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September 7, 2011

Texas Commission on Environmental Quality (TCEQ)
P.O. Box 13087
Austin, TX 78711-3087

ATTN: Carlos Contreras, Chief Auditor

SUBJ: On-site Agreed-Upon Procedures Report for American Recovery and Reinvestment Act (ARRA), State Fiscal Stabilization (SFSF), Government Services Fund, Sub-recipient award

REF: (a) THECB ARRA Notice of Grant Award No. 3598
(b) USDE Prime Award No. S397A090044

Dear Mr. Contreras,

The Texas Higher Education Coordinating Board (THECB) has engaged the firm of Clifton Gunderson LLP to perform agreed-upon procedures of the above referenced (a) grant sub-award. Clifton Gunderson has completed the site visit and reported to the THECB all observations based on an agreed-upon set of procedures, both of which have been incorporated into the monitoring report.

You will find attached for your review the final report of that monitoring effort, with the following test results requiring a management response:

Step 3.a: TCEQ had not updated the written policies and procedures to incorporate the revised Application Forms, Checklists and Grant Contract shell language.

Step 4.c.ii: TCEQ will provide an approximate due date of the initial usage reporting period.

Step 4.c.v: TCEQ will provide an approximate due date of warrant holds that may become due.

Management's written response is requested within ten (10) business days of receipt of this letter to (a) confirm receipt of the THECB's agreed-upon procedures monitoring report, and (b) provide management's response relevant to the above on-site monitoring observations.

In addition, please be advised that in the interest of increased transparency under ARRA, the U.S. Department of Education has requested that the THECB post all monitoring reports and management responses to its ARRA grants program website.

The THECB sincerely appreciates the opportunity to work with your staff in this endeavor and the commitment by your agency to ensure this ARRA project met its requirements of accountability and transparency. If you have any questions or need additional information, please do not hesitate to contact me directly at the numbers listed below.

Sincerely,

Ruby Elizabeth Garcia, CIA, CISA
Acting Director, Office of Internal Audit
(TEL) 512.427.6497
(EML) ruby.garcia@thecb.state.tx.us

Encl: (1)

Bryan W. Shaw, Ph.D., *Chairman*
Buddy Garcia, *Commissioner*
Carlos Rubinstein, *Commissioner*
Mark R. Vickery, P.G., *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

September 21, 2011

Ms. Ruby Elizabeth Garcia, CIA, CISA
Acting Director, Office of Internal Audit
Texas Higher Education Coordinating Board
P.O. Box 12788
Austin, Texas 78711

Subject: On-site Agreed-Upon Procedures Report for American Recovery and Reinvestment Act (ARRA), State Fiscal Stabilization (SFSF), Government Services Fund, Sub-recipient award

Reference: (a) THECB ARRA Notice of Grant Award No. 3598
(b) USDE Prime Award No. S397A090044

Dear Ms. Garcia,

We have reviewed the final report of the On-site Agreed-Upon Procedures Report relating to the Texas Commission on Environmental Quality (TCEQ) ARRA / TERP Grant referenced above. You will find TCEQ's management responses to the on-site monitoring observations by Clifton Gunderson LLP listed below.

Step 3.a: TCEQ had not updated the written policies and procedures to incorporate the revised Application Forms, Checklists and Grant Contract shell language.

The ARRA grant round was initiated prior to the SAO audit report. Therefore, the ARRA grant round did not include revised application forms, project review checklists, and shell documents. The auditor was provided the policies and procedures in use at the time the grant round under review was initiated.

The TCEQ has revised the policy and procedures that pertained to the type of grants issued with ARRA funds, which has been used in subsequent grant rounds. However, these were not reviewed by the auditor as they were out of scope for this review.

Step 4.c.iii: TCEQ will provide an approximate due date of the initial usage reporting period.

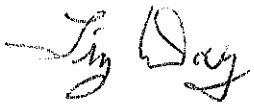
The usage reports for the grants sampled by the auditor are due January 2012.

Step 4.c.v: TCEQ will provide an approximate due date of warrant holds that may become due.

A proposed warrant hold process is currently being developed by the TCEQ Legal staff, based on recent input from the Texas Attorney General's Office. Warrant holds will not be placed or have a "due date" until the process is finalized and implemented.

We appreciate the opportunity to provide responses to the report. If you have any questions or require additional information, please contact me directly.

Sincerely,



Liz Day
Chief Financial Officer
Texas Commission on Environmental Quality

LD/cg