Texas Water Development Board

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Review of the Research and Planning Fund

Project #20130901
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Our Mission

To provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas

Board Members

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Kevin Patteson, Executive Administrator

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Executive Summary

Overview

Overall, the Texas Water Development Board's (TWDB) processes provide reasonable assurance that Research and Planning Fund (RPF) objectives are met in an effective and efficient manner and in compliance with relevant laws, policies, and contract requirements. In addition, management has processes to help ensure research and planning funding decisions, and contract performance monitoring activities adequately safeguard the Board's assets. While the current grant monitoring strategy is sufficient for ensuring goal accomplishment, an opportunity exists to improve operational efficiency with the implementation of a risk-based approach in determining the level of monitoring for each grant/contract.

Background

The annual audit plan for fiscal year 2013 included a review of TWDB's RPF. The RPF provides grant funding for Regional Facility Planning, Flood Protection Planning, Water Research, and Regional Water Planning. These are briefly described below:

- The Regional Facility Planning grants are awarded annually to local entities for water supply and wastewater treatment and collection projects.
- The Flood Protection Planning grants are awarded annually to political subdivisions for the development of plans to provide protection from flooding.
- The Water Research grants are awarded annually for research dedicated to enhancing the proper planning, management, conservation, development and protection of Texas' water resources.
- The Regional Water Planning grants are awarded every five years to regional planning groups to assist in paying for the preparation of regional water plans. Senate Bill 1 from the 75th Legislature designated the TWDB as the lead state agency for coordinating the regional water planning process and developing a comprehensive state water plan.

The administration of grants is primarily performed by the Agency's Contract Development Unit, with Water Science and Conservation, Water Use, Projections and Planning, and Flood Mitigation Planning providing subject matter expert monitoring for individual grants. The agency transferred $6 million and $8 million to the RPF fund for fiscal years 2012 and 2011, respectively.

Summary of Management's Response

This audit confirmed that objectives are met in an effective and efficient manner, are in compliance with relevant laws, policies, and contract requirements and that current monitoring activities adequately safeguard the Board's assets. As such, O&A currently believes that inclusion of a formal risk assessment tool/template is not critical at this time.

Closing

Internal Audit would like to thank management for the cooperation and assistance provided. For questions or additional information concerning this audit report, please contact Amanda Jenami at 512-463-7978.

Objectives and Conclusions

The overall objective of this audit was to determine whether TWDB has processes and controls to ensure RPF objectives are met in an effective and efficient manner and in compliance with relevant laws, policies, and contract requirements. In addition, the review sought to determine whether management has processes to ensure funding decisions and contract performance monitoring activities adequately safeguard the agency's assets. The detailed audit objectives are briefly described next.

Objective 1 - Operational Effectiveness

1.1 Determine the extent to which RPF processes ensure that project deliverables meet contract scope and objectives.

RPF grant monitoring processes provide reasonable assurance that the individual research project deliverables are completed in accordance with the grant contract, and within the agreed timelines. Key controls include good coordination between Contract Administration and the program areas, periodic project status and activity reporting, and review of payment requests against project completion status.

Using a sample of 13 grants/contracts, the audit reviewed the agency's processes for monitoring contractor performance.

1.2 Determine the extent to which the agency's RPF processes for identifying and selecting research projects ensure operational effectiveness and consistency.

The agency's RPF processes provide reasonable assurance that research projects are identified and selected in a consistent manner. The audit reviewed the 2013 process by which research topics were identified, scored, and selected. Key project identification controls include publicized solicitation for suggestions on research topics (including dialogue with key stakeholder groups via public meeting forums), annual surveys, and conference presentations. Once the funding application is received, the selection process is based on predetermined criteria. Each selected project is approved by the Board before funding is released.

1.3 Determine the extent to which there is a structure in place to solicit, receive, and address stakeholder feedback and suggestions for research topics.

RPF processes provide reasonable assurance that the agency seeks stakeholder feedback on both research topics and suggestions for improvement.

1.4 Determine the extent to which RPF processes ensure that grant and contract deliverables are consistent with the agency's mission and incorporated into divisional performance goals.

For each of the sample items, the audit reviewed the project descriptions for alignment with the agency mission and the respective program area's goals. No issues were found.

Objective 2 - Regulatory Compliance

2.1 Determine the extent to which research contract administration efforts ensure compliance with applicable laws, policies and contract requirements.

Where applicable, the audit tested grants for compliance with matching requirements. No issues were found.

Objective 3 - Operational Efficiency

3.1 Determine the extent to which project monitoring is performed in an efficient manner.

The audit determined that while the current project monitoring strategy is effective in ensuring project deliverables are met, an opportunity exists to improve operational efficiency with the implementation of a risk-based approach in determining the level of monitoring for each grant/contract.

Objective 4 - Safeguarding Agency Assets

4.1 Determine the extent to which there is a structure in place to review and approve contract progress and service quality before payments are made.

The audit tested a payment request for each sampled contract or grant for appropriate documentation and approval by both the designated contract manager and Contract Administration staff. RPF processes include sufficient controls (including periodic status reports and payment authorization) to ensure payments are only made for work performed and that, in general, agency assets are safeguarded.

Detailed Issues with Management Responses

Operational Efficiency – Determining the Level of Performance Monitoring

While the current grant monitoring strategy is sufficient for ensuring goal accomplishment, an opportunity exists to improve operational efficiency with the implementation of a risk-based approach in determining the level of monitoring for each grant/contract. This approach is consistent with state contract management guidelines.

The [1]Statewide Contract Management Guide states that,

"Small dollar value or less complex contracts normally require little, if any, monitoring. However, that does not preclude the possibility of more detailed monitoring if deemed necessary by the agency. Conversely, large dollar contracts may need little monitoring if the items or services purchased are not complex, and the agency is comfortable with the contractor's performance and the level of risk associated with the contract."

The level of monitoring for an individual project could be based on such risk factors as:

- dollar value of the contract, grant, or project
- reputation of the grantee, contractor, or sub-contractor
- length of time since last grant award
- complexity of deliverables, and
- The experience of the agency's designated contract/ project manager.

While current monitoring practice includes consideration of some of the above factors, the risk assessment process is not formalized or documented.

Recommendations

Management should consider improving operational efficiency by implementing a risk based approach in determining the level of performance monitoring performed on individual research projects. As the agency's contract/ grant administrator, Contract Administration (in collaboration with contract manager representatives from each program area) should facilitate the implementation by developing a risk assessment tool/template for use by contract managers. Providing contract managers with a formal scale, with definitions of what constitutes "high", "medium" and "low" risk, would assist in ensuring risk rating consistency. In addition, the process should provide guidance on risk mitigating strategies for the various levels of risk.

In addition, a periodic review of the risk factors would be ideal, for continued relevance.

[1] *Statewide Contract Management Guide*, 01 March 2014 Version 1.12 pg. 88

Management Response

Contract Administration wishes to acknowledge the admirable track record of contract managers in the offices of Water Science and Conservation (WSC) and Water Supply and Infrastructure (WSI). Contract managers in these offices consistently obtain quality deliverables in a timely manner within scope and within contracted budgets, as indicated by this and prior audits.

The Operations and Administration Office (O&A) recognizes the significance of providing for operational efficiencies within the grant/contract monitoring process. This audit confirmed that objectives are met in an effective and efficient manner, are in compliance with relevant laws, policies, and contract requirements and that current monitoring activities adequately safeguard the Board's assets. As such, O&A currently believes that inclusion of a formal risk assessment tool/template is not critical at this time. O&A staff appreciates the ongoing support of Internal Audit staff and commits to further collaboration with agency offices to pursue future opportunities to enhance operational efficiencies.

Appendix: Scope and Methodology

The overall objective of this audit was to determine whether TWDB has processes and controls to ensure RPF objectives are met in an effective and efficient manner and in compliance with relevant laws, policies, and contract requirements. In addition, the review sought to determine whether management has processes to help ensure funding decisions and performance monitoring activities adequately safeguard the agency's assets.

The audit focused on the applicant ranking and selection processes for state fiscal years 2010, 2011 and 2012. Fieldwork was conducted between July 2013 and April 2014.

This audit was performed in compliance with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing." Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our evidence-gathering methods included the following:

- We reviewed the applicant ranking and selection process for Water Science and Conservation (WSC) contracts and two Water Use Projections and Planning programs for fiscal years 2010, 2011, and 2012 to ensure consistent treatment of applicants' access to program funding.
- We reviewed supporting documentation for compliance with state match requirements for three grants within the Flood Protection Planning and Regional Facility Planning programs.
- We reviewed contract manager documentation for evidence the process for monitoring contractor performance (including ensuring that research is completed in accordance with the contract and within the agreed timelines and deliverables).
- We interviewed staff for evidence that the research results were used to inform TWDB's water management strategies.
- We reviewed the marketing and outreach activities for the Regional Facilities Planning and Flood Protection Planning grant programs.
- We reviewed supporting documentation for the Regional Water Planning program's solicitation of stakeholder feedback.
- We reviewed individual grant and contract deliverables for consistency with agency goals.

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TWDB Mission Statement

The Texas Water Development Board's (TWDB) mission is to provide leadership, information, education, and support for planning, financial assistance, and outreach for the conservation and responsible development of water for Texas.

Internal Audit Division's Mission Statement

Our mission is to assist all members of management and the Board with objective reports, recommendations, counsel, and information on the adequacy and effectiveness of TWDB's system of internal controls and the quality of performance in carrying out assigned responsibilities.

To obtain a hard copy of this TWDB Audit Report, please e-mail Amanda.jenami@twdb.texas.gov or call 512-463-7978.