

**TO:** Audit Committee of the Texas Water Development Board

**FROM:** Amanda Jenami, Internal Audit Director

**DATE:** July 10, 2013

**SUBJECT:** Outstanding Audit Issues

## 1. Status of Internal Audit Recommendations

Management indicates that implementation of recommendations from the Review of the Outlay Payment and Escrow Release Processes (Report # 20130601) and the Review of the Procurement and Accounts Payable Processes (Report # 20130202) is mostly complete. Implementation of recommendations associated with the Review of the Loan Application Process (Report # 20120202), is 92% (46 out of 50) complete. The rest of the recommendations, 8% (4 out of 50), are of a long-term nature and remain on schedule to be implemented by December 2014. The audit recommendations from the Review of the State Water Planning (Report # 20120701) and Review of Desired Future Conditions (Report # 20120901) are also of a long term nature, and are their implementation is reportedly “ongoing and on target.”

The attached audit tracking matrix includes status information on individual recommendations. Internal Audit plans to follow-up on these reports in fiscal years 2016 and 2017.

## 2. Status of External Audit Recommendations

Implementation of recommendations from the State of Texas Compliance with Federal Requirements for Selected Major Programs (A-133) audit for fiscal year ended August 31, 2012 is complete, effective April 2013.

Internal Audit plans to follow-up on this and the State Auditor’s Water Infrastructure Fund (WIF) audit in fiscal year 2014.

### Attachment

c: Edward G. Vaughan  
Monte Cluck  
Rick Rylander  
Melanie Callahan

#### Our Mission : Board Members

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

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**Texas Water Development Board (TWDB)  
Internal Audit Division  
Outstanding Audit Issues Tracking Matrix  
Audit Committee - July 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 July 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.  <b>Target Implementation Date: 12/31/2014</b>	<b>On-going and on target.</b> 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.  <b>Target Implementation Date: 08/31/2014</b>	<b>On-going.</b> 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.  <b>Target Implementation Date: 08/31/2014</b>	<b>On-going and on target.</b> 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.  <b>Target Implementation Date: 08/31/2014</b>	<b>On-going and on target.</b> Completion of the automation of the review process is dependent on the completion of TxWISE Phase III.

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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. 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.  <b>Target Implementation Date: 5/31/2013</b>	<b>Completed May, 2013.</b>
	(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.  <b>Target Implementation Date: 5/31/2013</b>	<b>Completed May, 2013.</b>
	(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.  <b>Target Implementation Date: 5/31/2013</b>	<b>Completed May, 2013.</b>
	(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.  <b>Target Implementation Date: 5/31/2013</b>	<b>Completed.</b> 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.
<b>Review of the State Water Planning Process (Report # 20120701) - July 2012</b>			
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.  <b>Target Implementation Date: June 2013</b>	<b>Ongoing.</b> HB4, passed in the regular session of the 83rd Legislature, contains provisions requiring prioritization of projects in both the 16 regional and the state water plans. Staff members have begun working within the requirements and deadlines established in this legislation to develop prioritization criteria.

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 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.  <b>Target Implementation Date: March 2014</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: March 2015</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: March 2015</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: September 2012</b>	<b>Completed.</b> Beginning in September of 2012, Planning staff initiated regular communication meetings with other TWDB divisions and the other state agencies which participate in the planning process. The most recent meeting was held in June 2013.

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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 <b>2011 planning contracts</b> . Responsible Party: Director, Water Resources Planning	<b>Ongoing.</b> TWDB staff updated the <i>General Guidelines for Regional Water Plan Development</i> document and amended the new version into the existing contracts. The chapter on existing water supplies, in particular, was extensively reworked and clarified with input from the WSC Surface Water staff. Staff has also already provided a webinar training to consultants on the use of the initial database, with additional database trainings anticipated to follow.
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.  <b>Target Implementation Date: February 2016</b>	<b>Ongoing and on target.</b>
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. <b>Target Implementation Date: March 2014</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: August 2016</b>	<b>Ongoing and on target.</b>

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 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.  <b>Target Implementation Date: September 2015</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: January 2016</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: January 2016</b>	<b>Ongoing and on target.</b>

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 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.	<p>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 &amp; Conservation, Director of Groundwater Resources and Director of Governmental Relations.</p> <p><b>Target Implementation Date: June 2013</b></p>	<p><b>Completed.</b> This recommendation was addressed in the regular 83rd Session of the Texas Legislature by House Bill 2769 (relating to the process for appealing the desired future conditions adopted by a groundwater conservation district for an aquifer) that was filed by Representative Justin Rodriguez on March 7, 2013. This bill called for the State Office of Administrative Hearings to conduct a hearing to appeal the desired future condition, including the reasonableness of the desired future condition. The bill provided that the TWDB, upon request from the administrative law judge, would provide technical analysis related to the hydrogeology of the area or on matters within the TWDB's expertise. The TWDB would also make available the relevant staff as expert witnesses during the hearing if requested by any party or the administrative law judge. The administrative law judge would make a finding of fact and conclusions of law in a proposal for decision, including a dismissal of the petition.</p> <p>Testimony was heard on the bill and it was left pending in the House Natural Resources Committee on April 23, 2013. Therefore the current processes and procedures for the TWDB administering desired future conditions petitions will remain as they are.</p>

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2013
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.  Revised <b>Target Implementation Date: November 2016</b>	<b>Ongoing and on target.</b>
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.  <b>Target Implementation Date: August 2013</b>	<b>Completed April 2013.</b>
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.  <b>Target Implementation Date: June 2013</b>	<b>Completed April 2013.</b>
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.	<b>N/A</b>
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.  <b>Target Implementation Date: March 2013</b>	<b>Completed April 2013</b>

Audit Issue Report Reference	Audit Recommendations	Management's response (at the time of the report)	Management's Update on Implementation Status July 2013
Review of the Procurement and Accounts Payable Processes (Report # 20130202) - April 2013			
1. Small-dollar purchases	Consider improving the efficiency of the purchasing process by implementing a simple more streamlined process for individual purchases of up to \$500 that takes advantage of the efficiencies of the procurement card. Procurement cards would include appropriate limits per transaction, month and year.	Management currently uses procurement cards for certain purchases and will consider the feasibility of expanding the use of these cards. <b>Target Implementation Date: September, 2013.</b>	<b>Completed June 2013.</b>
2. Efficiency of the Purchasing Process	Management should consider improving operational efficiency by performing business process redesign. As part of the BPR, management should consider taking advantage of new technologies and using document workflow routing, approval, and storage.	Management will review its expenditure requisition process and consider opportunities for streamlining, including the use of technology. Considerations for the utilization of technology will require: • Approval by the Comptroller to automate as required by Government Code, Chapter 2101 enacted by the 81st Texas Legislature requiring all projects involving financial systems to be consistent with statewide Enterprise Resource Planning (ERP) goals; • Sufficient capital appropriation budget; and • Sufficient staff resources to deploy new technology. <b>Target Implementation Date: September 2014.</b>	<b>Ongoing</b>