Texas Water Development Board

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TO: Audit Committee of the Texas Water Development Board

FROM: Amanda Jenami, Internal Audit Director

DATE: April 10, 2013

SUBJECT: Outstanding Audit Issues

1. Status of Internal Audit Recommendations

Management indicates that implementation of audit recommendations associated with the Review of the Loan Application Process (Report # 20120202) dated February 2012, is on schedule. According to management, the implementation of 86% (43 out of 50) of the recommendations is complete, while that of 14% (7 out of 50) is ongoing and on target. In addition, management reports that implementation of internal audit recommendations from the Review of the State Water Planning (Report # 20120701), Review of Desired Future Conditions (Report # 20120901), and the Review of the Outlay Payment and Escrow Release (Report # 20130601) processes is ongoing and on target.

See attached audit tracking report (attachment # 1) for further details. Internal Audit plans to follow-up on these reports in fiscal years 2016 and 2017.

2. Status of External Audit Recommendations

Implementation of the State of Texas Compliance with Federal Requirements for Selected Major Programs (A-133) audit for fiscal year ended August 31, 2012 is complete.

See attached external audit tracking report (attachment # 2) for further details. Internal Audit plans to follow-up on this and the State Auditor's Water Infrastructure Fund (WIF) audit in fiscal year 2014.

Attachments

c: 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

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Lewis H. McMahan, Member
Edward G. Vaughan, Member
Monte Cluck, Member
F.A. "Rick" Rylander, Member

Melanie Callahan, Executive Administrator

Attachment #1

Texas Water Development Board (TWDB)
Internal Audit Division
Outstanding Audit Issues Tracking Matrix
Audit Committee - April 2013

Review of the Loan Application Process (Report # 20120202) - February 2012			
Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
1.1. Timelines and Accountability Controls	(iii) Seek 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: 12/31/2014**	**On-going and on target**. IT is adding an on-line survey to the list of IT projects for prioritization by agency leadership.
2.1 Reviews are not performed in a timely manner.	(vii) Consider 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: 08/31/2014**	**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.
2.4 Utilizing TxWISE	(i) Require 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: 08/31/2014**	**On-going and on target**. Completion of the automation of the review process is dependent on the completion of TxWISE Phase III.
	(ii) Tighten 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: 08/31/2014**	**On-going and on target**. Completion of the automation of the review process is dependent on the completion of TxWISE Phase III.

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
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: 5/31/2013**	**On-going and on target**. Definitions of "board policies", "agency policies", "procedures" and "practices" were approved by the Board on February 22, 2013. Board policies were identified and readopted. These are being placed in a central area, the intranet, for use and benefit of agency staff, and the internet for access by stakeholders.
	(ii) Publish TWDB policies on the 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: 5/31/2013**	**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: 5/31/2013**	**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: 5/31/2013**	**Completed**. As noted in the February 22nd Board briefing, staff will undertake a quadrennial review of Board policies (similar to that which is in place for rules). This is a minimum review. Certain policies, identified in the February 22nd write-up, will receive an annual review by the Board.

Review of the State Water Planning Process (Report # 20120701) - July 2012

Audit Issue Report Reference	Audit Recommendation	Management's Response (at the time of the audit)	Management's Update on Implementation April 2013
1. Project Prioritization	Consider devising ways to rank projects on their impact.	Staff will continue discussions with state leadership on this issue. Responsible parties: Executive Administrator and Deputy Executive Administrator for Water Resources Planning and Information. **Target Implementation Date: June 2013**	**Ongoing and on target.**

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
2.1 Water Planning Database Functionality	Consider improving database functionality by incorporating the following suggestions in the DB17 project specification and design as indicated below: i.) Where applicable, show the relationships between water users and providers; ii.) Show dependencies between water management strategies; and, iii.) Improve the structure of the database to improve data entry consistency.	Management agrees with the recommendations and has incorporated these improvements into the scope of work for development of the planning database, DB17. Responsible Parties: Director of Water Resources Planning and Director of Information Technology. **Target Implementation Date: March 2014**	**Ongoing and on target.**
2.2 Infrastructure Survey Database Security	Consider implementing a user log-in feature within the infrastructure survey database for improved access control and data security.	Management does not consider this a high risk for data integrity, but will consider incorporating a user log-in feature into the infrastructure survey interface if IT resources allow. This survey will not be conducted again until late 2016. Responsible Parties: Director of Water Resources Planning, Manager for Regional Water Planning and Director of Information Technology. **Target Implementation Date: March 2015**	**Ongoing and on target.**
3.1 Checklist Completion	Consider: i.) Requiring supervisory reviews to ensure that all relevant checklist items have been completely filled in before sign-off; ii.) Providing review staff with regular formal training on the quality control reviews; and, iii.) Implementing online tracking of the quality control checklist, including a signature and date for each action.	Management appreciates these recommendations for the tool developed to assist reviewers in reviewing initially prepared regional water plans. Staff will consider using the tool as a more formal verification of review when establishing procedures for review of the 2016 initially prepared regional water plans due for review in 2015. In addition, staff will develop more formal training for reviewers in early 2015. Responsible Parties: Director of Water Resources Planning and Manager for Regional Water Planning. **Target Implementation Date: March 2015**	**Ongoing and on target.**
3.2 Communication	Consider improving operational efficiency of the review process by implementing a multi-divisional communication plan. The plan could include periodic roundtable meetings to discuss issues.	Staff will reinstitute regular internal meetings on regional and state water planning no later than September 2012. Responsible Parties: Director of Water Resources Planning and Manager of Regional Water Planning. **Target Implementation Date: September 2012**	**Ongoing and on target.**

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
3.3 Data Discrepancies	Consider requiring the planning groups to utilize the database in building the regional water plans and incorporating database output directly in each plan.	Management considers the database as reflecting the content of the regional water plans that are locally and regionally developed and not that the database should drive the regional water plans. However, as indicated in the observations, database requirements have been in contracts and guidance since the development of the 2006 regional water plans and new provisions have been incorporated into the **2011 planning contracts**. Responsible Party: Director, Water Resources Planning	**Ongoing and on target.**
3.4 Regional Planning Debriefing	Consider conducting a debriefing meeting after each regional planning cycle to note the great accomplishments and any lessons learned.	Management will conduct a debriefing during the internal coordination meetings at the end of the 2016 regional water planning process. **Target Implementation Date: February 2016**	**Ongoing and on target.**
4. Guidance	Consider: i.) Enhancing the guidance provided in the planning rules and guidelines, for improved operational efficiency and consistency; and, ii.) Developing detailed formal guidance with training sessions at the beginning of each cycle. Capturing some of the training on online videos and/or webinars could be an efficient way to meet this need.	Staff plans to update, expand, and improve all user manuals, etc. and will continue to provide multiple training sessions to technical consultants as soon as DB17 is available for use by the consultants. Responsible parties: Manager, Regional Water Planning and Team Lead for Water Supply & Strategy Analysis. **Target Implementation Date: March 2014**	**Ongoing and on target.**
5.1 Public Meetings	Consider discontinuing the public meetings in the low turnout areas, and replacing them with an interactive web draft, a webinar and other formats of the state water plan.	Management agrees with the observation and will consider the recommendations in addition to not holding any public meetings after consultation with the Board prior to the fall of 2016 during the 2017 State Water Plan public comment period. Responsible parties: Executive Administrator and Deputy Executive Administrator for Water Resources Planning and Information. **Target Implementation Date: August 2016**	**Ongoing and on target.**

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
5.2 Project Management & Communication	Consider improving project management and communication by: i.) Developing a project schedule, posting it on the TWDB's internal website and sending electronic notifications of changes to the entire multi-divisional team; ii.) Implementing project management software to facilitate task assignment and timely completion; and, iii.) Implementing an internal communication plan as part of the project plan. The plan could include periodic roundtable meetings to discuss issues.	Management will incorporate these recommendations into the state water planning process for the development of the 2017 State Water Plan. Responsible parties: Executive Administrator and Deputy Executive Administrator for Water Resources Planning and Information. **Target Implementation Date: September 2015**	**Ongoing and on target.**
5.3.1 Graphic Design	Consider: i.) Involving TWDB's publication team from the beginning of the project; ii.) To the extent possible, making all of the graphics and design decisions upfront and before graphics are constructed; iii.) While the report cannot be "final" until the Board's approval, efforts should be made to finalize as much as possible all text and data before editing; and, iv.) As far as possible, limiting the number of changes made once the report is in the design software, and leaving sufficient time at the end for publications review.	Management agrees with proper planning for the publication of the plan, however recognizes that each plan is unique and that it is an evolving document until final Board approval because the draft document must be amended in response to Board input and public comment. In addition, management recommends that future publications schedules be based on the needs of the state water planning process and will consider multiple avenues for plan format and development. Responsible parties: Executive Administrator and Deputy Executive Administrator for Water Resources Planning and Information. **Target Implementation Date: January 2016**	**Ongoing and on target.**
5.3.2 Publication - Other	Consider improving the next plan by: i.) Utilizing focus groups to anticipate the needs of stakeholders and making the plan available in other formats; and, ii.) Including the cost of water management strategies, by strategy, in the water management strategies chapter.	Management agrees with the recommendations and will consider them when planning for the development of the 2017 State Water Plan. Responsible Parties: DEA Water Resources Planning and Information and Director of Water Resources Planning. **Target Implementation Date: January 2016**	**Ongoing and on target.**

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
Review of the Desired Future Conditions Process (Report # 20120901) - October 2012			
1.1 Due Process	Continue to monitor the activities of the Legislature regarding this process, and provide resources where needed.	Management is aware of the issue relating to the DFC petition process, will monitor the evaluation of the Legislative Priorities Report, and provide briefings and supporting information to the Legislature as requested. Changing the process ultimately rests with the Legislature. Responsible parties: Executive Administrator, Deputy Executive Administrator for Water Science & Conservation, Director of Groundwater Resources and Director of Governmental Relations. **Target Implementation Date: June 2013**	**Ongoing and on target.**
2.2 Reporting Process	Consider streamlining the reporting process by eliminating the draft MAG report (to the groundwater conservation districts) and the additional information from the Board report.	Management agrees with the recommendation and will consider approaches to streamline the reporting process, which may include revising the draft MAG report review process and evaluating the need to include the estimated maximum sustainable pumping estimate in the Board report. Responsible parties: Deputy Executive Administrator for Water Science & Conservation and Director of the Groundwater Resources Division. **Target Implementation Date: June 2013**	**Ongoing and on target.**
Review of the Outlay Payment and Escrow Release processes (Report # 20130601) - January 2013			
1. Escrow Release Communications	This section of the report has been provided to Board members under separate, confidential cover. It has not been included in the public report due to network security concerns.	Management will evaluate the feasibility of implementing the auditor's recommendation. **Target Implementation Date: August 2013**	**Ongoing and on target.**
2. Escrow Release Authorizations	As part of the escrow release authorization communication, management should consider enhancing communication documents regarding escrow releases by providing more contextual information.	Management will evaluate enhancements to the format of the escrow release correspondence to include the TWDB escrow balances. **Target Implementation Date: June 2013**	**Completed April 2013.**

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status April 2013
3. Interrupted Time-Off	Financial management should consider enhancing the financial control environment by either implementing a practice that ensures key staff takes uninterrupted time off or requiring a strictly enforced rotation of duties in the positions or roles that are considered most vulnerable to material financial error or fraud.	Management will continue the practice of rotating staff responsibilities in the positions or roles that are considered most vulnerable.	**N/A**
4. User Access Reviews	Financial management should ensure that all access reviews are performed, approved, and retained according to agency standards. Business areas should work closely with IT to ensure compliance with standards.	Access and appropriateness reviews of Sage MIP Fund Accounting and ASAP are performed concurrently with semiannual reviews of Comptroller systems and will be documented in the future. **Target Implementation Date: March 2013**	**Ongoing and on target.** **Revised Target Implementation Date: April 2013**

Texas Water Development Board
Internal Audit Division
Implementation Status of Outstanding Audit Issues
April 2013

EXTERNAL AUDITS		
State of Texas Compliance with Federal Requirements for Selected Major Programs for fiscal year ended August 31, 2012 (A-133) Report #: 13-322 Issued: February 2013		
Finding	**Recommendation**	**Status of Implementation – April 2013**
Issue Reference # 13-180 Allowable Costs/ Cost Principles The Water Development Board (Board) has not implemented adequate logical access controls for its automated timekeeping system, the electronic Time Sheet Solution (eTSS). This increases the risk of unauthorized system access and could result in the compromise of data.	The Board should strengthen logical access controls for eTSS.	**Completed.** Effective 3/15/2013, eTSS activated password restrictions to bring it in line with the agency's password policy. **Implementation Date**: **March 31, 2013** *Responsible party: Chief Financial Officer*
Issue Reference # 13-181 <u>Reporting : Transparency Act Reporting</u> For 1 (14 percent) of 7 sub-award projects tested for which the Water Development Board (Board) was required to submit FFATA reports, the Board did not accurately report the sub-award number	The Board should: • Review reports prior to submission to ensure that reports are accurate. • Perform its sub-award reconciliation each month to help ensure that it submits all required reports in a timely manner.	**Completed.** To ensure proper controls are exercised for accurate, complete and timely reporting, two staff members are now required to perform the monthly exercise as a team activity. The first staff person will ensure that all data elements are correct before submitting the report. The second staff person (team lead position) will review the printed reports, on a monthly basis, to ensure that the data was correctly entered. If an inaccuracy is detected upon reconciliation, it will be corrected during the required submission period for the subaward thereby ensuring that subawards are entered accurately and in a timely fashion. All submissions are saved to our electronic files, as well as printed for review. **Implementation Date**: **January 31, 2013** *Responsible Party: Mary Jo Fear, Program & Policy*

EXTERNAL AUDITS State of Texas Compliance with Federal Requirements for Selected Major Programs for fiscal year ended August 31, 2012 (A-133) Report #: 13-322 Issued: February 2013		
Issue Reference # 13-182 <u>Sub-recipient Suspension and Debarment</u> For 1 (8 percent) of 13 sub-recipients tested, the Water Development Board (Board) could not provide evidence that the sub-recipient had certified that it was not suspended or debarred.	The Board should maintain evidence that the subrecipients certified that they were not suspended or debarred.	**Completed.** TWDB has standardized the preparation of approval memos associated with obtaining borrower certification that they are not suspended or debarred, and has automated the associated checklist in the database (TxWISE). In addition, staff will continue to scan the certification documentation into TxWISE. **Implementation Date**: **April, 2013** *Responsible Party: Mark Hall, Program & Policy*
<u>Award Identification</u> The Board was unable to provide evidence that it communicated the CFDA number and other required information to 1 (8 percent) of 13 sub-recipients tested.	The Board should communicate required award information, including the CFDA title and number and the award name and number, to all sub-recipients and maintain evidence of that communication.	**Completed.** 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. **Target Implementation Date**: **March 2011** *Responsible party: Carleton Wilkes, Financial Monitoring*
<u>During-the-award Monitoring</u> For 3 (23 percent) of 13 sub-recipients tested, the Board was unable to provide evidence that a team lead reviewed inspection reports.	The Board should Consistently perform and document reviews of inspection reports.	**Completed**. With effect from September 2012, the Agency enhanced its project review and monitoring procedures with stronger secondary review procedures. The new procedures require documentary evidence of the secondary review, and that it is performed by someone other than the original reviewer or inspector. **Target Implementation Date**: **September 2012** *Responsible party: Jeff Dunsworth, Special Projects*

EXTERNAL AUDITS State of Texas Compliance with Federal Requirements for Selected Major Programs for fiscal year ended August 31, 2012 (A-133) Report #: 13-322 Issued: February 2013		
Issue Reference # 13-183 <u>Transparency Act Reporting</u> The Water Development Board (Board) did not always submit reports to the FFATA Subaward Reporting System (FSRS) in a complete and timely manner as required. Specifically: ▪ For 1 (14 percent) of 7 sub-award projects tested for which the Board was required to submit reports, the Board did not submit the required report to FSRS. Although the Board correctly identified that a FFATA report was required for that project, it did not have a control to ensure that it submitted the required report. ▪ For all 6 sub-award projects tested for which the Board did submit FFATA reports to FSRS, the Board did not submit the reports within the required time frame. Specifically, the Board submitted those reports between 8 and 99 days late. Those errors occurred because the Board did not have a control to ensure that it submitted reports within the required time frame.	The Board should: • Submit all required FFATA reports. • Implement controls to help ensure that it submits FFATA reports within required time frames. • Implement controls to help ensure that it reports accurate and complete information in FFATA reports.	**Completed.** With effect from November 2012, management enhanced its FFATA procedures by having two individuals check the information for accuracy and maintaining copies of screen prints (in the hard copy files) as proof of the monthly reconciliation with the FFATA system. **Implementation Date**: **November 2012** *Responsible party: David Carter, Contracting & Purchasing*
Issue Reference # 13-184 Sub-recipient Monitoring The Board did not effectively monitor or enforce subrecipient compliance with the requirement to obtain Single Audits.	TWDB should monitor and enforce subrecipient compliance with the requirement to obtain Single Audits, and promptly review all Single Audit reports that subrecipients submit.	**Completed**. TWDB has implemented new procedures to monitor and enforce subrecipient compliance with the requirement to obtain Single Audits, including issuing management findings within six months after receipt of the sub-recipient's audit report. **Implementation Date: April 1, 2012** *Responsible party: Carleton Wilkes, Financial Monitoring*

EXTERNAL AUDITS		
State of Texas Compliance with Federal Requirements for Selected Major Programs for fiscal year ended August 31, 2012 (A-133) Report #: 13-322 Issued: February 2013		
During-the-award Monitoring For all three subrecipients tested that received advances of federal funds, the Board did not monitor the interest the subrecipients earned.	TWDB should monitor the interest that subrecipients earn on advances of federal funds.	**Completed.** TWDB has revised the "TWDB Quarterly Financial Report," that is signed and submitted by the sub-recipient on a quarterly basis, to include a section concerning advances of grant funds and interest earned. The recipient will indicate (and provide documentation, if required) whether interest was earned on advances and whether interest earned was handled pursuant to 44CFR Section 13. **Target Implementation Date**: **January 2013** *Responsible party: Gilbert Ward, Flood Mitigation Planning*