Texas Water Development Board

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TO: Audit Committee of the Texas Water Development Board

THROUGH: Amanda Jenami, Internal Audit Director

FROM: Edward Garza, Internal Auditor

DATE: July 11, 2012

SUBJECT: Outstanding Audit Issues

1. **Status of Internal Audit Recommendations**

   Management indicates that implementation of the audit recommendations associated with the Review of the Loan Application Process (Report # 20120202) dated February 2, 2012, is on schedule. According to management, 46% (23 out of 50) of the recommendations have been fully implemented, 50% (25 out of 50) are on schedule, while the rest, 4% (2 out of 50), have had their target completion dates extended.

   See attached audit tracking report (attachment # 1) for further details. Internal Audit plans to follow-up on the Review of the Loan Application Process (Report # 20120202) during Fiscal Year 2014.

2. **Status of External Audit Recommendations**

   The State Auditor's Office issued its audit report on the Water Infrastructure Fund (WIF), on July 6, 2012. Audit issues, recommendations, management's responses along with target implementation dates have been included in Internal Audit's tracking system. Internal Audit plans to follow-up on this review in fiscal year 2014.

   Management indicates that implementation of the audit recommendations associated with the *State of Texas Compliance with Federal Requirements for Selected Major Programs for fiscal year ended August 31, 2011*, issued in February 2012, is complete. Internal Audit plans to follow-up on these external audits in fiscal year 2013. See attached audit tracking report (attachment # 2) for further details.

cc w/att:

Edward G. Vaughan
Monte Cluck
Rick Rylander
Melanie Callahan

Our Mission

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

Board Members

Billy R. Bradford Jr., Chairman
Joe M. Crutcher, Vice Chairman
Melanie Callahan, Executive Administrator
Lewis H. McMahan, Member
Edward G. Vaughan, Member
Monte Cluck, Member
F.A. "Rick" Rylander, Member

Attachment #1

Texas Water Development Board (TWDB)
Internal Audit Division
Outstanding Audit Issues Tracking Matrix
Audit Committee - July 2012

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
1.1 Timelines and Accountability Controls	(i) Clarifying, by way of written procedures, the responsibilities, authorities, criteria and roles for the different aspects of the application review.	Management agrees for the need of updated written procedures. **Target Implementation Date: 8/31/2012**	**Completed**. Written procedures for the review of applications have now been completed. Implementation is planned for applications received after 8/31/12.
	(ii) Implementing formal quantitative goals for each area and performance standards, including clear timelines for each stage of the application review process. The performance targets should form part of staff performance plans.	Management agrees that there are areas of necessary improvement in the loan application process, including targets and goals for timeliness of the various stages of the application review process. **Target Implementation Date: 5/31/2012**	**Completed**. Written procedures for the review of applications have now been completed which include goals, standards, and timelines. Implementation is planned for applications received after 8/31/12. Inclusion of goals into performance plans is at discretion of supervisor and should be included in normal development of next performance plan.
	(iii) Seeking client feedback on the quality of the loan application process and areas requiring improvement. Ideally, management should use both transactional and relationship-type surveys.	Management agrees that seeking client feedback would provide valuable information on the loan application process as well as the communication with the customers. **Target Implementation Date: 12/31/2012**	On-going and on target. IT is adding an on-line survey to the list of IT projects for prioritization by Leadership.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
1.1 Timelines and Accountability Controls (cont)	(iv) Periodically analyzing key management processes such as performance measures, performance targets (e.g. review times), formal quantitative goals (for each area), employee productivity, and customer feedback. In addition, track each individual's actual performance against target as part of their annual performance evaluation. Eventually, the accountability framework should include all assigned work - not just the application review data. Otherwise, any interpretation of performance would be incomplete.	Management agrees that development and compilation of data, without periodic analysis, is not of much use. This analysis should become part of the annual procedure which would link with the annual performance appraisals. **Target Implementation Date: 08/31/2013**	On-going and on target. Management will review the goals and targets included in the written procedures for application review guidelines and adjust as needed.
1.2 Communication	(i) Brainstorming on how to increase cohesion within the multi-disciplinary teams, and implementing staff suggestions.	Management agrees that improved communication would enhance the loan application process. Through the process of updating procedures, input will be sought for ways in which to improve communications. **Target Implementation Date: 8/31/2012**	**Completed.** Follow up by 12/31/12. The written procedures for application review outline and recommend strategies for enhancing communication during application review. These strategies will be reviewed periodically for continuous improvement. Implementation is planned for applications received after 8/31/12.
	(ii) Streamlining the current meeting log.	Management agrees that there may be redundancy and inefficiencies with the current meeting schedule. Through the process of updating procedures, each meeting identified will be reviewed for usefulness and efficiency. **Target Implementation Date: 08/31/2012**	On-going. Staff and management continue to evaluate various meetings and seek ways to increase efficiency and effectiveness. Implementation will be on-going for continuous improvement. **Revised implementation date: 10/31/12.**

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
1.2 Communication (cont)	(iii) Developing and publishing definitions of the key terms used in the application review process.	Management agrees that using terms consistently will enhance communication across the agency and with applicants. Definition of terms should be included in the updated procedures. **Target Implementation Date: 08/31/2012**	On-going and on target. Staff has been assigned to develop a glossary of key terms used in the application process.
	(iv) Developing written procedures for each meeting. The written procedures should designate a leader for each meeting and require meeting leaders to provide attendees with an agenda detailing the applications and issues for discussion prior to the meeting to assist them with preparation.	Management agrees that meetings could be more efficient. Meetings identified as necessary to the process will be incorporated in to the procedures. **Target Implementation Date: 08/31/2012**	On-going. Meetings continue to be evaluated for necessity and efficiency. Those that are crucial will have standards and procedures assigned. **Revised implementation date: 10/31/12.**
	(v) Providing meeting guidelines (including ground rules) and training on how to conduct effective meetings.	Management agrees that meetings could be more efficient. Operations and Administration will provide training on effective meetings. Responsible Party: Deputy Executive Administrator, Operations & Administration **Target Implementation Date: 08/31/2012**	HR is conducting training on How to Conduct Effective Meetings, with the last one scheduled for **July 31, 2012**. A training CD and material will be available for staff use.
	(vi) As much as possible, utilizing TxWISE and email for project updates. This should include requiring reviewers to post (into TxWISE) information from meetings and phone calls with clients to keep the rest of the team abreast of developments.	Management agrees that with the development of TxWISE, it should be utilized more fully by all staff to document project information. **Target Implementation Date: 08/31/2012**	**Completed**. On-going enhancements. New written procedures for application review give guidance on utilization of TxWISE and email in keeping team informed of progress. Implementation is planned for applications received after 8/31/12. Continual evolution of TxWISE should enhance the communication through processes such as automated email.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
1.2 Communication (cont)	(vii) Clarifying responsibility and authority levels to guide staff's decision-making.	Management agrees that updated procedures should clarify roles, responsibilities and authority of staff. **Target Implementation Date: 08/31/2012**	**Completed**. **7/2/12**. Written procedures and guidance have been completed for Ready to Proceed, Notice of Incomplete Application, Request for Additional Information, Green determination, Loan Forgiveness, and Remaining Unused Funds. Additional procedures will be completed, as needed.
1.3 Employee Training	Provide desk reviewers the opportunity to periodically participate in on-site tours and outside training. Wherever feasible, hold pre-application meetings on-site. In addition, require staff to show initiative in identifying relevant training as part of the annual employee performance review process.	Management agrees that both site visits to projects and applicable training are beneficial to staff, and will incorporate both within the budget available. Performance plans will be revised to incorporate the responsibility of staff to actively participate in independent job-related research and participating in both external and on-the-job training. **Target Implementation Date: 01/31/2013**	On-going and on target.
2.1 Reviews are not performed in a timely manner.	(i) Setting formal measurable performance targets, tracking actual performance and holding staff accountable and using performance data to achieve a more evenly-distributed workload.	Management agrees that measurable performance targets should be identified and utilized to track performance, now that TxWISE provides the tool to perform the tracking. The performance data will be utilized to structure the workload, within available budget. **Target Implementation Date: 01/31/2013**	On-going and on target. Procedures for Application Review set performance targets for review of applications. TxWISE is being enhanced to allow for automated tracking of these targets.
	(ii) Enforcing client deadlines and holding staff accountable for noncompliance with agency rules and procedures.	Management agrees that deadlines will be identified and clarified, with procedures in place for elevating client issues that prevent meeting deadlines. **Target Implementation Date: 01/31/2013**	**Completed.** Written procedures for application review establish guidance for staff for when clients fail to meet deadlines. Implementation is planned for applications received after 8/31/12.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
2.1 Reviews are not performed in a timely manner. (cont)	(iii) Extending the agency's 14-day client response deadline to the state programs.	Management will consider extending the client response deadline to state programs. **Target Implementation Date: 08/31/2012**	**Completed. 7/1/12**. Staff is utilizing the 14-day response deadline as a guide for state programs. It is not recommended that it be incorporated in rules at this time.
	(iv) Considering whether to require each area to perform its own "administratively complete" review or to assign the review to technicians, following appropriate training.	Management will consider the most efficient and effective way to perform "administratively complete" reviews. **Target Implementation Date: 08/31/2012**	**Completed**. Written procedures for the review of applications have been completed. The Administratively Complete review is the responsibility of Project Development. Each area will conduct its technical review separately. This will be implemented beginning with applications received after 8/31/12.
	(v) Revising the PIF to include more information on the proposed project, including (where possible) information on the client's readiness to proceed.	Management agrees. The Readiness to Proceed Form was implemented during November 2011 for all State Revolving Fund Projects. All projects must submit this form. The form is used to make the determination of what phases/how much funding will be offered to the project for that commitment. **Target Implementation Date: 11/30/2011**	**Completed in December 2011.**
	(vi) Requiring potential applicants to participate in a pre-application meeting before submitting their application.	Management agrees that participation in pre-application meetings is useful, and potential applicants for the SRF programs are required, via language in the invitation letter, to participate in pre-application meetings starting with invitations extended for SFY 2012. **Target Implementation Date: 08/31/2012**	**Completed.**

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
2.1 Reviews are not performed in a timely manner. (cont)	(vii) Considering implementing an online loan application system.	Management agrees that this would be beneficial. This will be considered, along with other technology projects, for prioritization. **Target Implementation Date: 08/31/2012**	On-going. The development of an on-line loan application has been added to the IT project priority list. Due to current IT projects and limited staff, work on this project is not expected to begin before fiscal year 2014.
2.1.2 Technical Reviews	(i) Brainstorming on ways to obtain (upfront) some of the information commonly requested after the application is submitted. (Staff may need to ask for more information in preparation for the pre-application meeting).	Management agrees that information commonly requested should be reviewed and determination will be made on how better to obtain the information. **Target Implementation Date: 01/31/2013**	On-going and on target.
	(ii) Re-evaluating the purpose of the pre-application meetings.	Management will review the purpose and effectiveness of all meetings and determine ways to improve. **Target Implementation Date: 10/31/2012**	On-going and on target.
	(iii) Performing periodic reviews of the standardized application to ensure it continues to meet TWDB's information needs.	Management plans to review the standardized application to ensure it continues to meet TWDB's information needs at least annually starting September 1, 2012. **Target date September 30, 2012.**	On-going and on target.
	(iv) Implementing a substantive loan committee-type meeting approximately a week into the start of the review process to discuss the issues. To improve ongoing real-time discussion of the issues, establish a discussion forum with management participation.	Management will incorporate a potential loan committee type meeting earlier in the process in its discussion of all meetings. A discussion forum in TxWISE will be considered, but must be prioritized within existing TxWISE needs. **Target Implementation Date: 10/31/2012**	On-going and on target.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
2.1.2 Technical Reviews (cont)	(v) Improving staff understanding of the project by revising the PIF (for federal programs) to require a more detailed description of the proposed project. In addition, improve the effectiveness of the pre-application meeting by requiring the attendance of the client's main review contacts (i.e. Financial Analyst, Engineer and Bond Counsel). There may be some benefit in also including the TWDB's Program & Policy Development staff in the pre-application meeting.	The Project Information Form for SFY 2013 includes the readiness to Proceed criteria that is included in a form during the SFY 2012. Starting with the PIFS received for the upcoming funding cycle, TWDB staff will have more detailed data about the project milestones and schedule up front to offer more specific and appropriate invitations to SRF projects. Attendance at pre-application meetings will be reviewed, but may be constrained by available resources. **Target Implementation Date: 08/31/2012**	**Completed.**
	(vi) Empowering staff to reject poor quality/incomplete loan applications, based on guidelines.	Management agrees there should be guidelines and will consider procedures to guide staff on the appropriate quality/ completeness of an application, and the appropriate process to be followed if the application is of poor quality/incomplete, which may include elevating to management for consideration of rejecting the application. **Target Implementation Date: 08/31/2012**	**Completed.** Written procedures for the application review establish guidance for staff for when clients fail to meet deadlines. Implementation is planned for applications received after 8/31/12.
	(vii) Improving oversight and guidance, especially in setting priorities and resolving issues. In addition, provide staff with firm guidelines on when to reject an application.	Management will improve the oversight and guidance through the updating of procedures to include priorities and guidelines on handling poor quality or incomplete applications. **Target Implementation Date: 08/31/2012**	**Completed.** Written procedures for the application review establish guidance for staff for when clients fail to meet deadlines. Implementation is planned for applications received after 8/31/12.
	(viii) Wherever possible, considering a reduced level of technical review on the less risky clients. Such a risk-based approach would require management to provide staff with strict guidelines, training and oversight.	Management will consider efficiencies where possible while keeping in mind the fiduciary responsibility to the state in reviewing all loans as to the expectation of repayment. **Target Implementation Date: 08/31/2012**	**Completed.** At this time, management does not feel it is prudent to reduce the level of technical review on any client.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
2.2 Quality Control Review	Streamline the current quality control review into a crisper and more substantive process. Reduce the levels of review, while making each review more substantive.	Management agrees and has implemented steps to reduce levels of review by utilizing the existing loan committee process. **Target Implementation Date: 1/31/12**	**Completed. 2/2/12**. Board memos have been revamped and the review process has been changed.
2.3 Board Write-up Process	Improve the Board write-up process by automating and streamlining the development, review and approval of the write-up, while tracking the timeliness of each step in TxWISE.	Management agrees and is currently in the process of revising the style of the Board memo, as well as the process. While some areas of the agency have embraced the use of TxWISE for this process, others are currently implementing TxWISE in anticipation of the time it becomes the system of record. **Target Implementation Date: 06/30/2012**	**Completed. 2/2/12**. Board memos have been revamped and the review process has been enhanced. Completion of the automation process is dependent on the completion of TxWISE Phase III.
2.4 Utilizing TxWISE	(i) Requiring reviewers to utilize TxWISE. Reviewers should perform their reviews in TxWISE as opposed to only signing-off on the checklist.	Management agrees that TxWISE should be fully utilized to the extent it can at this time. **Target Implementation Date: 05/31/2012**	On-going and on target. Completion of the automation of the review process is dependent on the completion of TxWISE Phase III.
	(ii) Tightening controls within TxWISE to ensure staff can only sign-off on checklist items assigned to them.	Management agrees that staff should be clear on the assignment of items. While this may be possible in TxWISE, it would have to be prioritized, and may not be as high a priority as completing implementation. As a procedural issue this can be accommodated through updated procedures. **Target Implementation Date: 08/31/2012**	On-going and on target. Completion of the automation of the review process is dependent on the completion of TxWISE Phase III.
	(iii) Requiring quality control procedures to include verification of completion of the TxWISE checklist.	Management agrees that the quality control procedure should be addressed in the written procedures and TxWISE should be utilized to the fullest extent. **Target Implementation Date: 08/31/2012**	On-going and on target.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
2.4 Utilizing TxWISE (cont)	(iv) Requiring reviewers to utilize the TxWISE milestone and electronic reminder service.	Management agrees that TxWISE attributes should be utilized, whether automated milestones or manual reminders accomplished through reports. **Target Implementation Date: 08/31/2012**	**Completed.** TxWISE reminders are sent to staff on a weekly basis and can be accessed by staff as needed.
	(v) Setting guidelines and performance targets on the timeliness, and consistency with which milestones and other important information is entered into the database.	Management agrees that information should be entered in to TxWISE in a timely manner and guidelines will be included in the procedures. **Target Implementation Date: 08/31/2012**	On-going and on target.
	(vi) Updating TxWISE for changes in roles and tasks in a timely manner.	Management agrees that TxWISE should be updated for changes in roles and responsibilities, in accordance with the updated procedures. **Target Implementation Date: 09/30/2012**	**Completed.** IT every 6 months performs system access rights reviews. Changes will be made when roles change and will be reviewed as part of the routine IT access reivew process.
	(vii) Enhancing TxWISE to allow tracking of milestones for multiple applications within the same project.	TxWISE tracks milestones for multiple loans within the same project after closing. Management will consider, based on staff input, whether this should be available prior to closing. If so, this will have to be considered within the prioritization of all TxWISE enhancements **Target Implementation Date: 06/30/2012**	**Completed.** All changes to TxWISE have been implemented as of 5/14/12 to allow for multiple application reviews on a specific project as indicated by the TxWISE project number.
	(viii) Providing cross-training to minimize business disruption in the event of staff turnover.	Management agrees that cross-training is beneficial, and has identified training opportunities and software to reduce the reliance on one person. Management also recognizes that the documentation of processes reduces the likelihood of business disruption in the event of employee turnover. **Target Implementation Date: 06/30/2012**	**Completed.**

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
3.1 Review Documentation	(i) Developing a standard for the required level of work paper documentation, with input from reviewers. The standard should also include the expected substantiation procedures for each item, which should be part of the technical review checklist. Reviewers should check for compliance with documentation standards as part of the quality control review.	Management agrees and will ensure that the standards of documentation are included in the updated procedures. **Target Implementation Date: 08/31/2012**	On-going and on target.
	(ii) Providing more guidance on credit rating and minimum review and substantiation requirements, for consistency.	Management agrees and will ensure guidance is included in the updated procedures. **Target Implementation Date: 08/31/2012**	On-going and on target.
	(iii) Requiring staff to input review results in TxWISE.	Management agrees and will ensure this requirement is included in the updated procedures. **Target Implementation Date: 08/31/2012**	On-going and on target. First phase of implementation completed. Further phases dependent of completion of TxWISE Phase III.
	(iv) Revising review checklists to show the actual work, including substantiation procedures performed, and including precise descriptions of what work is being checked off. In addition, requiring staff initials (as opposed to check marks) may provide more accountability.	Management agrees, and will review what would be required to make these changes in TxWISE. Any necessary changes would be prioritized with other TxWISE enhancements. **Target Implementation Date: 09/30/2012**	**Completed.** Individual checklist items have been reviewed and major updates made in TxWISE by Legal and Project Development as of 05/14/2012. PERD continues to make adjustments as specific issues are identified. Staff is required to print and sign the associated checklist following its review (for the official file). Though programming enhancements to TxWISE could potentially remove the requirement for hard copies of the checklist, resources do not currently exist for this level of security and are not necessary at this time.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
4.1 TWDB Policies	(i) Legal Services, in collaboration with Policy Development, should develop a central depository of TWDB policies.	Management agrees that policies should reside in a central area. **Target Implementation Date: 12/31/2012**	On-going and on target. A review has identified board policies, agency policies, procedures and practices. Board policies will be taken to the Board for ratification, amendment, or repeal. The accompanying Board memo will include definitions and new written procedures for developing and seeking board approval in the future.
	(ii) Publish the policies on the TWDB intranet, with notifications to staff on revisions as and when they occur.	Management agrees that policies should be available to all employees, with the intranet being an appropriate repository. **Target Implementation Date: 12/31/2012**	On-going and on target.
	(iii) Publish the policies on the internet, for stakeholder use.	Management agrees that policies affecting stakeholders should be available so they can be aware of requirements and considerations. **Target Implementation Date: 01/31/2013**	On-going and on target
	(iv) Periodically review the policies for continued relevance.	Management agrees that policies need to be reviewed on a periodic basis and will develop a procedure to ensure policy review is documented. **Target Implementation Date: 01/31/2013**	On-going and on target. Process for periodic review of board policies will be included in board action described in 4.1(i).

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
4.2 Utilizing the Planning, Acquisition, and Design (PAD) Funding Option	(i) Implementing formal detailed criteria on when staff can utilize which funding option. Program and Policy Development should develop the criteria in consultation with Legal Services, Financial Assessment, Construction Assistance, and Project Oversight.	Management agrees. In November 2011 staff implemented the use of a Readiness to Proceed Form for potential applicants. The use of the information from this form will be documented in procedures to provide guidance on utilization of funding options. **Target Implementation Date: 03/31/2012**	**Completed.**
	(ii) Incorporating the criteria into TWDB guidance and policy.	Management agrees. In November 2011 staff implemented the use of a Readiness to Proceed Form for potential applicants. The use of the information from this form will be documented in procedures to provide guidance on utilization of funding options. **Target Implementation Date: 03/31/2012**	**Completed.**
	(iii) Marketing the PAD option to TWDB clients.	Management agrees that borrowers should be aware of the PAD option. While there is no formal marketing area, Construction Assistance has been informing consultants about the benefits of the PAD option. **Target Implementation Date: 8/31/12**	On-going. Staff is now well versed in the PAD option and relays the option to potential clients during meetings and discussions. Construction Assistance has developed procedures for determining when the option should be used.
	(iv) Holding staff accountable for adhering to the criteria.	Management agrees that staff should be accountable for adhering to all procedures identified by management. Performance plans should incorporate loan application procedures as updated. **Target Implementation Date: 01/31/2013**	On-going and on target.

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2012
4.3 Written Procedures	Develop a central depository of written procedures that guide the loan application process.	Management agrees that procedures should be available in a central repository. **Target Implementation Date: 10/31/2012**	On-going and on target.

Texas Water Development Board
Internal Audit Division
Implementation Status of Outstanding Audit Issues
July 2012

EXTERNAL AUDITS		
State Auditor's Office's Audit of TWDB's Water Infrastructure Fund (WIF) Issued July 2012		
Finding	**Recommendation**	**Status of Implementation**
Chapter 1 Auditors reviewed eight project files to determine whether the Agency accurately performed eight key calculations in its evaluation criteria matrix and found that: • The evaluation criteria matrix was missing, blank, or modified for 4 (50 percent) of the 8 project files tested. • Three (75 percent) of the 4 project files that contained an evaluation criteria matrix had inaccurate calculations or incomplete supporting documentation for those calculations. This prevented auditors from determining the accuracy of those matrices.	The Agency should consistently maintain a completed evaluation criteria matrix in the project file for each Water Infrastructure Fund loan applicant.	**Completed**. Financial management enhanced its quality assurance procedures to include checking the work paper file for completeness. **Implementation Date**: **June 2012** *Responsible party: Director of Project Development* Management is working to incorporate key evaluation criteria within TxWISE. **Target Implementation Date**: **September 2012** *Responsible party: Director of Project Development*
Chapter 1 (Continued)	The Agency should expand its procedures and strengthen documentation of the credit risk score assessment to include an explanation of how the Agency considers quantitative factors in the evaluation criteria matrix and qualitative factors in determining an applicant's credit risk score.	**Completed**. The Agency considers both quantitative and qualitative factors, including the quality of the entity's management, internal control environment, debt management experience and history with the Board, in its credit risk score assessment. Beginning February 2012, the Agency has enhanced its documentation of the financial review and the information presented to the Board.
	The Agency should expand the oversight of its	The financial assessment team is in the process of enhancing its

	financial review process to verify that the Agency makes accurate calculations that are supported by documentation. The Agency also should maintain evidence of that oversight by documenting team leader and credit committee sign off on each applicant's evaluation criteria matrix results and assigned credit risk score.	quality assurance procedures to include documentary evidence of supervisory review. Peer and credit committee reviews will be accomplished through use of electronic checklists, evaluations and secondary reviews. **Target Implementation Date**: **September 2012** *Responsible party: Director of Project Development*
Chapter 2 The Agency should strengthen the accuracy of water use survey data and its water conservation savings calculations. • The Agency does not perform a secondary review for accuracy of the water use survey data that it manually enters into its water use survey database. • Determining an applicant's water conservation savings requires the Agency to calculate the gallons per capita used daily based on historical water use data since 1980. However, sometimes that data is incomplete, and the Agency does not have a consistent process for dealing with incomplete data.	The Agency should develop and implement written procedures for prioritization of Water Infrastructure Fund loans, including procedures for how to (1) compile water use data, (2) calculate water conservation savings, (3) address limitations due to incomplete or missing data for calculating water conservation savings, and (4) identify an applicant's decade of need. The Agency should develop and implement a review process to help ensure that it enters water use data accurately into its water use database and that its calculations of water conservation savings are correct.	**Completed**. Written documentation with detailed descriptions of all processes noted was completed in **June 2012**. An updated Water Use Survey Program guide, detailing the improved quality assurance/quality control processes inherent in the new Water Use Survey database application, will be completed by September 30, 2012. **Target Implementation Date**: **September 2012** *Responsible party: Deputy Executive Administrator*
Chapter 3A While the Agency follows its processes to authorize the release of funds, it should make improvements to effectively monitor the release of funds. Auditors tested six projects for which the Agency deposited Water Infrastructure Fund loan funds into an escrow bank account and determined the following: • Three (50 percent) of the six projects had a bond ordinance or resolution that did not include the escrow bank account statement provisions that the Texas Administrative Code requires.	The Agency should ensure that Water Infrastructure Fund loan recipients include language in all bond ordinances or resolutions requiring the recipients to maintain an escrow bank account, submit escrow bank account statements, and comply with requirements in Title 31, Texas Administrative Code, Section 363.42. The Agency should review Water Infrastructure Fund loan recipients' escrow bank account statements to verify that escrow or trust agents release Water Infrastructure Fund funds only with proper authorization.	The Agency is in the process of revising relevant rules and legal documents to include a requirement for borrowers to provide escrow statements upon request. These are expected to be implemented by September 2012. **Target Implementation Date**: **September 2012** *Responsible party: Director-Debt and Portfolio Management* The release of funds is a contractual agreement between the borrower and the escrow agent. The Agency will verify with requested statements, as necessary. This is expected to be in place by September 2012.

• The Agency did not consistently enforce the requirement that loan recipients submit escrow bank account statements to the Agency on a monthly basis.		**Target Implementation Date**: **September 2012** *Responsible party: Director-Debt and Portfolio Management*
Chapter 3B The Agency should consistently perform secondary reviews of its project and construction monitoring. • Auditors tested 6 projects that comprised 17 separate construction contracts. For 10 (59 percent) of the 17 construction contracts, there was no evidence of the Agency's secondary review of its staff engineer's assessment that the projects were feasible, biddable, and constructible. • Auditors tested 8 contracts with change orders and, for 5 (63 percent) of those 8 contracts, there was no evidence of the Agency's secondary review of the change orders. Additionally, the Agency had not approved one of those change orders. • For 3 (60 percent) of the 5 projects tested that were in construction, Agency team leaders both prepared and approved inspection reports. For 2 (67 percent) of the 3 projects tested that had completed construction contracts, team leaders both prepared and approved the certificates of approval.	The Agency should consistently perform and document secondary reviews of Water Infrastructure Fund loan recipient project and construction monitoring activities, including engineer assessments, change orders, and inspection reports.	The Agency is in the process of enhancing its project review and monitoring procedures by strengthening its secondary review procedures. The new procedures will require documentary evidence of the secondary review, and that it is performed by someone other than the original reviewer or inspector. The new procedures are expected to be implemented by September 30, 2012. **Target Implementation Date**: **September 2012** *Responsible party: Deputy Executive Administrator*
Chapter 4 The Agency provides water infrastructure fund loans to eligible projects, but it should strengthen and document its processes to help ensure that loan recipients continue to meet requirements. Agency environmental reviewers and professional engineers perform environmental and engineering reviews of applications according to written procedures. • Seven (88 percent) of the 8 applications auditors tested had completed environmental and	The Agency should consistently perform complete environmental, engineering, and legal reviews of all Water Infrastructure Fund loan applications it receives, document those reviews using required checklists, and include the checklists in Agency project files.	**Completed**. TWDB environmental and engineering application review procedures require the reviewer to complete a quality control checklist before the application is presented to the Board for financial commitment. Agency management believes the one application file whose engineering commitment memo checklist was missing a check on one out of the twenty-three review steps represents an isolated incident, and that this issue has already been addressed, with the implementation of TxWISE in September 2011. These checklists are automated within TxWISE, which aids in ensuring reviewer documentation is complete and consistent and that secondary reviews are performed

engineering checklists, but the remaining application tested did not. Agency attorneys are responsible for performing the legal reviews. • Six (75 percent) of the 8 applications that auditors tested had a completed legal review checklist. After completion of the environmental, engineering, and legal reviews, the environmental reviewer, professional engineer, or attorney who performed the review summarizes the results in a memo. • Team leaders performed a secondary review of that memo and the accompanying checklist for the eight environmental and engineering reviews tested. However, the Agency did not perform a secondary review of the legal reviews that auditors tested.		
	The Agency should develop and implement written procedures for the legal review process for Water Infrastructure Fund loan applications, including a requirement for secondary review	We agree that while the Agency has procedures and review checklists for the review of applications; the legal review is not always adequately documented in the TxWISE checklist, which is not the official work paper file. However, the Legal office is in the process of fully documenting its written procedures in all areas, not just the Water Infrastructure Fund program. This is expected to be completed by December 31, 2012. In addition, legal review procedures will document the level of secondary review that is provided. **Target Implementation Date**: **December 2012** *Responsible party: General Counsel*
State of Texas Compliance with Federal Requirements for Selected Major Programs for fiscal year ended August 31, 2011, issued February 2012		
<u>Capitalization Grants for CWSRF</u> For 12 (57%) of the 21 payroll charges tested, TWDB did not base its payroll charges on actual work completed.	The Board should develop and implement processes to ensure that all payroll costs it charges to federal programs are allocable to the federal award and that it bases its allocation methods on an after-the-fact	Management recalculated relevant employees' payroll charges to the CWSRF DWSRF ARRA and Non-ARRA programs based on actual time spent on the programs for fiscal year 2011, and performed a correcting entry on March 1, 2012. For fiscal year 2012, TWDB plans to perform these recalculations and adjustments on a quarterly basis, beginning May 2012. In

Capitalization Grants for DWSRF For 67% (24 out of 36) of the non-ARRA payroll charges tested and 28% (7 out of 25) of the ARRA payroll charges tested, TWDB did not base its payroll charges on actual work completed.	distribution of actual time worked.	addition, TWDB has significantly reduced the number of employees utilizing predetermined cost estimates to charge to CWSRF DWSRF ARRA and Non-ARRA programs. **Implementation Date**: **March 2012** *Responsible party: Renita Bankhead, Director of Budget*
Capitalization Grants for CWSRF The Board was unable to provide evidence that it communicated the CFDA number and other required information to 14% (1 out of 7) of the sub-recipients of Capitalization Grants for Clean Water State Revolving Funds tested.	The Board should communicate required award information, including the CFDA number, to all sub-recipients and maintain evidence of that communication.	TWDB enhanced its procedures by implementing an Award Letter Policy for entities subject to Single Audits, and a letter template which includes all the required elements for use by staff. **Implementation Date**: **March 2011** *Responsible party: Piper Montemayor, Director of Debt & Portfolio Management*
Capitalization Grants for DWSRF The Board was unable to provide evidence that it communicated the CFDA number and other required information to 20% (1 of 5) of the sub-recipients of Capitalization Grants for Drinking Water State Revolving Funds tested.	The Board should communicate required award information, including the CFDA number, to all sub-recipients and maintain evidence of that communication.	TWDB enhanced its procedures by implementing an Award Letter Policy for entities subject to Single Audits, and a letter template which includes all the required elements for use by staff. **Implementation Date**: **March 2011** *Responsible party: Piper Montemayor, Director of Debt & Portfolio Management*
Capitalization Grants for DWSRF The Board did not issue a management decision on audit findings within 6 months after receipt of a sub-recipient's audit report for 1 of 2 sub-recipients tested that had single audit findings.	The Board should issue a management decision on audit findings within six months after receipt of a sub-recipient's audit report.	TWDB implemented new procedures to issue management findings within six months after receipt of the sub-recipient's audit report. These were implemented in **April 1, 2012** *Responsible party: Piper Montemayor, Director of Debt & Portfolio Management*