Texas Water Development Board

P.O. Box 13231, 1700 N. Congress Ave.
Austin, TX 78711-3231, www.twdb.texas.gov
Phone (512) 463-7847, Fax (512) 475-2053

REVIEW OF THE DRINKING WATER STATE REVOLVING FUND

Project # 20130801
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Our Mission

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

Board Members

Carlos Rubinstein, Chairman | Bech Bruun, Member | Mary Ann Williamson, Member

Kevin Patteson, Executive Administrator

Project Team

Amanda Jenami, CPA, CISA, CFE, CIA, CCSA, CGAP, Director
Robert Sahm, CPA, CISA

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Executive Summary

Introduction

The Annual Plan for fiscal year 2013 includes an audit of Texas Water Development Board's (TWDB) Drinking Water State Revolving Fund (DWSRF). The management of the DWSRF is the responsibility of the Water Supply & Infrastructure (WSI) Office. WSI comprises Program Administration & Report (PAR), Regional Water Planning & Development (RWPD) and Inspection & Field Support Services (IFSS).

Background

The TWDB and the Texas Commission on Environmental Quality (TCEQ) utilize the resources of the DWSRF to collectively administer the state's DWSRF program. The TWDB administers the loan funds, and the TCEQ administers the use of the Small Systems Technical Assistance and State Program Management set-aside funds in accordance with 40 Code of Federal Regulations (CFR) Subpart L §35.3510(b)(1).

The TCEQ, as the state primacy agency, is required by the Safe Drinking Water Act (SDWA) to carry out regulatory supervision of public water systems and enforce provisions of the SDWA. TWDB provides the financial administration of the program and construction project oversight.

Since its inception in 1996, the program has provided more than $1.2 billion in below-market-rate financing, including over $182 million in grants to disadvantaged communities, for drinking water improvement projects across the state. The DWSRF program had more than 99 active projects, valued at approximately $525 million, as of August 31, 2013.

Overview

TWDB's DWSRF program processes include sufficient controls to provide reasonable assurance that compliance with state law, TWDB rules, and contract requirements is achieved, and that agency assets are safeguarded. Improvements are needed in the financial health of the fund. The high level of administrative costs and the low debt service coverage both challenge the health of the fund and need to be addressed.

Management has been responsive to the audit and has initiated actions in an effort to address the key issues discussed in this report. For example, at the time of audit fieldwork, the program lacked a specific measurable plan to address the issue of unspent federal funds (i.e., unliquidated obligations (ULOs)). Since then, in collaboration with TCEQ and the EPA, management has developed and implemented a strategy to address the ULO issue. The strategy, announced at the TWDB Board meeting on January 13, 2014, includes a $100 million transfer from the DWSRF to the Clean Water State Revolving Fund (CWSRF), revised program capacity modeling, and a plan to provide incentives to projects that are completed on time or ahead of schedule. The audit verified the $100 million transfer to CWSRF was completed in January 2014. In addition,

new management is cognizant of the need for more action to increase program demand and is in the process of implementing a robust outreach program. Management is also working to streamline the application review, loan closing and project monitoring processes, which should assist in increasing program demand.

At the time of fieldwork the audit determined that improvements were needed in the agency's organizational structure, for improved program accountability. Since then, (in November 2013) management has reorganized all programmatic and project related functions to report to the Deputy Executive Administrator (DEA) for the newly-formed Water Supply and Infrastructure (WSI) Office. WSI is responsible for program oversight of the Drinking Water State Revolving Fund as well as all the related processes, including application review, loan closing, project monitoring, and reporting. The reorganization should assist in improving collaboration between the various disciplines and program areas, and in providing better customer service.

Summary of Management's Response

Management appreciates Internal Audit's efforts to identify issues for improvement. Implementation of the recommendations will enhance administrative processes and controls in regard to the DWSRF. Additional detail is provided within the individual audit response.

Closing

We would like to thank the Water Supply and Infrastructure Office for the cooperation and assistance provided to the audit staff during this audit. For questions or additional information concerning this audit report, please contact Amanda Jenami at 512-463-7978.

Objectives and Conclusions

The overall objective of this audit was to determine the extent to which TWDB has processes and controls within the DWSRF to ensure resources are used efficiently and effectively and in compliance with relevant laws, program requirements, and TWDB procedures. The audit focused primarily on activities from September 1, 2010, to June 30, 2013. Fieldwork was conducted from May through June 2013. The detailed audit objectives and conclusions are briefly described next.

Objective 1 – Operational Efficiency

Verify whether the program has processes in place to address the issue of unspent federal funds (i.e., unliquidated obligations (ULOs)).

The audit reviewed program performance (project and commitment status) data since inception, including capitalization grants and funded projects for each Intended Use Plan (IUP) year, loan closing timeframes, and construction project lifecycles since inception. The audit also reviewed fund capacity since 2009, ULO balances at the end of each fiscal year for the period 2008 to 2012, and construction draws. The audit reviewed TWDB's correspondence with the United States Environmental Protection Agency (EPA). Furthermore, for benchmarking purposes, the audit reviewed performance statistics from other states and the nation within the DWSRF National Information Management System (NIMS) database.

At the time of audit fieldwork, the program lacked a specific measurable plan to address the issue of unspent federal funds (i.e. unliquidated obligations (ULOs)). The audit has since determined that, in collaboration with TCEQ and EPA, management has developed and implemented a strategy to address the ULO issue. While more action is necessary, this is considered a significant development in addressing a multifaceted problem that had existed in the program since inception. Before this recent action, the program had the second largest ULO balance in the nation. With the exception of 2011, the year-end ULO balance had consistently exceeded $300 million since 2008.

The audit found that over more than 10 years, a combination of issues contributed to ULOs: the weak demand for the program; the absence of concrete, agreed-upon project timelines (with borrowers); the lack of incentives for timely project completion; the resultant extended project timelines; and inadequate agency procedures for project monitoring and oversight.

Objective 2 – Operational Effectiveness

Determine the extent to which the program has processes in place to ensure financial viability.

The audit reviewed the DWSRF annual financial statements and loan prepayments; employee time and effort statistics; and other performance data, including interest revenues, debt service coverage, and program administrative costs.

The audit determined that a need exists to bring the financial health of the fund to a more solid footing. This can be achieved by increasing loans issued (for increased interest revenues) and reducing administrative costs. The low interest revenues, the high level of administrative costs, the low debt service coverage, and loan prepayments all challenge the financial health of the fund. The financial condition of the fund has prevented the program from taking full advantage of the set-aside provisions authorized by the SDWA.

Further, the audit determined that the DWSRF's administrative federal draws have outpaced the corresponding construction draws by at least five years. However, management does not have a concrete plan for funding the program in the event that the federal grant is discontinued.

Objective 3 - Regulatory Compliance

Verify whether the DWSRF program has processes in place to ensure compliance with the SDWA's state match and set aside requirements.

The review compared a recalculation of the 20% state match of each capitalization grant, as required per 40 CFR 35.3540(h), from 2007-2012 with the agency's deposits into the DWSRF fund. In addition, the review recalculated the 10% and 2% set asides for state program management and small systems technical assistance, respectively, and compared them to the payments to TCEQ for accuracy. The audit determined that these set-asides are being performed accurately, in compliance with the requirements. The review also found that the program is eligible for, but not utilizing, a set aside up to 15% (approximately $10 million on average based on the latest three years) for local assistance for source water protection and capacity development.

Verify whether DWSRF-eligible projects were ranked in compliance with the program's project prioritization rules.

The audit reviewed the project ranking process used for the program's Intended Use Plan (IUP) 2013. The audit evaluated the scoring of qualitative factors, such as disadvantaged communities, regional water plan, and asset management training, on a sample of 11 projects and found it to be in compliance with criteria set out in the IUP. The audit's review of public comments received by the agency regarding the prioritization for the years 2011, 2012, and 2013 found that the complaint/comment process was operating in compliance with program rules.

Verify whether the program has a process in place to ensure reporting requirements are met.

The audit reviewed DWSRF annual reports for the years 2010, 2011, and 2012 and determined that they had been filed on time. However, benchmarking the reports against those of other states (including Minnesota, Indiana, Oklahoma, Nebraska, and Florida) revealed that they could be more streamlined. The audit also reviewed the reporting into the Drinking Water National Information Management System and found it to be reasonable and up to date for the period ending June 30, 2012.

Detailed Issues with Management Responses

Issue 1 – Unliquidated Obligations

The issue of ULOs is a multifaceted problem that has existed in the program since inception. Management became aware of the issue around 2006.

ULOs came about due to a combination of factors, some of which are briefly described next:

(i) To reduce ULOs, the program has to significantly increase construction draws from the federal grant. However, the trend has been moving in the opposite direction, with average annual federal draws decreasing in the last three years.

(ii) Without a clear, effective outreach and marketing program, the agency has not been able to generate enough demand to fully utilize the federal capitalization grant in a timely manner. The number of funded projects has significantly and consistently lagged those invited. DWSRF loans have significantly lagged behind the federal capitalization grant and fund capacity. See relevant charts on pages 19 to 21.

(iii) The program got off to a slow start. The agency implemented the program April 1, 1997. The first financial commitment was made in September 1998, and the first loan closing did not occur until July 1999. Once funded, the project life cycle (including planning, acquisition, design, and construction) ranged from 5-8 years. This explains why the program has one of the lowest project completion rates (as a percentage of funds available) in the nation. Management's implementation in 2012 of the Planning, Acquisition and Design (PAD) loans for those entities that are not ready for construction should assist with reducing average project timelines.

(iv) The process, from ranking the projects to obtaining Board approval for the Intended Use Plan (IUP), takes close to six months.

(v) The agency's loan contracts do not provide the borrower with an incentive to use the funds by or before a certain agreed-upon schedule.

(vi) The agency did not monitor key construction project performance indicators, such as project schedules and outlays, until around 2011.

(vii) While management has implemented some program improvements in the last couple of years, a significant opportunity exists to identify key performance indicators in the reduction of the ULOs, set quantitative performance targets, develop strategies for meeting them, and closely monitor the effectiveness of the adopted strategies. Key

performance indicators could include timelines for loan application processing, loan closing, project completion, and federal draws.

The agency's new invitation process, the implementation of the PAD and bypass procedures for projects that are not ready for construction, and the increased prioritization of those that are "ready to proceed" should prove beneficial in the long run. However, more aggressive action is needed in streamlining project timeframes.

Because the majority of the unspent funds have already been committed to construction projects, the agency needs to implement strategies to significantly expedite construction projects and shorten the average project life cycle (for existing as well as future projects).

Recommendation 1.1

Management should reduce ULOs by expediting construction projects, as described in recommendations 1.1.1 to 1.1.3.

Recommendation 1.1.1

Management should pursue an even more aggressive strategy by requiring entities to be ready to proceed (i.e., with approved engineering plans; financial, managerial and technical capability; and bid-out contracts) before they can close on the loan. This should reduce typical timelines by as much as two years. Where applicable, this will require working closely with TCEQ to ensure timely financial, managerial, and technical ability reviews.

Management Action Planned:

Management agrees that ready-to-proceed projects will draw grant funds quicker and help reduce the ULO. Ready-to-proceed determinations are completed with each project information form, and the appropriate amount of funding is determined based on milestone completion. The Intended Use Plan (IUP) also allows for up to 70% of each year's funds to be utilized toward construction-ready projects. These projects are separated on the funding list and invited to apply as soon as all required milestones are completed.

Responsible Parties:

Stacy Barna, Assistant Deputy Executive Administrator; General Counsel, Legal

Estimated Completion Date:

The extra attention for ready-to-proceed projects was started with the SFY 2014 IUP, which was finalized in August 2013. No further action is needed.

Recommendation 1.1.2

Management should consider enhancing all loan agreements to provide projects with incentives for borrowers to use the funds by a certain agreed-upon date.

Management Action Planned:

Management agrees that the use of incentives could reduce the project schedules and is currently investigating types and methods of such incentives. Most incentives would likely involve rule changes.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; General Counsel, Legal

Estimated Completion Date:

Anticipated implementation: August, 2014

Recommendation 1.1.3

Management should consider offering refinancing for entities whose water infrastructure projects are already in the construction phase but had originally utilized alternative funding.

Management Action Planned:

Management agrees that refinancing is an option that can be used in the DWSRF and is already an eligible use of the available funds. It is a limited option for most entities because refinanced projects still need to show compliance with the federal cross-cutters. Many projects are unable to prove compliance with these aspects. We will continue to allow refinancing as appropriate, but few can comply with the requirements.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; General Counsel, Legal

Estimated Completion Date:

No other actions are required.

Recommendation 1.2

Management should eliminate the gap between loans issued, funds available, and fund capacity by implementing recommendations 1.2.1 and 1.2.2.

Recommendation 1.2.1

Management should eliminate the gap between loans issued, funds available, and fund capacity by implementing an outreach program (at the agency level) to promote the agency's financial assistance programs. The outreach program could include "community service specialists" whose responsibility is helping entities bring eligible projects to the agency for funding. The agency should develop and implement a formal, well-coordinated plan that aims to (i) close the gap between loans issued and funds available by reaching out to both existing and potential customers and (ii) narrow the gap between projects that are eligible and those that are funded.

Management Action Planned:

Management agrees that effective outreach of the program is needed. With the transition of divisions and positions, both Program Administration and Reporting and Governmental Relations and Agency Communications will continue to implement program outreach for the Drinking Water State Revolving Fund. GRAC is newly formed and staffed and able to help with additional SRF outreach. PAR is also continuing to hold annual SRF workshops to educate and market the SRF programs to potential applicants.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Jim Harrison, DEA-GRAC

Estimated Completion Date:

June 2014

Recommendation 1.2.2

To assist in closing the gaps among loans issued, funds available, and fund capacity, management should consider launching a program that aims to obtain and implement suggestions for improvement from all stakeholder groups.

Management Action Planned:

Management agrees that stakeholder feedback is important. Currently there is an online survey to receive stakeholder feedback as well as opportunities for stakeholders to interact with Board members, management, and staff at outreach events. A more formal mechanism to use the stakeholder feedback may be appropriate. A meeting between GRAC and PAR will be held to discuss how to incorporate stakeholder feedback systematically into potential program changes.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Jim Harrison, DEA-GRAC

Estimated Completion Date:

Meet to discuss stakeholder feedback process and incorporate any changes by June, 2014.

Recommendation 1.3

Management should increase program demand (thereby reducing the gap between loans issued, funds available, and fund capacity) by streamlining agency procedures as suggested in recommendations 1.3.1 to 1.3.3.

Recommendation 1.3.1

To assist in closing the gaps among loans issued, funds available, and fund capacity, management should reduce project review timelines by streamlining agency procedures, including streamlining the process from project-ranking to IUP approval.

Management Action Planned:

Management agrees that streamlining the process between PIF ranking and IUP approval would increase efficiencies. A recent improvement to address this concern, implemented in SFY 2014, allows projects to be submitted as PIFs at any time and added to the IUP list quarterly. Additionally, management recently reorganized all programmatic and project-related functions. The recently formed Program Administration and Reporting (PAR) will be responsible for program oversight of the Drinking Water State Revolving Fund and will continuously pursue opportunities for further efficiencies in the time it takes from PIF to IUP on an ongoing basis.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Darrell Nichols, Director, RWPD; Jeff Walker, DEA, WSI; CFO, Finance

Estimated Completion Date:

Starting in August 2014, management changed the frequency of Project Information Form (PIF) submission for a more timely addition to the IUP. Therefore, no further action is required. Management will continue to monitor any further changes to the IUP process to ensure ongoing operational efficiency.

Recommendation 1.3.2

Management should further streamline the loan application submission, review, and closing processes by eliminating red tape. Internal Audit's Review of the Loan Application Process, Project #20120202, issued in February 2012, includes suggestions on streamlining the application review process.

Management Action Planned:

Management agrees and has already split the process into PAD and Construction which, along with adding loan forgiveness, has more than doubled the number of closings required and has required PAD loans to close within six months. Management agrees that eliminating red tape is a worthy goal. A team has already been identified and has eliminated approximately 20% of the questions required in the existing application. A new application is being formatted for use. Further red tape reduction is being investigated in the review process and will be implemented as appropriate. Additionally, the scoping has begun and budget identified for an on-line application. This is intended to further increase the efficiency of the application process. Operations and Administration is scoping the project and assessing the cost to complete.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Darrell Nichols, Director, RWPD; Jeff Walker, DEA, WSI; David Carter, Manager, Contracting & Purchasing

Estimated Completion Date:

Management anticipates the execution of a contract by April, 2014.

Recommendation 1.3.3

Management should consider streamlining the project monitoring process by implementing a risk-based approach for shorter project timelines, as recommended in the Review of Project Monitoring, Project #20130101, which was issued in July 2013.

Management Action Planned:

Management agrees that streamlining the project monitoring process is important. The new project team environment in Regional Water Planning and Development will ensure more project oversight. RWPD is currently evaluating engineering and environmental review processes to determine what efficiencies can be gained to reduce the timeliness of the process for both staff and customers. Implementation date is September 1, 2014.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Darrell Nichols, Director, RWPD; Jeff Walker, DEA, WSI

Estimated Completion Date:

The implementation date for process changes to streamline engineering and environmental review is September, 2014.

Recommendation 1.3.4

Management should consider implementing (i) a proactive and more effective project oversight function that employs performance measures and targets and (ii) robust quantitative reporting that routinely tracks performance on lagging projects.

Management Action Planned:

Management agrees that project oversight is very important and oversight will increase under the new project team environment in Regional Water Planning and Development. Managers will be responsible for reviewing all projects and identifying lagging projects for further follow up and possible action. Multiple reports are currently available to assist in identifying lagging projects, and additional reports and strategies will be developed after permanent managers are selected to track progress and identify potential action. Permanent managers are expected to be in place by March 1, 2014. Evaluating the engineering and review processes for efficiencies, developing additional reports for tracking progress of laggards, and developing strategies to identify potential laggards for increased monitoring by managers should be completed by September 1, 2014

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Darrell Nichols, Director, RWPD; Jeff Walker, DEA, WSI

Estimated Completion Date:

Permanent managers are anticipated to be in place by March, 2014. Evaluating engineering and review processes for efficiencies, development of additional reports for

tracking progress of laggards, and developing strategies to identify potential laggards for increased monitoring by managers will be completed by November, 2014.

Issue 2 – Operational Effectiveness – Financial Health of the DWSRF

A need exists to bring the financial health of the fund to a more solid footing. The high level of administrative costs, the low debt service coverage, and the loan prepayments all challenge the health of the fund. The financial condition of the fund has prevented the program from taking full advantage of the set-aside provisions authorized by the SDWA. The program has set aside 16% of the grant against the maximum 31% the SDWA authorizes.

2.1 Debt Service

The high administrative costs and the program's continued reliance on debt for funding state match have culminated in low debt service coverage. Federal regulations require that only the interest portion of the loan repayment and investment income can be used for debt service. The program's options for improving debt service coverage are limited to either reducing administrative costs and/or seeking alternative funding for the 20% state match.

Recommendation 2.1

Management should consider improving debt service coverage by implementing the recommendations described in 2.1.1 to 2.1.3.

Recommendation 2.1.1

Management should reduce the program's administrative costs by streamlining operations. See the administrative costs issue discussed later for more detail.

Management Action Planned:

Management agrees reviewing the program's administrative costs is necessary. PAR and Finance will review the administrative costs during SFY 2014 to determine whether any reductions are available for the next budget cycle.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; CFO, Finance

Estimated Completion Date:

August, 2014

Recommendation 2.1.2

Management should increase loans issued for increased interest revenues.

Management Action Planned:

Management agrees the amount of loans issued needs to be increased and is completing additional marketing and outreach to attract more applicants.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Jim Harrison, DEA, GRAC

Estimated Completion Date:

Ongoing

Recommendation 2.1.3

Management should reduce the program's reliance on debt for funding state match by identifying alternative funding sources. See the state match issue discussed later for more detail.

Management Action Planned:

Management agrees that the reliance on debt for funding state match needs to be reduced. While some options have been utilized recently, including the use of available proceeds to off-set a portion of the state match needed for the annual capitalization grant, the identified proceeds are limited and the use of debt is not sustainable. Additional options will need to be investigated.

Responsible Parties:

CFO, Finance

Estimated Completion Date:

Additional options will be evaluated and determined by August, 2014.

2.2 State Match

The program's ability to continue to meet the 20% state match requirement is questionable. The slow loan draw-down (a product of the slow project completion issue discussed previously) has hindered the program's interest-earning capabilities. As a result, the program generated little interest revenue for the funds committed. The fund has primarily met the 20% state match requirement with the use of general obligation bond proceeds at a cost.

Management recognizes the need to reduce the program's reliance on debt for financing state match and recently secured some Texas Water Resources Finance Authority (TWRFA) funding for fiscal year 2014. While this offers a much needed reprieve, it is not a long-term solution. However, other than through debt, management does not have a long-term plan for how the program will fund state match.

Recommendation

Management should seek alternative funding sources for the program's 20% state match to alleviate current issues with the cost of debt and improve overall financial health of the fund.

Management Action Planned:

Management agrees that the reliance on debt for funding state match needs to be reduced. While some options have been utilized recently, including the use of available proceeds to off-set a portion of the state match needed for the annual capitalization grant, the identified proceeds are limited and use for debt service is not sustainable. Additional options will need to be investigated.

Responsible Parties:

CFO, Finance

Estimated Completion Date:

Additional options will be evaluated and determined by August, 2014.

2.3 Administrative Costs

The DWSRF program operating costs are not sustainable. At an average of approximately 6% for the last 5 years (excluding 2010, which was unusual due to the American Recovery and Reinvestment Act (ARRA)), the program administrative costs exceeded the 4% provided by the grant. At 6% the program's administrative costs also exceed those of DWSRF programs in other states (including Minnesota, Indiana, and Oklahoma), which range from 2% to 4% of the grant amount. Administrative costs are calculated as total costs less interest expense and comprise mostly salaries and salary-related costs. The fragmented organizational structure and operational inefficiencies in program management processes may be partly responsible for the high level of overhead and administrative costs.

In addition, the program's administrative federal draws have outpaced construction draws by several (5) years. This is partly due to slow construction draws and high administrative costs. Management does not have a concrete plan on how to pay for program administration if the federal grant is discontinued.

Recommendations

Management should consider reducing program administrative costs by streamlining the organizational structure and operational program management processes. In addition, management should develop a concrete plan on how the agency will fund DWSRF administration if the federal grant is discontinued.

Management Action Planned:

Management agrees that reviewing the program's administrative costs is necessary. PAR and Finance will review the administrative costs and make recommendations to management.

In addition, management agrees with the need for a plan. PAR and Finance will meet and draft a plan.

Responsible Parties:

CFO, Finance; Jo Dawn Bomar, Director, PAR

Estimated Completion Date:

The assessment and recommendations for reducing administrative costs will be finalized by August, 2014.

The plan on funding DWSRF administration will be completed by March, 2015.

Issue 3 - Organizational Structure

The audit reviewed the organizational structure, the roles and responsibilities, and performance measures for the divisions involved in managing the program. At the time of fieldwork, the audit determined that the program did not have the accountability framework (i.e., decision-making structure, clear role definition, and quantitative performance measurement) to ensure operational effectiveness. The program lacked an owner with the responsibility and authority to ensure all DWSRF goals are accomplished. Both the management of the DWSRF and the monitoring of individual projects were decentralized, with various divisions overseeing different aspects of the program. Thus, it was difficult for executive management to hold any one individual accountable for program performance and issues. However, management has since reorganized the agency such that all program- and project-related functions now report to the Deputy Executive Administrator for the newly-formed Water Supply and Infrastructure Office (WSI). WSI is responsible for program oversight of the Drinking Water State Revolving Fund as well all the related processes, including application review, loan closing, project monitoring and reporting.

Recommendation

Consider further improving the new accountability structure by implementing a process that tracks and reports performance on the program's critical success factors.

Management Action Planned:

Management agrees that further accountability structuring will benefit the program. With the reorganization in November 2013, changes in leadership were enacted and these reassigned leaders are responsible for continuing with the vision of the TWDB's new direction. New performance plans have been created by Human Resources (HR), and management will be utilizing these as a tool to both reward outstanding performance and ensure employee accountability. In addition to employee accountability, management will be increasing the reporting monitoring and available efficiencies by consolidating required reporting responsibilities under PAR.

Responsible Parties:

Jo Dawn Bomar, Director, PAR; Darrell Nichols, Director, RWPD; Jeff Walker, DEA, WSI

Estimated Completion Date:

New performance plans will be in place by September, 2014. The Reporting Team in PAR is anticipated to be fully staffed by March 2014.

Issue 4 - Regulatory Compliance

TWDB's DWSRF program processes include sufficient controls to provide reasonable assurance that compliance with state law, TWDB rules, and contract requirements is achieved, and that agency assets are safeguarded. However, opportunities for improvement exist in the areas of records retention and written procedures.

Records Retention

The agency's Program and Policy Development procedures regarding the DWSRF do not ensure that "programmatic records, support documents and other records considered pertinent to the program are retained for 3 years after grant close." The review could not find invitation lists, invitation letters, and other information and records pertinent to program administration. Not retaining such information elevates the risk of the agency being unable to support its decision on a particular action. Management indicated this may have been due to employee turnover. However, agency records should stand alone and not be impacted by turnover. In addition, the agency's records retention schedule is not very clear on the specific types of information that should be retained.

Recommendations

Management should revise the agency's records retention policy so it is clear what constitutes "programmatic records, support documents and other records considered pertinent to the program." In addition, management should develop and implement guidance for staff on compliance with the records retention standards.

Management Action Planned:

PAR will seek additional clarification from EPA that the existing processes in place are meeting the minimum requirements. In addition, PAR will develop a clear documented process and procedure to ensure that the availability of all documents and their retention schedule is clear and auditable.

Responsible Parties:

Jo Dawn Bomar, Director, PAR

Estimated Completion Date:

August, 2014

Written Procedures

Management has not developed adequate written procedures to guide employees in their day-to-day duties. The difference between policies and procedures is not clear. The procedures and

forms are not located in one centralized area. In addition, the review found some procedures that were outdated. Well-written and maintained procedures are a critical part of the accountability framework. They allow employees to understand their roles and responsibilities within predefined limits. Basically, policies and procedures allow management to guide staff operations without constant intervention.

Recommendation

Management should revise, clarify, and centrally locate all Program and Policy Development standard operating procedures, including DWSRF policies, procedures, and forms, to increase operational effectiveness.

Management Action Planned:

Management agrees that all PAR standard operating procedures should be reviewed, updated as needed, and centralized.

Responsible Parties:

Jo Dawn Bomar, Director, PAR

Estimated Completion Date:

August, 2014

Appendix:
Scope and Methodology

The overall objective of this review was to determine the extent to which the agency has processes and controls within the DWSRF to ensure resources are used efficiently and effectively and in compliance with relevant laws, program requirements and TWDB procedures. In addition, the review sought to determine whether assets are safeguarded.

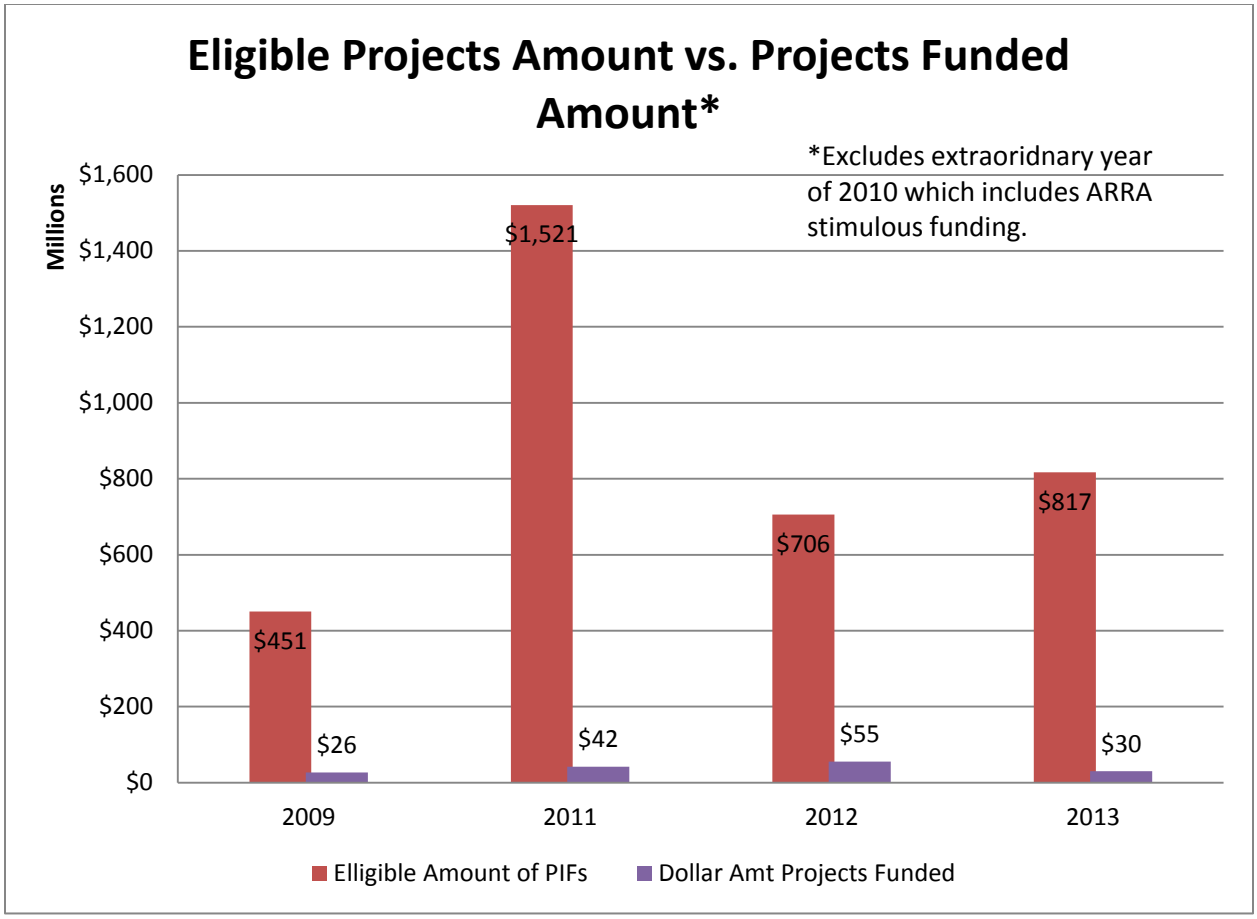
The audit focused on the program as well as financial aspects of the DWSRF, and primarily on activities from September 1, 2010, to June 30, 2013. Fieldwork was conducted from May through June 2013.

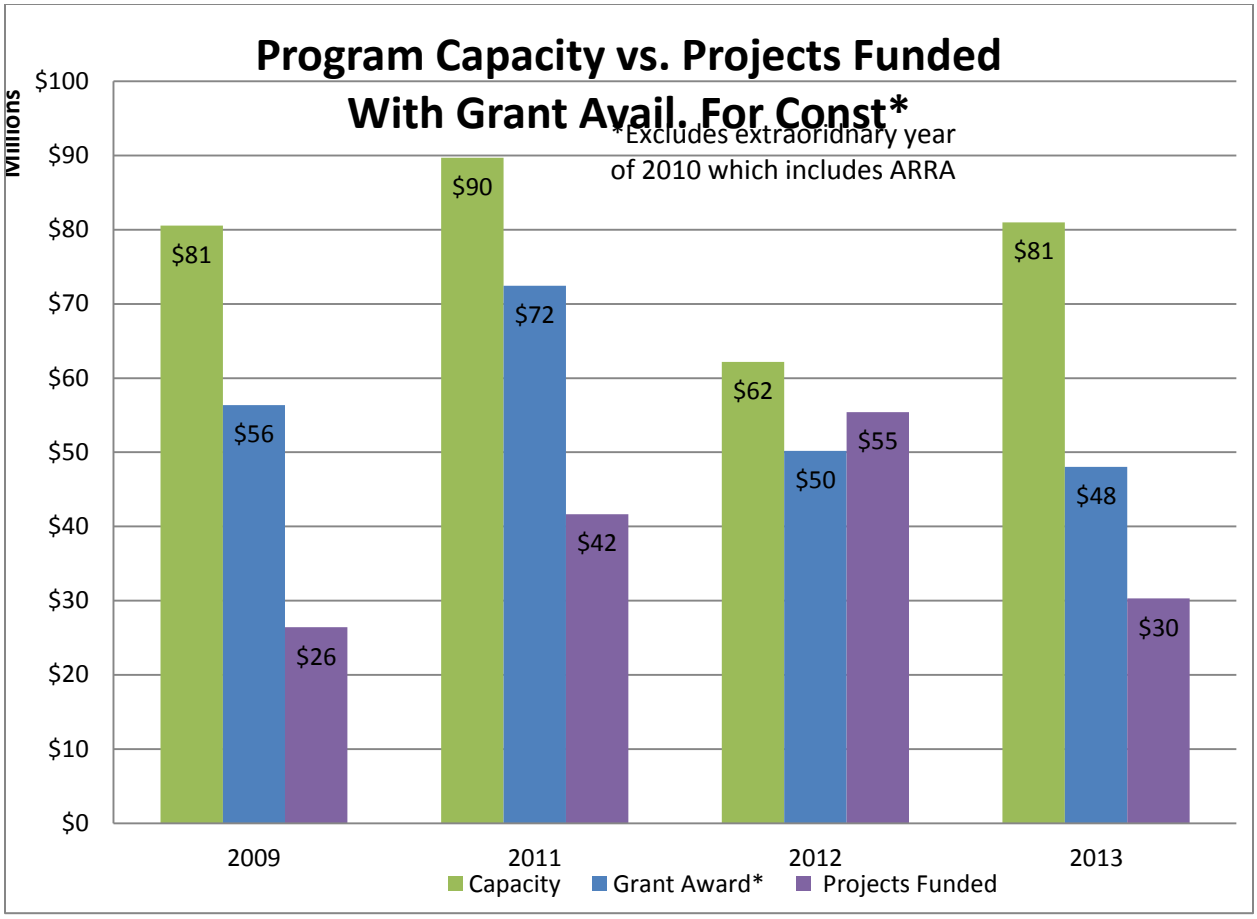
Our audit was based upon standards as set forth in the SDWA, Texas Administrative Code, TWDB's rules, and other sound administrative practices. The audit was performed in compliance with the institute of Internal Auditors' "International Standards for Professional Practice of Internal Auditing."

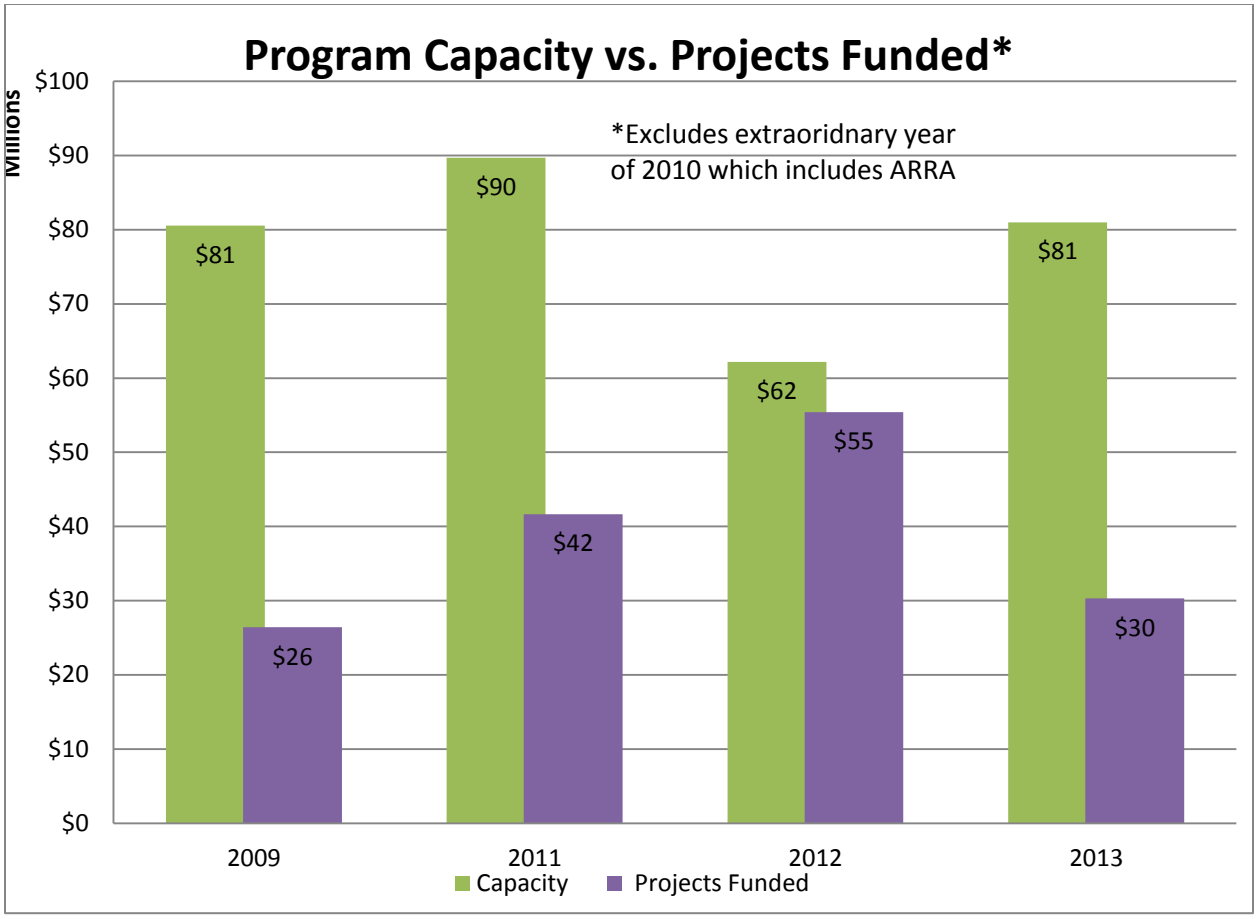
Additionally, we conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our evidence-gathering methods included the following:

- We reviewed applicable laws, rules, and established procedures.
- We reviewed processes utilized to prioritize and invite eligible projects for financial assistance.
- We reviewed the Intended Use Plans (IUP) for IUP years 2011, 2012, and 2013 and (where applicable) the corresponding annual reports.
- We reviewed financial reports (including federal draws and loan prepayments).
- We reviewed the DWSRF annual financial statements.
- We benchmarked DWSRF annual reports against those of other states, including Minnesota, Indiana, Oklahoma, Nebraska, and Florida.
- We reviewed operational reports from the agency's project-tracking database (including such information as outstanding applications and project completion status).
- We reviewed EPA's program evaluation reports for fiscal years 2012 and 2013.
- We reviewed the information in the DWSRF National Information Management System.
- We reviewed the agency's correspondence with EPA.

- We reviewed the organizational structure (i.e., the reporting lines and decision making practices), responsibilities of the various divisions involved in the management of the DWSRF, and position descriptions/ performance plans for key staff.
- We conducted interviews with DWSRF staff from Minnesota, Indiana, Oklahoma, and New York.
- We conducted interviews with selected TWDB staff.
- We relied on work performed and knowledge gained in recent internal audits, including Audit of Project Monitoring (Project # 20130101), Review of the Loan Application Process (Project # 20120202), and Review of Outlays and Escrow Releases (Project # 20130601).


Eligible Projects Amount vs. Projects Funded Amount*
*Excludes extraoridnary year of 2010 which includes ARRA stimulous funding.
Millions
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$451
$26
$1,521
$42
$706
$55
$817
$30
2009
2011
2012
2013
Elligible Amount of PIFs
Dollar Amt Projects Funded


Program Capacity vs. Projects Funded
With Grant Avail. For Const*
*Excludes extraordinary year
of 2010 which includes ARRA
Millions
$100
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
$81
$56
$26
$90
$72
$42
$62
$50
$55
$81
$48
$30
2009
2011
2012
2013
Capacity
Grant Award*
Projects Funded


Program Capacity vs. Projects Funded*
Millions
$100
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
*Excludes extraoridnary year
of 2010 which includes ARRA
$81
$26
$90
$42
$62
$55
$81
$30
2009
2011
2012
2013
Capacity
Projects Funded

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Legislative Budget Board
Ed.Osner@lbb.state.tx.us
Governor's Office Email Drop Box
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TWDB Mission Statement

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

Internal Audit Division's Mission Statement

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

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