3) phases of oversight: (1) pre-payment reviews of source documentation prior to reimbursement, (2) desk reviews, and (3) on-site monitoring. Subrecipients are assigned to a level of monitoring based on their risk assessment.

Due to the accelerated schedule for spending of GSF funds and the increased volume of payments to subrecipients over the period of performance, THECB is utilizing pre-payment reviews to reduce or eliminate accounting corrections and audit findings. The ARRA Grants Program staff conducts pre-payment reviews for 100% of all subrecipient monthly reimbursement requests which consist of compliance screening for allowable, reasonable, and allocable costs. Subrecipients are required to submit a level of source documentation (i.e. receipts, credit card statements, payroll journal transactions. etc) as well as any additional documentation deemed necessary during the pre-payment review.

Subrecipients that scored in the medium range of the risk assessment will be assigned to desk review monitoring. On-site monitoring will be conducted for subrecipients that scored in the high risk range. THECB has selected a contractor to assist with statewide on-site monitoring; this competitive procurement process was completed in July 2010. This approach will maximize existing THECB staff resources and brings to the program an experienced CPA firm who will leverage their expertise with ARRA, federal programs, IHEs and state agencies to round out the comprehensive plan.

THECB will utilize continuous risk monitoring, reevaluation, and process escalation throughout the program period. This continuous review process will be conducted by the ARRA Grants

Program in conjunction with the contractor. During this continuous review period, if additional risk is identified externally (such as changing federal guidance) or internally (such as an issue identified during pre-payment review), the THECB may reevaluate the risk level of the subrecipient and escalate further monitoring and review as deemed necessary.

During the course of the THECB oversight of subrecipients receiving GSF, THECB will exercise all options available under State and federal law to remedy any identified significant findings or material deficiencies found in subrecipient administration or use of GSF including, but not limited to, the deobligation of funding.

Site Visits (full and limited scope)

Full scope site visits will consist of scheduled visits to the subrecipient's primary place of business. They will be based on the aforementioned risk assessment and cover a broad range of contract compliance and performance issues. Limited scope site visits will focus on a particular problem. At this time, the ARRA Grants Program expects their monitoring contractor to conduct only full scope site visits; limited scope site visits will be conducted by ARRA Grants Program staff. The THECB reserves the right to expand the scope of contractor's duties to include limited scope visits as needed during the period of performance.

Monitoring protocols for the GSF program are provided in *Attachment B – Monitoring Protocol*.

Full scope site visits will be structured to meet the following requirements:

1. A comprehensive and objective monitoring checklist will be provided to contractors which:
 - a. Focuses on outcomes and includes compliance requirements; monitoring criteria will reference the applicable contract requirement.
 - b. Assesses subrecipient performance; areas where contractors may exercise judgment will be defined by the ARRA Grants Program.
 - c. Specifies sample size to be reviewed; the ARRA Grants Program will designate sampling objectives.
2. Documentation requirements will be specified for contractors:
 - a. The checklist will allow for the documentation of the results of the site visit. For example, if the contractor is to review 10 case files, then the documentation must include the identification of the files reviewed, e.g. the case number, the staff members tested for salary allocations, expenditures reviewed, and equipment verifications.
3. Sampling and population will be specified for contractors:
 - a. The population will be completed by the ARRA Grants Program and all files relevant to the contract will be included. The contractor will not select the samples for review.

- b. If the sample item selected cannot be located by the contractor, the ARRA Grants Program will make a final determination in order to meet the goals of the monitoring visit.

Monitoring schedule

The period of performance for the majority of GSF subrecipients is October 1, 2009 through August 31, 2011. The ARRA Grants Program continues to update its monitoring schedule which can be found below as *Table 2: GSF Monitoring Schedule*. On-site reviews will be conducted by THECB staff and contractors over approximately a one-year period and each will be four to five days in duration.

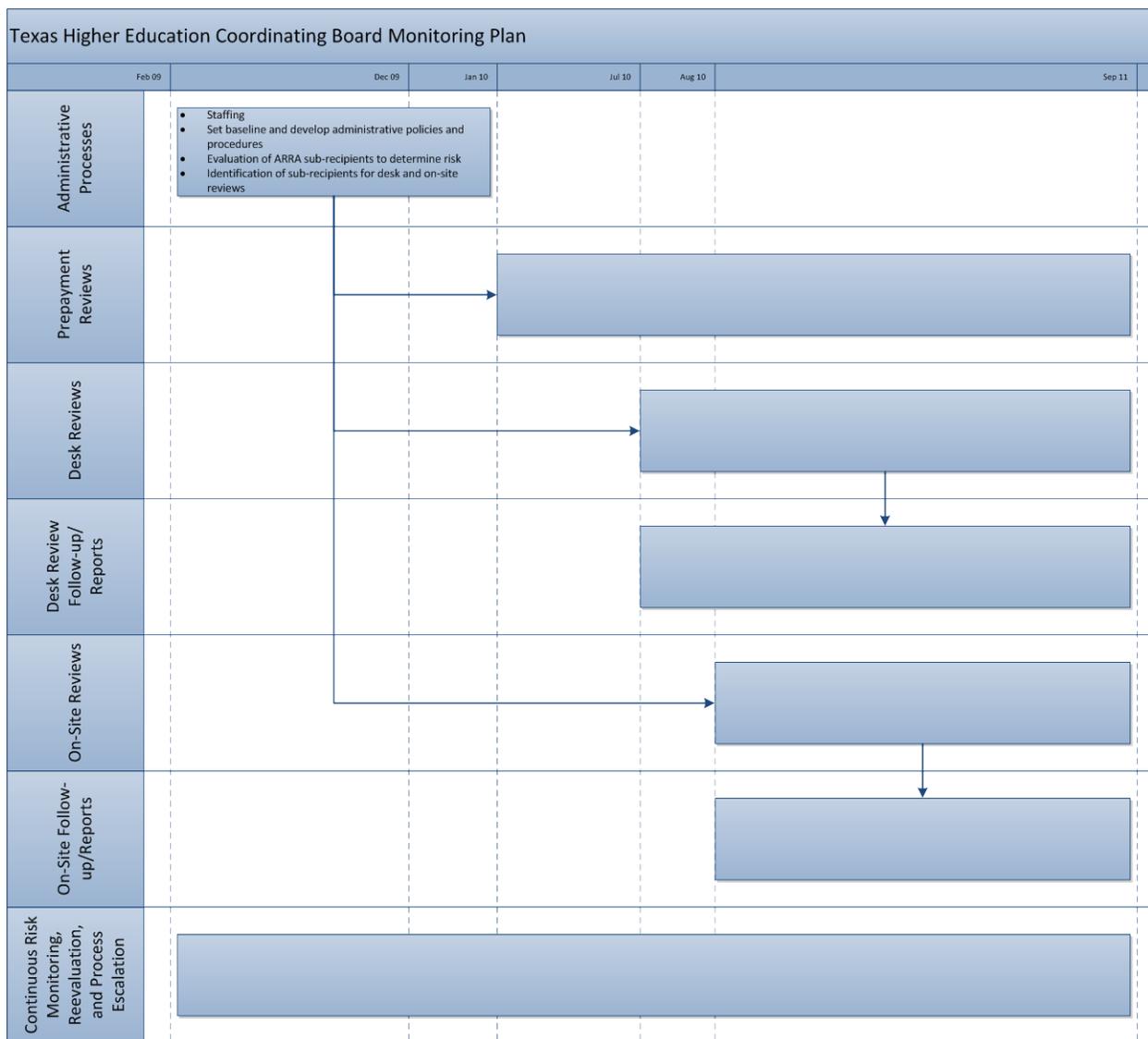


Table 2: GSF Monitoring Schedule

Monitoring report

After the desk review or monitoring visit, the ARRA Grants Program team or contractor will prepare the monitoring report for the subrecipient. The report will contain a brief summary of the monitoring activities undertaken by the team during the review. This will be followed by a summary of findings, required corrective actions, and recommendations. The report will be transmitted electronically to the subrecipient within thirty-five (35) business days of the desk review or on-site visit. The subrecipient will have ten (10) business days to review the report and provide any response, such as, rebuttals, corrective actions taken, and remediation efforts.

Follow-Up Activities

If a subrecipient is not able to demonstrate sufficient progress toward full compliance with issues identified in the monitoring report, or when such issues are so significant and pervasive that on-site verification by the THECB is required, the ARRA Grants Program will schedule a follow-up visit. Follow-up visits will be individualized to address the specific needs and issues presented by each subrecipient, and will address verification of the subrecipient's efforts to correct identified compliance issues.

**ATTACHMENT A
EXECUTIVE ORDER**



STATE OF TEXAS
OFFICE OF THE GOVERNOR

RICK PERRY
GOVERNOR

August 25, 2009

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
5:30 PM CLOCK

Coby Shorter, III
AUG 25 2009
Secretary of State

The Honorable Coby Shorter, III
Deputy Secretary of State
State Capitol Room 1E.8
Austin, Texas 78701

Mr. Deputy Secretary:

Pursuant to his powers as Chief Executive Officer of the State of Texas, Governor Rick Perry has issued the following order:

An order relating to the American Recovery and Reinvestment Act of 2009 and federal funding for Texas.

A copy of this order is attached to this letter of transmittal.

Respectfully submitted,

Gregory S. Davidson
Gregory S. Davidson
Executive Clerk to the Governor

GSD/gsd

Attachment

Executive Order

BY THE
GOVERNOR OF THE STATE OF TEXAS

Executive Department
Austin, Texas
August 25, 2009

EXECUTIVE ORDER RP 72

*Relating to the American Recovery and Reinvestment Act of 2009
and federal funding for Texas.*

WHEREAS, Texas strongly believes in accountable and transparent government; and

WHEREAS, Congressional enactment of the American Recovery and Reinvestment Act of 2009 (ARRA) will provide federal funding for Texas; and

WHEREAS, many Texas state agencies and institutions of higher education shall act as stewards and administrators of a large share of these funds; and

WHEREAS, guidelines with regard to expenditure of ARRA funds necessitate implementation of additional controls by state agencies and institutions of higher education; and

WHEREAS, the federal government has mandated requirements on how job creation and retention is to be counted under the ARRA; and

WHEREAS, the 81st Texas Legislature has placed certain requirements on state agencies relating to the expenditure and reporting of ARRA funds;

NOW, THEREFORE, I, RICK PERRY, Governor of Texas, by virtue of the power and authority vested in me by the Constitution and laws of the State of Texas as the Chief Executive Officer, do hereby direct the following:

Goals. All state agencies and institutions of higher education that engage in the management and administration of ARRA funds are directed to:

- maintain transparency and accountability in all cases throughout the processes involving receipt, deployment, management, administration and reporting of ARRA funds; and
- develop strategies that maximize the use of ARRA funds without creating ongoing expenses to the state or localities after stimulus funds expire; and
- adhere to all state and federal statutes, rules and policies relating to ARRA and maintain current and proficient knowledge of them, including any training necessary to certify compliance with state and federal law.

Requirements. All state agencies and institutions of higher education that engage in the management and administration of ARRA funds are directed to:

- require that grant recipients and sub-recipients certify that ARRA funds will be used in accordance with state and federal laws as a condition of receiving funds; and
- require that grant recipients and sub-recipients track all ARRA funds and their projected statuses separately from all other funds, and comply with Section 1512 of the ARRA and other state and federal reporting requirements; and

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SECRETARY OF STATE
5:30 PM O'CLOCK

AUG 25 2009

- submit plans for expenditure of ARRA funds to the Office of the Governor and the Legislative Budget Board, as directed in Article XII of the General Appropriations Act, Senate Bill No. 1, Acts of the 81st Legislature, Regular Session, 2009; and
- report all ARRA-related grant applications of state agencies and institutions of higher education to the Comptroller of Public Accounts, using a database created by that office.

Job Creation Numbers. In accordance with federal mandates, each state agency or institution of higher education involved in the management and administration of ARRA funds shall report job creation and retention numbers attributed solely to ARRA funds in a manner that neither inflates nor underreports those numbers.

Coordination and reporting. All state agencies and institutions of higher education that engage in the management and administration of ARRA funds are directed to:

- designate responsible and qualified individuals as points of contact with the governor or his designee to maintain a flow of current information relating to the receipt, deployment, management and use of funds received by the state and any of its political subdivisions or contractors under ARRA; and
- confer regularly with the Office of the Governor and other appropriate state and federal entities regarding the use, management and administration of ARRA funds with the intent of establishing sound strategies, coordinated approaches and cooperative communication; and
- post all ARRA-funded job openings in state agencies and institutions of higher education on WorkinTexas.com and distinguish ARRA-funded positions from positions funded through other sources of revenue; and
- encourage all sub-recipients of ARRA funds to post all ARRA-funded job openings on WorkinTexas.com and distinguish ARRA-funded positions from positions funded through other sources of revenue; and
- report all job creation and retention resulting from expenditure of ARRA funds as specified by Section 1512 of the ARRA and subsequent guidance from the federal Office of Management and Budget and or other federal oversight agencies.

This executive order supersedes all previous orders on this matter that are in conflict or inconsistent with its terms, including Executive Order RP-70, and this order shall remain in effect and in full force until modified, amended, rescinded or superseded by me or a succeeding governor.



Given under my hand this the
25th day of August, 2009.

Rick Perry

RICK PERRY
Governor

Attested by:

Coby Shorter, III
Coby Shorter, III
Deputy Secretary of State

FILED IN THE OFFICE OF THE
SECRETARY OF STATE
5:30 PM O'CLOCK

AUG 25 2009

ATTACHMENT B
MONITORING PROTOCOL

Monitoring Protocol

I. Fiscal Oversight of GSF Funds

ISSUE: Whether the entity has established appropriate policies and procedures for ensuring fiscal oversight of GSF funds.

- a. What internal controls does your entity have in place to ensure that GSF expenditures are allowable?
- b. What specific projects or activities did your entity support with GSF funds?
- c. How does your entity ensure that it complies with the requirements of the Cash Management Improvement Act (CMIA)?
- d. Does your financial recordkeeping system properly account for the use of GSF funds?
- e. What guidance have you received from the THECB regarding the reimbursement of GSF funds?
- f. What steps are you taking to ensure compliance with the cross-cutting ARRA requirements (e.g., Section 1512 reporting, Buy American, infrastructure certification)?

Evidence/Documentation

1. Policies and procedures regarding obligations and expenditures.
2. Financial management policies and procedures.
3. Policies and procedures on compliance with CMIA requirements.
4. Policies and procedures on compliance with cross-cutting ARRA requirements.

II. Subrecipient Monitoring

ISSUE: Whether the entity has cooperated with the THECB during the monitoring process.

- a. Have you been monitored by the THECB? If so, when? If not, have you been notified of when you will be monitored?
- b. Did the THECB provide you with a copy of its monitoring instruments?
- c. If you have been monitored by the THECB, what issues did the THECB discuss during its monitoring? What recommendations did the THECB make?

- d. What actions have you taken in response to any monitoring recommendations?
- e. If your organization has provided subawards to other entities in support of your GSF program, have you established monitoring procedures to cover this tier of responsibilities and compliance?

Evidence/Documentation

1. Copy of monitoring report from THECB.
2. Documentation evidencing actions taken in response to monitoring recommendations.
3. Monitoring procedures and protocols for subawards.

III. Reporting

ISSUE: Whether the entity has cooperated with the THECB in complying with all reporting requirements.

- a. What guidance on reporting has the THECB provided to you?
- b. What information has the THECB required you to provide so that it may comply with applicable reporting requirements?

Evidence/Documentation

1. Reporting guidelines and protocols.
2. Documentation for data provided in Section 1512 quarterly reports.