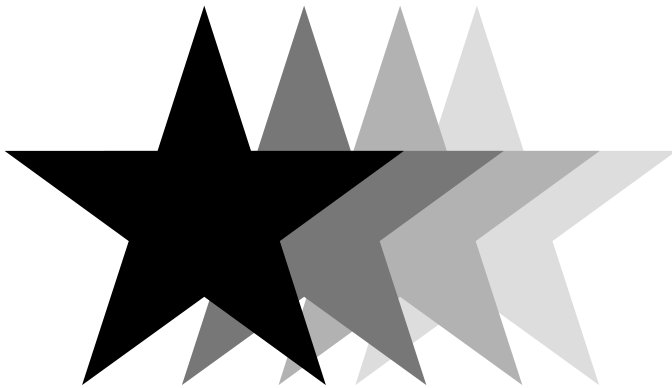


A Status Report on the
**Texas Natural
Resource Conservation
Commission's
Implementation of Audit
Recommendations**



January 1999

SAO No. 99-319

Office of the State Auditor

Lawrence F. Alwin, CPA
State Auditor

Table of Contents

<i>A Follow-Up Audit Report on the Texas Natural Resource Conservation Commission</i> (SAO Report No. 99-019, December 1998).....	1
<i>Implementation Status of An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission</i> (SAO Report No. 95-065, February 1995).....	7
<i>Implementation Status of An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission</i> (SAO Report No. 97-004, September 1996)	21
<i>Implementation Status of An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities</i> (SAO Report No. 97-028, December 1996)	39

***A Follow-Up Audit Report on the Texas
Natural Resource Conservation
Commission***

December 1998

SAO Report No. 99-019





Lawrence F. Alwin, CPA

Two Commodore Plaza
206 East Ninth Street, Suite 1900
Austin, Texas 78701

Phone: (512) 479-4700
Fax: (512) 479-4884

**A Follow-Up Audit Report on the
Texas Natural Resource
Conservation Commission**

December 21, 1998

Members of the Legislative Audit Committee:

The Texas Natural Resource Conservation Commission (Commission) has made substantial progress in implementing recommendations from three previous audit reports. It has addressed significant issues about overall agency management, contracting, and oversight of water districts and utilities. We did not expect to find full implementation of all recommendations, particularly where the recommendations were ongoing or long-term in nature. In some cases, the Commission has taken corrective actions, the full effects of which are yet to appear.

We continue to have concerns about the following business systems, and we believe it is important for the Legislature to be aware of these concerns:

- The number of water systems inspections (surveys) has continued to decline. The Commission conducted 4,433 such inspections in fiscal year 1997 and only 3,595 in fiscal year 1998. By ensuring that water systems operate safely, these inspections help protect the public from potentially harmful chemicals and bacteria in drinking water.
- The management of key regulatory and financial information continues to be an issue for the Commission. All three previous reports identified problems in the Commission's information management. The Commission recognizes these problems and has made progress in identifying solutions, but the systems will take years to develop.
- Inconsistent contract monitoring and evaluation procedures make it possible that the Commission could rehire poor-performing contractors. The Commission accomplishes much of its work through contracts: it currently administers approximately 234 contracts totaling over \$120 million.

The attachment summarizes the Commission's achievements and those recommendations we will continue to monitor. Detailed tables showing the implementation status of the individual recommendations from each report will be available after January 4, 1999. (To request the tables, call 479-4740.) The tables recognize the Commission's completion of interim steps leading to longer-term correction of the conditions noted in the original reports. The tables address only those recommendations considered significant to ongoing operations.

SAO Report No. 99-019

P.O. Box 12067 Austin, Texas 78711-2067 E-mail: auditor@sao.state.tx.us Internet: www.sao.state.tx.us

Members of the Legislative Audit Committee
December 21, 1998
Page 2

Commission management generally concurs with our conclusions; however, it believes that it has fully implemented all recommendations from the management control audit.

We appreciate the assistance and cooperation of numerous Commission staff members throughout this project. Please call Susan Riley, Audit Manager, at 479-4700 if you have any questions about this report.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

Attachment

cbg/khm

cc: Mr. Barry McBee, Chairman
Mr. Ralph Marquez, Commissioner
Mr. John Baker, Commissioner
Mr. Jeff Saitas, P.E., Executive Director
Ms. Caroline M. Beyer, Internal Auditor

Objective, Scope, and Methodology

The objective of this follow-up audit was to determine whether the Commission had implemented the significant recommendations from three previous audit reports:

- *An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission* (SAO Report No. 95-065, February 1995)
- *An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission* (SAO Report No. 97-004, September 1996)
- *An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities* (SAO Report No. 97-028, December 1996)

To accomplish this objective, we interviewed agency staff and reviewed agency documents such as plans, policies, procedures, and reports. This follow-up audit was conducted in accordance with generally accepted government audit standards.

Overall Conclusion

The Texas Natural Resource Conservation Commission (Commission) has made substantial progress in implementing recommendations from three previous audit reports:

- *An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission* (SAO Report No. 95-065, February 1995)
- *An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission* (SAO Report No. 97-004, September 1996)
- *An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities* (SAO Report No. 97-028, December 1996)

Management Controls

The Commission has taken steps to improve overall management controls. For example, it has:

- Created an Office of Policy Research and Development to address concerns regarding internal policy and rule development
- Developed a strategic and business planning process that links strategic planning, budgeting, organization, and performance reporting
- Recently implemented an integrated financial system to reduce future reliance on secondary accounting systems
- Begun processes to identify and rank information management needs

We continue to note deficiencies in the Commission's management of some critical information; for example, see *A Review of the Enforcement Function at the Texas Natural Resource Conservation Commission*, SAO Report No. 98-070, August 1998. The report noted that information needed to manage the compliance and enforcement functions were located in numerous official and unofficial databases.

The Commission has continued to reorganize with some frequency. Some reorganizations have been better planned than others, and further reorganization is pending. This is of interest because of the administrative cost and complexity associated with formal reorganizations.

Contract Management

To improve its contract management processes, the Commission has:

- Created a centralized contract management function and established objectives and measures for the new function
- Established a contract database and made reports from the database available via the Commission's intranet
- Provided guidance to individual programs on how to monitor contracts

However, not all programs have clearly defined their contract monitoring procedures. This has led to inconsistent monitoring across programs.

The Commission has not yet developed a comprehensive means of evaluating contractor performance, so it is possible that the Commission could rehire a contractor who performed poorly on other contracts.

Oversight of Water Districts and Utilities

To improve its oversight of water districts and utilities, the Commission has:

- Begun a major effort to integrate data on water system performance, boundaries, and rates
- Reactivated its viability (capacity development) initiative to ensure that water utilities possess financial, managerial, and technical competence
- Made an effort to recover outstanding fees, which has generated approximately \$125,000

However, the number of water system inspections has continued to decline. These inspections are critical to ensuring the delivery of safe drinking water.

The Commission has not yet redesigned its annual reporting requirements for privately owned water systems. These reports are needed to ensure timely and accurate information on these systems.

The Commission has developed but not published a system of accounts, a management guide, and a rates manual for water utilities. The absence of printed guidance may allow for inconsistent performance among utilities.

Barry R. McBee, *Chairman*
R. B. "Ralph" Marquez, *Commissioner*
John M. Baker, *Commissioner*
Jeffrey A. Saitas, *Executive Director*



TEXAS NATURAL RESOURCE CONSERVATION COMMISSION
Protecting Texas by Reducing and Preventing Pollution

December 4, 1998

Mr. Lawrence Alwin, CPA
State Auditor's Office
206 East 9th Street, Suite 1900
Austin, Texas 78711-2067

Dear Mr. Alwin:

Thank you for providing the Texas Natural Resource Conservation Commission (TNRCC) the opportunity to comment on the follow-ups to three previous audits conducted by the State Auditor's Office (SAO): Management Controls at TNRCC (February 1995), Contract Management Processes (September 1996), and the Oversight of Water Districts and Utilities (December 1996).

There were thirty nine (39) recommendations reviewed during the follow-up audits. As detailed in your follow-up audits, we have implemented, or partially implemented, thirty seven (37) of the recommendations, or 95 percent. We feel this high rate of success demonstrates that TNRCC has met and continues to diligently address the challenges and demands of the agency. However, regardless of these accomplishments, we would like to clarify some of the key points discussed in the follow-up reviews.

Public Water System (PWS) Inspections

In FY 98, as a result of high (20%) turnover and retirement of trained PWS field staff, PWS inspections decreased. We believe this is a single year aberration. Historically, this program area conducts approximately 30% more inspections than required by base commitments. We believe that *actual* inspections performed in FY 99 may exceed 5,600. Thus, we do not anticipate the need for corrective action.

Management Control Audit

The original Management Control Audit recommended that the agency "conduct a comprehensive assessment of information needs." The TNRCC recently completed two separate studies which provide the groundwork for better defining our information and systems architecture needs. First, a Business Process Review was conducted to look at how best to deliver our services. The second effort was an Information Strategic Plan and Assessment. After careful consideration of these complementary studies, we are better poised to make decisions about key information and system

P.O. Box 13087 • Austin, Texas 78711-3087 • 512/239-1000 • Internet address: www.tnrcc.state.tx.us

Mr. Lawrence Alwin
December 4, 1998
Page 2

needs. During both of these endeavors, cross-functional teams of management, staff, and external customers provided input and helped guide the independent consultants.

These plans help define the framework which the TNRCC Information Technology Steering Committee (ITSC) uses to identify and prioritize information projects. To demonstrate, as a result of these processes and studies, the proposed Consolidated Compliance and Enforcement database project was ranked "critical" and included in the recent LAR funding request. Given these, and other efforts, we feel that we have fully *implemented* the original recommendation.

The follow up to the Management Controls Audit further concluded that the agency has continued to reorganize frequently. The TNRCC management team realizes that constant change creates instability. However, we do constantly look for ways to streamline our organization to provide a higher level of service, performance, and efficiency. The changes made have provided for a more logical breakout of services to our customer groups.

Contract Management

The *TNRCC Contracts Manual* includes a section on evaluating contractor performance. A more in-depth overview of financial monitoring, *Financial Administrative Standards*, has also been developed and distributed to agency contracting staff. Furthermore, an agency contract monitoring workgroup has been established to fine-tune internal contract monitoring processes. The TNRCC is currently inputting contract performance data to our "Contracts Management Database." This database will soon be available to agency staff who are contemplating doing business with repeat contractors.

We appreciate your insight on these issues and consider the audits an opportunity to further improve our operations.

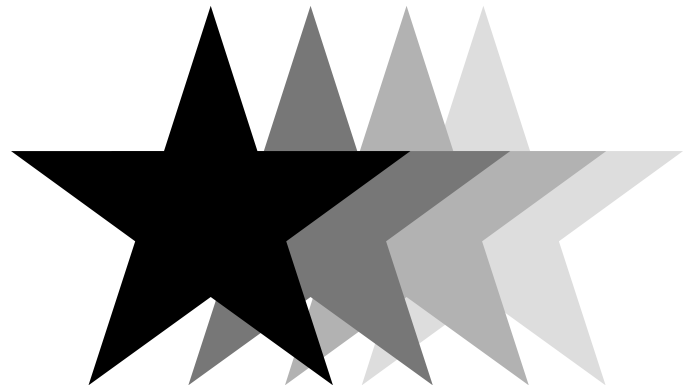
Sincerely,

Jeffrey A. Saitas, P.E.
Executive Director
Texas Natural Resource Conservation Commission

***An Audit Report on Management Controls
at the Texas Natural Resource
Conservation Commission***

February 1995

SAO Report No. 95-065



An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 2 - POLICY MANAGEMENT	
A Coordinated, Comprehensive System for Developing and Implementing Policy Is Needed	
Significant Changes to the Organization Structure Should Be More Carefully Considered, Planned, and Implemented	
<p>The Commission needs to reconsider the way in which it has been using formal reorganization as a management tool. Formal reorganizations, when they are necessary, need to be fully analyzed, planned, and carefully implemented. The original audit lists certain minimum steps to be undertaken prior to a formal reorganization, such as a cost-benefit analysis and identification of how the proposed change will support the strategic plan or further the agency's mission</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>In response to State Auditor audit concerns, the Commission intended to develop a memorandum on essential steps to be undertaken prior to reorganization. This document, however, was not developed. There have been several large organizational changes at the agency since the time of the original audit. The largest, the creation of the Office of Compliance and Enforcement, was carefully analyzed and well planned. Another recent change, reorganization of the Office of Legal Services, was not as carefully analyzed prior to the decision to reorganize. It appears, therefore, that the concerns raised in the original audit are being addressed in some cases but not in others.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>We disagree with this assessment. It appears that one of the reasons for this assessment relates to a recent organizational change in the agency's Office of Legal Services. The structural changes in Legal Services were thoroughly evaluated by executive management and key personnel involved in this change. The agency is ever mindful that constant change creates instability. However, we do constantly look for ways to streamline our organization to provide a higher level of service, performance and efficiency. The changes made provided for a more logical breakout of legal services to our customer groups.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 2 - POLICY MANAGEMENT	
A Coordinated, Comprehensive System for Developing and Implementing Policy Is Needed	
The Information Needed to Support Policy Management Should Be More Systematically Collected and Used	
<p>Establish a policy management information collection and analysis process including the following steps:</p> <ul style="list-style-type: none"> • Identify and prioritize key policy management information, i.e. factors in . . . the internal/external assessment in the strategic plan already identifies a number of these factors • Determine who in the organization, if anyone, currently collects this information • Assign responsibility for collection • Set up a process for routinely collecting, analyzing, and reporting the information • Use the information to adjust plans and operations and make decisions • Regularly re-evaluate and adjust the information collection and analysis process as new factors are identified 	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>Through the Office of Policy Research and Development, the Commission has taken a number of steps which address State Auditor concerns about the collection and internal use of policy management information. For example, to address its responsibility for coordinating and overseeing the agency's rule-making and policy development processes, it designed thorough Operating Policies and Procedures on the rule-making process. It also developed and (in conjunction with program divisions of the agency) executed a Legislative Implementation Strategy for the 75th Legislature. Finally, the Policy Research Division of OPRD researches and reports internally on specific policy information at the request of Commission management.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 2 - POLICY MANAGEMENT	
A Coordinated, Comprehensive System for Developing and Implementing Policy Is Needed	
Work Plans Should Be Detailed Enough to Ensure Adequate Planning and Facilitate Monitoring	
<p>Office and division-level work plans should:</p> <ul style="list-style-type: none"> • Be structured to align with the strategic plan. • Identify the actions and activities which support each strategy. • Identify specific tasks; determine resources needed; assign responsibility, authority, and accountability; and establish completion dates. • Include estimates of implementation costs. • Be regularly monitored, analyzed, and adjusted. 	<p>Status per State Auditor: Implemented</p> <p>Comments: The Commission has addressed State Auditor concerns about the usefulness and structure of the office and division-level work plans. As of fiscal year 1997, these plans, known as business plans, were structured to align with the strategic plan, identifying the actions and activities that support each strategy. The plans also identified specific tasks, often establishing completion dates, and linked them to needed resources within the divisions. Plans are monitored, analyzed, and adjusted in a periodic agencywide revision.</p>
	<p>Status per Commission: Implemented</p> <p>Comments: <i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 2 - POLICY MANAGEMENT	
A Coordinated, Comprehensive System for Developing and Implementing Policy Is Needed	
Responsibility for Implementing the Strategic Plan Should Be Assigned and Those Responsible Held Accountable	
<p>Assign responsibility for strategy implementation to specific persons or divisions within the Commission. Require these parties to:</p> <ul style="list-style-type: none"> • Establish documented policies, consistent with the strategic plan, to be used in implementing the strategy. • Make efficient and effective use of resources. • Operate within the performance standards established by the plan. • Provide information to substantiate all of the above. <p>The relationship between the administrative support and operating divisions should be reviewed and strengthened.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission has addressed the State Auditor concern that the loose strategic/organizational alignment at the Commission risked a loss of division responsibility for legislative strategies. The Commission worked diligently on a revision of its strategies before the last General Appropriations Act, reducing them in number by almost 30 percent, and creating a closer connection between strategies and the divisions responsible for implementing them. Part of the impetus behind the revision was agency recognition of the need to offer an easier translation from the strategy budget to the budgets for the organizational divisions. Specific Divisions' responsibility for the Commission's strategies can also be seen in the agency's recent Strategy Self-Assessment, which was undertaken in the course of developing of the current (1999 to 2003) Commission Strategic Plan.</p> <p>** The second part of this section will not be audited at this time, since it offers ongoing guidelines for strengthening administrative support for operating divisions rather than limited steps that can be implemented in a single instance.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 2 - POLICY MANAGEMENT	
A Coordinated, Comprehensive System for Developing and Implementing Policy Is Needed	
The Strategic Planning Process Has Improved	
<p>Continue to improve the strategic planning process as follows:</p> <ul style="list-style-type: none"> • Create additional opportunities for public input on the completed strategic plan. • Use the completed list of prioritized environmental risks to review strategic priorities. This information could also be used to negotiate with funding sources to adjust funds to risks. 	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission has addressed State Auditor recommendations on improving the strategic planning process. In the course of producing the most recent strategic plan (1999 to 2003) the Commission solicited input from both internal and external stakeholders. The agency conducted a series of "town hall" meetings across the State and posted a questionnaire on the internet to garner public input. It administered an internal strategy self-assessment to generate staff input. The Commission also considered the results of the environmental risk project, STEPP, in its review of strategic priorities for the current plan. These three items were used in the creation of the State of the Texas Environment segment of the strategic plan, a new addition designed to strengthen the agency's focus on environmental quality and priorities.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 3 - BUDGET AND FINANCIAL MANAGEMENT	
<p>While the Budget Process Has Improved, More Work Is Needed to Make the Budget Process a More Fully Developed Financial Management Tool</p>	
<p>The Commission Should Look for Ways to Decrease or at Least Standardize and Control the Use of Secondary Accounting Systems</p>	
<p>Continue to consider ways to reduce or control the use of secondary systems. (The original audit suggested a number of steps to be taken as part of this recommendation.)</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Commission has made significant progress towards the implementation of this recommendation. Existing secondary systems have been identified, and the agency contracted with a vendor for a new, integrated financial system to meet its internal accounting needs. However, we are unable, at this time, to establish that reliance on the secondary systems, referred to in the original audit, has actually been reduced.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>We not only considered this recommendation, we developed and implemented a comprehensive financial accounting system to reduce and eliminate secondary systems. However, in the follow up audit of this recommendation, we received a rating of partially implemented because the auditor was unable to determine how reliant we were on the secondary systems after the comprehensive accounting system was put into production. We have implemented this recommendation in the spirit of the audit and used a common sense approach to meet our needs. We feel that the auditor has changed the interpretation of the original audit recommendation and thus, has unfairly assessed the original recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 4 - HUMAN RESOURCES MANAGEMENT	
<h2>More Work is Needed to Complete the Human Resource Management System and Integrate It with Agency Management Processes and Operations</h2>	
<h3>The Design and Implementation of Classification, Performance Appraisal, and Training Processes Should Be Completed</h3>	
Classification	
<p>A detailed work plan for resolving existing classification problems should be developed. The plan should include steps for maintaining the consistency of its classifications through the operations of the Classification Review Committee and related processes, policies, and procedures.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission has addressed State Auditor concerns about improperly classified positions by conducting, in conjunction with the State Auditor's Office, an audit of all classified positions and correcting those found to be incorrectly classified. The Commission revised its Operating Policies and Procedures for Classification Administration, developing processes and procedures to ensure consistency of classification at the agency. Consistent with the Classification Administration OPPs that 10 percent of the agency's classified positions be audited each year, the Commission developed a Classification Audit Plan for FY 1997.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 4 - HUMAN RESOURCES MANAGEMENT	
<h2>More Work is Needed to Complete the Human Resource Management System and Integrate It with Agency Management Processes and Operations</h2>	
<h3>The Design and Implementation of Classification, Performance Appraisal, and Training Processes Should Be Completed</h3>	
Performance Appraisals	
<p>Management needs to reconfirm the work plan for the development and implementation of the performance appraisal process in light of recent organizational changes. It should also clarify the role of the new Executive Director in approving such a plan.</p> <p>More detailed plans for implementing the new process should also be developed to include:</p> <ul style="list-style-type: none"> • Monitoring for compliance with applicable laws, policies, and procedures • Use of appraisal information to assess individual training needs • Procedures for identifying bias in and inconsistency among performance appraisers 	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission has addressed State Auditor recommendations on the development and implementation of a comprehensive performance appraisal process. The Commission has developed policies and procedures for performance management. Performance standards that an employee must achieve are documented in a Performance Plan. Periodic performance appraisals are conducted to documents the employee's progress toward those standards, as well as to identify any employee weaknesses so that the Commission and the employee can assess training needs. To protect against bias in the appraisal process, management review is performed on all appraisal documentation.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 4 - HUMAN RESOURCES MANAGEMENT	
<h2>More Work is Needed to Complete the Human Resource Management System and Integrate It with Agency Management Processes and Operations</h2>	
<h3>The Design and Implementation of Classification, Performance Appraisal, and Training Processes Should Be Completed</h3>	
Training	
<p>Training should be viewed and managed as a key human resources function . . . [This requires] that a person or group be identified as the training coordinator and charged with the responsibility of overseeing the training function from an agencywide perspective. This coordinator should:</p> <ul style="list-style-type: none"> • Conduct an agencywide training needs assessment which also considers information provided by the new performance appraisal system. • Develop an agencywide training plan which addresses all agency training activities. • Identify and analyze the costs and benefits of each training component. • Apply for continuing professional education credits where possible. • Develop and implement an agencywide system to track training courses taken. • Research and apply additional methods for measuring training use and effectiveness. 	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission has consolidated its training functions into the agency's Training Academy, and has taken many steps, which, together, indicate a genuine effort to manage training, at an agencywide level, as a key human resources function. Training needs are being assessed across the agency in the project for creation of career ladders. Agencywide training objectives and initiatives are outlined in the Human Resources and Staff Development Business Plan. The agency is encouraging the pursuit of professional education credits through initiatives such as the Professional Engineer Development Program. The Training Academy has, in larger training initiatives, identified and analyzed costs and benefits and usefulness of training in its Return on Investment Reports. Finally, the agency has implemented the Registrar database system for, among other things, tracking training courses taken by employees.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 5 - PERFORMANCE MANAGEMENT	
Expand the Performance Measurement System and Actively Use the Information to Manage Performance	
<p>Develop and implement a comprehensive performance measurement system. This system should include:</p> <ul style="list-style-type: none"> • Identification of key operating and administrative functions • Inclusion of all types of performance measures: output, outcome, and efficiency for each key function • Consideration of the relationship between different operating and administrative functions and the effect of a performance measurement standard in one function on all other related functions • Establishment of control procedures for ensuring data accuracy, e.g., fully documenting and measuring activities, documenting performance reviews, periodically auditing performance measures • Benchmarking of performance standards based upon best practices both within and without the agency • Establishment of a process for regularly reporting and analyzing performance results and adjusting plans, budgets, and operations to improve subsequent results 	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission has taken significant steps to address the concerns raised in the original audit. The agency's reported goals, strategies, and measures have been changed from a media to a functional orientation. The agency took steps to cut back the number of key measures it reported on and hone the remaining measures to be more reflective of the agency's effectiveness in addressing its goals. Finally, the reliability of the agency's measures has improved, going from approximately 50 to 100 percent reliability since the time of the audit and the Strategies/Key measures' revision.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 6 - INFORMATION MANAGEMENT	
Management Information Needs Should Be Assessed and Steps Taken to Fulfill These Needs	
<p>Conduct a comprehensive assessment of information needs. The information collected by the QuesTeam on communication should provide a good starting point. This survey should consider:</p> <ul style="list-style-type: none"> Needs of various user groups including: legislators, managers at all levels, and customers Information needed by different management systems such as: policy management, resource management, and performance management. Information needed by different regulatory functions such as: education, licensing and permitting, enforcement, and hearings Once these needs are identified, the Commission should take an inventory of the information it already produces. Next, an analysis of the gap between needed and available information should be conducted. The gaps should be prioritized and plans made to fill them. Unused and redundant information should be eliminated. 	<p>Status per SAO: Partially Implemented</p> <p>Comments: The Commission has taken steps to assess and fill internal management needs for policy, resource, and performance information through its on-line Executive Information System. The agency also maintains web pages designed to provide information and avenues for inquiry for the general public and specific customers such as permitted entities. Most recently, the Commission contracted for an Information Strategy Plan with the express purpose of providing the agency with a strategic direction and framework for information management improvements needed within the agency.</p> <p>However, the recent review of the compliance and enforcement function and the Information Strategic Plan for the Commission revealed problems at the agency that limit the accessibility and usefulness of certain information. The concerns raised in the original audit are, therefore, still valid.</p>
	<p>Status per TNRCC: Implemented</p> <p>Comments: <i>The TNRCC recently completed two separate studies which provide the groundwork for better defining our information and systems architecture needs. First, a Business Process Review was conducted to look at how best to deliver our services. The second effort was an Information Strategic Plan and Assessment. After careful consideration of these complementary studies, we are better poised to make decisions about key information and system needs. During both of these endeavors, cross-functional teams of management and staff provided input and helped guide the external consultants.</i></p>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 6 - INFORMATION MANAGEMENT	
Management Information Needs Should Be Assessed and Steps Taken to Fulfill These Needs	
	<i>These plans help define the framework the TNRCC Information Technology Steering Committee (ITS) used to identify and prioritize information projects. To demonstrate, as a result of these processes and studies, the proposed Consolidated Compliance and Enforcement database was ranked as one of the critical projects and was included on the recent LAR funding request. There were other recommendations that were included in our LAR as a result of this review. Considering these factors, we feel that the rating of partially implemented is not accurate.</i>

An Audit Report on Management Controls at the Texas Natural Resource Conservation Commission

Report No. 95-065, February 1995

Finding No. 7 - IMPLEMENTATION - GENERAL	
Agencywide Controls Over the Design and Management of Individual Programs Are Needed to Reduce the Risk of Program Inefficiency or Ineffectiveness	
<p>The Commission needs to establish program management guidelines that fully consider and provide links to key agency-level management systems. These guidelines should include, but not be limited to, consideration of . . .</p> <ul style="list-style-type: none"> • Policy management • Resource management • Performance management • Information management 	<p>Status per State Auditor: Not Assessed</p> <p>Comments:</p> <p>The Commission's actions as outlined in its February 1997 Status Report are not responsive to the State Auditor finding on this issue. While no single guidance document has been developed, we have noted instances of central administration support for program-level controls.</p>
	<p>Status per Commission: Not Assessed</p> <p>Comments:</p> <p>None.</p>

This page intentionally left blank.

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

September 1996

SAO Report No. 97-004



An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
<h2>Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies</h2>	
<h3>Fully Support the New Centralized Contract Management Function to Ensure Contracting Consistency and Effectiveness Throughout the Agency</h3>	
<p>The Commission's executive management should provide full and continued support to management of the newly created function to ensure contracting consistency and effectiveness throughout the agency.</p> <p>Information regarding the function's objectives, structure, clear position in the organization, responsibilities and authority should be communicated periodically and agencywide.</p> <p>Management of the new function should be focused on and held accountable for establishing goals and timelines, policies and procedures, and a comprehensive contract training program. A goal of the new function should be to enhance contracting coordination between agency program areas. The primary objective of the new function should be to establish a contract management system, which ensures that the agency is paying the best price to the most effective and efficient contractors.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission created a Contracts and Grants Management Division to ensure contracting consistency and effectiveness throughout the agency.</p> <p>It identified its goals and objectives in Grants and Contracts Management - Fundamentals and Best Practices. The goal of this division is to develop, implement, and maintain an effective and efficient grants, contracts, and audit management system. An objective is to ensure grant and contract funds are expended effectively and efficiently in the pursuit of agency and program goals and objectives.</p> <p>A policies and procedures manual was first completed in May 1996; it is currently being revised and is a draft.</p> <p>Contract training was first held in 1996 and continued through 1998.</p> <p>In June 1998, the Financial Administration Division was restructured such that the Compliance, Evaluation and Audit section would report directly to the Chief Financial Officer and the Contracts Section would report to the Financial Administration Division under the Chief Financial Officer.</p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies	
Fully Support the New Centralized Contract Management Function to Ensure Contracting Consistency and Effectiveness Throughout the Agency	
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation. The TNRCC implemented an infrastructure to ensure consistency and effectiveness in the agency's contracts. The agency continues to enhance contract management by refining this infrastructure. The restructuring referenced by the SAO was the first step of a two step process undertaken by the TNRCC to continue efforts to provide efficiency, effectiveness and coordination in the contracting process. The second step occurred on September 1, 1998 with the alignment of the Contracts Section, Purchasing Section and Business Compliance (HUB program) into one section within the Financial Administration Division under the direction of the Chief Financial Officer and the Deputy Director for the Office of Administrative Services.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
<h2>Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies</h2>	
<h3>Improve Contract Monitoring and Audit Activities in Order to Better Hold Contractors Accountable</h3>	
<p>Management of the new centralized contracting infrastructure. . . with support from Commission management, should</p> <ul style="list-style-type: none"> • Evaluate monitoring processes across the agency. • Develop and implement effective monitoring practices for different contract types. • Ensure shared monitoring results across programs to prevent other areas of the agency from contracting with poor performers. • Consider joint monitoring efforts for common contractors . . . <p>The Commission should also develop and implement risk-based monitoring and audit processes. Monitoring and audit efforts should be focused based on the size and risk of a contract, at a minimum, to better allocate agency resources.</p> <p>Monitoring and audit activities should specifically address compliance with contract provisions for performance, financial and oversight requirements.</p> <p>Procedures for the follow-up of results from monitoring and audit activities should be developed and put into place as soon as possible.</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>A report detailing contract information for each division is generated by the contracts database and put on the agency intranet (T-Net). The database also generates a Registration Status Activity Report that identifies when contracts will expire. Contractor evaluation criteria have been developed but an evaluation has not been designed. A contract manager may request information about another contact managers' contractors but there is no formal process for this.</p> <p><u>Monitoring</u> - Each program monitors its own contracts. An agencywide risk-based monitoring process has not been defined. The Clean Rivers Program has defined its monitoring program; however, other programs have not done well. Because not all programs have not defined their monitoring processes, follow-up procedures have not been developed.</p> <p>Complaints are tracked by individual programs, not via the centralized Contracts database. A report card on contractor performance has not been implemented.</p> <p><u>Audit</u> - Based on risks unique to each program, the Compliance, Evaluation and Audit Section performs field audits to ensure contracts and grants are in compliance with contract terms, as well as federal and state statutes and rules. Its scope includes responsibility for following up on audit findings. A dispute resolution process for audit findings outlines steps to capture funds that are identified as over-reimbursed during the audit.</p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
<h2>Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies</h2>	
<h3>Improve Contract Monitoring and Audit Activities in Order to Better Hold Contractors Accountable</h3>	
	<p>Status per Commission: Monitoring Functions - Partially Implemented Audit Functions - Fully Implemented</p> <p>Comments: <i>Monitoring.</i> As noted by the SAO the TNRCC has taken measures to monitor contract activities performed under contract.</p> <p>The Grants and Contracts Management Division initiated various training events which identified different levels of monitoring and disseminated specific guidance, such as, the OMB Circular A-133, the State Single Audit Circular which is part of the Uniform Grants Management Standards and the Office of Management and Budget Circular A-87, Cost Principals for State, Local and Indian Tribal Governments. Training events have been conducted with TNRCC media regarding the monitoring of Comprehensive Annual Financial Reports and Single Audits conducted of grantees which focus on monitoring of expenditures and any audit findings associated with those components of interest to the TNRCC. Additionally, the training documentation, Fundamentals and Best Practices addresses monitoring as a component of a "Self Assessment" which can be performed on a Division, Section or Program level. The booklet contains the Contract Management Life Cycle and the Elements of an Effective Contract Administration System which includes the component of Contractor Oversight.</p> <p>Guidance on fiscal monitoring has been drafted and disseminated. Fiscal monitoring as a component of the contracts life cycle has been described in the Contracts Manual with specificity on what must occur to ensure that adequate fiscal/financial monitoring is taking place. The Contracts Manual also includes a component on evaluating Contractor Performance. This information will be captured via the Contracts Management Database and shared with agency staff who are contemplating doing business with the same contractor. In addition, a</p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies	
Improve Contract Monitoring and Audit Activities in Order to Better Hold Contractors Accountable	
	<p><i>more in depth overview of financial monitoring has also been developed and distributed titled Financial Administrative Standards. Current communications on monitoring activity will be formalized and changed as appropriate to reflect additional levels of monitoring as established.</i></p> <p><i>The agency has recently established a taskforce to evaluate monitoring processes across the agencies. This group will include individuals from those areas of the agency that have established a strong contract monitoring function, e.g. Clean Rivers and Superfund programs. The workgroup will determine effective monitoring practices for different contract types and levels of risk. This workgroup will also establish a forum for the communication of monitoring results across programs.</i></p> <p><i><u>Audit.</u> The TNRCC has developed audit activities which specifically address compliance with contract provisions as well as federal and state statutes and rules. Audits and subsequent follow-ups are based upon the risks unique to each program in order to make the most effective use of agency resources followed up. Where the findings cannot be quantified, the CEA Section agrees to document our procedure for follow-up. The determination of whether or not to perform a follow-up audit would be made during the CEA Section's planning process using an audit history risk factor.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
<h2>Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies</h2>	
<h3>Effectively Communicate Procedures for Fraud Detection and Complaint Resolution to Increase Assurance That Contractors Are Acting Appropriately</h3>	
<p>Commission management should effectively communicate detection and resolution processes for handling fraud and complaints in order to increase assurance that contractors are engaging in appropriate activities. This initiative should be developed and implemented in conjunction with the new processes and procedures being established by the centralized contract management infrastructure.</p> <p>Detection and resolution processes and procedures for fraud and complaints should be disseminated agencywide, as well as addressed in a comprehensive contract management manual. The results of detection and resolution processes should be maintained in a central database for historical evaluation of contractors and complaint patterns and should also be factored into monitoring and audit risk assessments for planning and/or resource allocation.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission adopted a new fraud policy in December 1997. This policy has been disseminated agencywide and is also being incorporated into the Draft Contract Policies and Procedures Manual. The fraud policy includes an incident report form for tracking purposes. While the fraud policy is clear, at a more detailed level, discussions have taken place regarding the role of the programs in monitoring for fraud.</p> <p>The Grants and Contracts Management Division's Administrative Assistant maintains a book that contains the incident report and any other relevant supporting documentation related to the occurrence.</p> <p>A comprehensive contracts manual is under development.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC conducted fraud training for the agency in July, 1995 and February 1997. In December 1997, a new fraud policy was approved by the Executive Director. Training for the agency on the new policy was conducted in March, 1998. The agency has contracted with a Certified Fraud Examiner to conduct fraud training for the TNRCC staff in the past and will continue such training as required to meet the agency's needs. Fraud training will continue to be a regular training requirement for the agency. In addition in the agency's Fundamentals and Best Practices informational booklet, a specific section exists regarding fraud awareness and its detection.</i></p> <p><i>The TNRCC's Internal Audit Division maintains all incident reports and relevant supporting documentation related to such occurrences.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies	
Consolidate Contracting Information to Facilitate Management Planning, Reporting, and Assessment Needs	
<p>Commission management should consolidate agency contracting information to assist with planning and assessment needs.</p> <p>In coordination with the new centralized contracts management infrastructure, a task force should be established to identify the key data that needs to be captured and maintained by a comprehensive database.</p> <p>Procedures and controls should be developed for the input and manipulation of data within the database so that all data is current, accurate, and protected from inadvertent loss.</p> <p>There should also be a plan established for the periodic evaluation of the effectiveness of agency contracting processes overall, with the results being reported to executive management.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>Agency contracting information has been consolidated into the Contracts Management Database and is distributed monthly via the agency's intranet. A new financial system, Oracle, is expected to be implemented in the beginning of fiscal year 1999. This will change the role of the database. It is anticipated that the Oracle system and the contracts database will be linked.</p> <p>An effort was undertaken with Information Resources staff, program staff, historically underutilized business staff, and financial administration staff in order to identify and implement the data fields which comprise the Contracts Management Database. Training for the Contracts Database was held in September 1996. This training described certain fields of the database. The Commission reports that access to the database is restricted to only Contract Section staff.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p> <p><i>As noted by the SAO, training was held on the Contracts Database in September, 1996. Subsequently, in September, 1998, a Technical Overview for the Contracts Database was issued that included an overview, procedures and a flowchart depicting the fundamentals of the contracts database.</i></p> <p><i>The database is currently a centralized microcomputer-based Paradox application written for Microsoft Windows 3.1 that can be accessed through the Agency LAN Network. Internal controls are in place that restrict access to the database to Contract Section staff only. It was designed to review the provision of services and activities provided by the contractors, according to their contracts with TNRCC. The database is used to enter the data</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 1	
Continue Improving Agency Contract Management Processes to Correct Historical Deficiencies	
Consolidate Contracting Information to Facilitate Management Planning, Reporting, and Assessment Needs	
	<p><i>collected on contracts, generate reports and graphs, and display summary information by using the print screen review. These features are used to review all facets of contracts from the beginning of the Contract Initiation Form to the development and implementation of the contract.</i></p> <p><i>The database is currently available to the Contracts Section only for tracking proposed contracts and for preliminary contracts monitoring with future plans to allow others, within the Agency, to use the system (read only) to check on the status of their contracts. The database provides Agency-wide oversight of contracts monitoring to ensure that quality continuously improves from our customers and we provide them with the service to ensure Continuous Quality Improvement (CQI). The agency will continue to evaluate the appropriate links of this system to the new financial system being implemented.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 2	
Strengthen Oversight Practices Within the Petroleum Storage Tank Reimbursement Program to Ensure Payments Are Made for Actual Services Received	
Enhance Reviews of Reimbursement Requests to Better Detect Unsupported Costs and Better Reflect Justified Variances	
<p>Program management should enhance its reimbursement review process to better detect unsupported costs and better reflect justified variances.</p> <p>Worksheets used by program staff during preapproval and reimbursement request reviews should be revised to include comprehensive checklists of support verified and justifications provided.</p> <p>Exceptions allowed to program policies and procedures should be documented on the worksheet by the reviewer.</p> <p>Program staff should also seek assistance regarding effective and efficient reimbursement review practices from the Commission's new centralized contract management function.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Reimbursement Application Review Work Sheet has been modified and expanded to better detect unsupported costs and reflect justified variances. There is an extensive checklist including a technical and financial review to ensure that the application for reimbursement has the support and justifications needed. Exceptions and other notes are documented on the worksheet and also on additional paper if needed. During a review of six reimbursement applications, we detected notes by staff in the Petroleum Storage Tank Reimbursement Section (Reimbursement Section) in the applications.</p> <p>The Petroleum Storage Tank Reimbursement Section asked the Grants and Contract Management Division for input after a draft reimbursement checklist had been developed. In addition, the Reimbursement Section recently participated in a Control Self-Assessment workshop with the Office of Internal Auditor and the Grants and Contracts Division. The Reimbursement Section was also asked for comments regarding the Draft Contracts Manual.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 2	
Strengthen Oversight Practices Within the Petroleum Storage Tank Reimbursement Program to Ensure Payments Are Made for Actual Services Received	
Implement a Plan to Conduct Audits to Meet Current Statutory Requirements and to Detect and Follow Up on Reimbursements Made for Unallowable, Inappropriate, or Non-Existent Services	
<p>Commission management should develop and implement a risk-based plan for conducting statutorily required claims audits of reimbursements made from the Petroleum Storage Tank program. This initiative should be coordinated directly by or with the newly centralized contracts management function.</p> <p>The audits should contain procedures for detecting reimbursements made for unallowable, inappropriate, or non-existent services.</p> <p>Additionally, an audit resolution process should be developed and implemented immediately.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>A risk assessment comprised of information from the State Auditor's Office and the Compliance, Evaluation and Audit section was developed for fiscal year 1997. However, the Compliance, Evaluation and Audit section determined that the prior risk assessment would be too complicated for fiscal year 1998. A risk assessment using some of fiscal year 1997 numbers along with current figures and Petroleum Storage Tank program staff input was created for fiscal year 1998.</p> <p>According to the Commission, the Compliance, Evaluation and Audit Section performs audits according to Government Audit Standards. In addition, the auditors utilize the cost reimbursement manual to determine if reimbursements were made for unallowable, inappropriate, or non-existent services.</p> <p>An audit dispute resolution process has been developed and recently implemented. The resolution contains both informal and formal processes.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation. The SAO and Compliance, Evaluation and Audit section developed a risk assessment for FY 97 based upon expenditure and program information. The Compliance, Evaluation and Audit section is looking at a more in-depth assessment for the current year.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 2	
Strengthen Oversight Practices Within the Petroleum Storage Tank Reimbursement Program to Ensure Payments Are Made for Actual Services Received	
Improve Inspections of Leaking Petroleum Storage Tank Sites by Developing a Risk-Based Approach for Scheduling, and Include Verification of Clean-Up Activities When Applicable	
<p>Field Operations management should develop and implement a formal risk-based methodology for determining inspection commitment numbers and resources to be allocated for the inspections of leaking petroleum storage tanks and related activities. Field Operations management should work closely with Petroleum Storage Tank program staff to identify factors that would designate a leaking tank site or owner as high risk.</p> <p>Inspection reports should clearly reflect the verification of clean-up work eligible for reimbursement when applicable. The results of this effort should increase the agency's assurance that reimbursements for clean-up work associated with leaking petroleum storage tanks are being made for eligible and actual activities. For the Commission as a whole, a formal risk-based methodology should be used for determining all inspection needs and allocating resources within the agency.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>Field Operations uses information obtained from the petroleum storage tank database, which identifies non-compliance with sites, to determine inspection sites. This cooperation between divisions also determines the sites that are high risk. In addition, it appears that Field Operations' management has moved towards a more preventative approach by inspecting sites to determine if they qualify as not leaking. Furthermore, Field Operations' programs have gone to a targeting strategy in determining inspection sites.</p> <p>Inspection checklists have been modified to reflect verification of clean-up work eligible for reimbursement when applicable. The checklist has also become more comprehensive.</p> <p>Both the Targeting Strategy, November 1996 and the Waste Program Inspection Targeting Strategy identify ways to determine which PST sites to inspect.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 2	
Strengthen Oversight Practices Within the Petroleum Storage Tank Reimbursement Program to Ensure Payments Are Made for Actual Services Received	
Update the Program's Reimbursable Cost Guidelines to Reflect Current Costs and Historical Variances	
<p>Program management should update the program's reimbursable cost guidelines to reflect current costs and historical variances. This initiative could be accomplished by seeking industry resources, such as publications or survey information, as well as other available Commission information that could be useful in updating the reimbursable cost guidelines. Management should also establish a process whereby periodic updates of the guidelines would become routine.</p> <p>The reimbursable cost guidelines should be used consistently among program staff and should provide standard cost criteria for compliance monitoring and audit activities. Program staff should seek assistance regarding establishing and applying effective cost criteria from the Commission's new centralized contracts management function. Any cost variances allowed by program staff should be clearly documented within program files.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Reimbursement Section updated the Reimbursable Cost Guidelines, effective October 1997. Cost manuals and industry costs were used to develop the update. If the program is granted an extension in the next legislative session, the Reimbursement Section plans to update the manual at the end of 1999 or beginning of 2000.</p> <p>The updated Reimbursable Cost Guideline was distributed to all contractors. When a work plan and cost proposal is sent to the Reimbursement Section during the pre-approval process, the reviewer checks to ensure that the contractor used the appropriate costs in accordance with the Reimbursable Cost Guidelines Manual. In addition, there is also a more detailed reimbursement application review worksheet that requires the reviewer to check for appropriate documentation. The Reimbursements Section coordinates with the Compliance, Evaluation and Audit Section to discuss audits of reimbursements.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 3	
Enhance Oversight Practices Within the Waste Tire Recycling Program to Ensure Funds Are Consistently Expended for Eligible Activities	
Actively Manage Participant Compliance With Established Rules and Guidelines to Prevent Noncompliance Situations	
<p>Waste Tire Recycling program staff should be more active in requiring that tire processors comply with established rules and guidelines. Timelines for infrequent but expected document submissions from the tire processors should be monitored by the program and notices sent to the processors prior to deadlines. Recurring inspection violations should result in more timely enforcement action. Enforcement action options should be evaluated to determine those most effective for violations or noncompliance issues while balancing the need to continue the managed waste stream. Resulting enforcement decisions, or the lack thereof, should be documented.</p>	<p>Status per State Auditor: Not Assessed Due to Sunset of Fund</p> <p>Comments: The Waste Tire Recycling Fund/Program was discontinued effective December 31, 1997. However, funds are left for the Municipal Solid Waste Section to bid out for cleaning up illegal dump sites. In addition, there are still some rules and regulations regarding the tire processors. The Municipal Solid Waste Section has received approval of newly developed rules and guidelines for tire processors effective July 13, 1998. Furthermore, there is a decrease in the amount of submissions that the tire processors must make to the Commission. Enforcement for the tire processors will fall under the existing Criteria for Initiation of Formal Enforcement Action for Air, Water, and Waste Violations, October 1997.</p>
	<p>Status per Commission: Not Assessed Due to Sunset of Funds</p> <p>Comments: <i>The TNRCC concurs with the SAO's assessment that many of the previous recommendations are not applicable due to the sunset of the program. As noted by the SAO, some rules and regulations remain regarding tire processors. The revised rules implement the remaining mandates of the Texas Health & Safety Code Chapter 361.112. The TNRCC is continuing to cleanup priority enforcement list sites with the funds appropriated for the 98-99 biennium. The TNRCC was also appropriated \$9 million for the biennium to make payments to actual end users of shredded tire pieces and whole scrap tires from priority enforcement sites as identified in the inventory conducted by the agency.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 3	
Enhance Oversight Practices Within the Waste Tire Recycling Program to Ensure Funds Are Consistently Expended for Eligible Activities	
Improve Audits to Ensure Adequate Coverage and to Detect Reimbursement Made for Questionable and Non-Existent Activities	
<p>The Commission management should continue its efforts to adopt risk-based selection processes for the audits of Waste Tire Recycling participants. This initiative should be coordinated directly by or with the newly centralized contracts management function. With such a process, the Commission can more effectively allocate available resources to achieve the most productive reviews.</p> <p>Audit procedures should be designed to identify questionable activities that may be receiving reimbursement from the program. Audit procedures should also include steps to detect potential fraudulent situations.</p> <p>Program and audit staff should emphasize to the processors the importance of maintaining accurate and traceable records.</p>	<p>Status per State Auditor: Not Assessed Due to Sunset of Fund</p> <p>Comments: Effective December 31, 1997, the Waste Tire Recycling Program expired due to a Sunset review. There are no longer any reimbursements that would constitute a reimbursement audit.</p> <p>When it was determined that the Waste Tire Recycling Program would not continue, a decision was made by executive management to discontinue any audits performed by the Compliance, Evaluation and Audit Section (Section). According to the Section's manager, there are only four audits still open because of disputes.</p> <p>Although discontinuing audits is a concern, the reimbursement review process has compensating controls. The Commission still reviews claims for reimbursement sent in by tire processors. The reviews resulted in three orders for penalties issued in 1998 against tire processors. All have been settled.</p>
	<p>Status per Commission: Not Assessed Due to Sunset of Fund</p> <p>Comments: <i>The TNRCC concurs with the SAO's status assessment of this recommendation.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 4	
<h2>Improve Contract Monitoring Practices Within the Clean Rivers Program to Ensure Payments Are Made for Appropriate Activities and Expected Results</h2>	
<h3>Significantly Improve Invoice Review Practices to Include Verification of Supporting Documentation for Costs Incurred</h3>	
<p>Program management should enhance its invoice review process to verify the adequacy of supporting documentation and better detect inappropriate charges. Program staff should seek assistance regarding effective and efficient invoice review practices from the Commission's new centralized contract management function. Invoice submissions should have complete and legible supporting documentation attached or river authorities should be required to maintain all original invoices on file for review. In the case of limited Commission resources, intermittent invoice reviews could be selected using a formal risk assessment process.</p> <p>Disallowed charges resulting from invoice reviews should be recorded and maintained within the program. Such charges detected subsequent to payment should be collected back from the river authorities.</p> <p>A process should be developed for resolving detected discrepancies noted in invoice submissions and payment reviews. The development of this process should be coordinated with the new contracts function.</p> <p>Additionally, decisions made to apply costs to the Clean Rivers Program that appear inappropriate or unnecessary should be well-documented and maintained as supporting documentation to program invoices.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Clean Rivers Program is under the Data Collection Section, which is under the Water Quality Division. The recommendation was written for the Clean Rivers Program but the manager of the Data Collection Section carried the recommendation throughout this area.</p> <p>The invoice review process was created in collaboration with the Contracts Division. The voucher checklist requires verifying supporting documentation.</p> <p>There is a log of unallowable charges maintained in a Paradox database. These charges are not paid until resolved by the project manager. This information is used in the risk assessment methodology. In addition, the information above has been applied to all areas under the Water Quality's Data Collection Section; not just the Clean Rivers Program.</p> <p>A Water Quality Data Collection Contract Fiscal Monitoring Corrective Action Process has been developed and is included in the Financial Administrative Standards. According to the Commission, this process will also be included in the Contracts Policy and Procedures Manual.</p> <p>Controls have been established to improve invoice reviews, such as a voucher checklist and procedures. We did not test specific invoices for completeness or legibility.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 4	
<h2>Improve Contract Monitoring Practices Within the Clean Rivers Program to Ensure Payments Are Made for Appropriate Activities and Expected Results</h2>	
<h3>Improve Financial and Performance Compliance Monitoring Activities to Ensure That Contract Provisions and Expectations Are Met</h3>	
<p>Program management should improve financial and performance compliance monitoring activities to ensure that Clean Rivers contract provisions and expectations are met. These improvements should be coordinated with the Commission's new centralized contracts management function.</p> <p>A financial compliance monitoring process should be clearly defined, developed and implemented within the agency program. The invoice processing reviews should be a part of the financial compliance monitoring process.</p> <p>Management should also clearly define elements to be assessed during contractor audits. Clean Rivers contractor audits should be established using a formal risk-based assessment process.</p> <p>Performance expectations and deliverables should be clearly defined in contracts, with performance activities adequately described in progress reports to ensure effective monitoring by program staff.</p> <p>Discrepancies noted during all monitoring and audit activities should be followed-up on and resolved using a standard resolution process.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>In collaboration with the Grants and Contracts Management Division, the Clean Rivers Program developed Financial Administrative Standards Section 17 which detail steps to perform an on-site monitoring visit of a river authority. In addition, an invoice review process was created with the Grants and Contracts Management Division.</p> <p>The Data Collection Section has created a Contracts Fiscal Monitoring Team who performs either desk reviews or site visits of the river authorities involved in the Clean Rivers Program. A comprehensive voucher checklist has been developed to ensure that there is sufficient support and justification for the invoice.</p> <p>Elements to be assessed during contractor audits are defined in the Financial Administrative Standards, the voucher checklist, and any unique elements to the contract audited. A risk-based assessment process to conduct audits of the Clean Rivers Program uses information from the Commission financial staff (list of contracts with river authorities and amounts) and Commission program staff (carry-over amounts of contracts and evaluation of performance).</p> <p>The Clean Rivers Program had a work plan for fiscal years 1997 to 1998 which described objectives, task descriptions, and deliverables and due dates for different tasks. In a review of a contract shell, performance expectations and deliverables were clearly defined.</p> <p>There is now a Data Collection Contract Fiscal Monitoring Corrective Action Process. In this process, the contractor is notified of the deficiency by letter and the funds are held. The contractor must respond within 30 days and if the monitoring team accepts the contractor's response,</p>

An Audit Report on Contract Management Processes at the Texas Natural Resource Conservation Commission

Report No. 97-004, September 1996

Finding No. 4	
Improve Contract Monitoring Practices Within the Clean Rivers Program to Ensure Payments Are Made for Appropriate Activities and Expected Results	
Improve Financial and Performance Compliance Monitoring Activities to Ensure That Contract Provisions and Expectations Are Met	
	<p>the invoice is processed. If there is no satisfactory response after three iterations, the contractor is referred to the Alternative Dispute Resolution.</p> <p>An audit dispute resolution process has also been developed. The auditee has a certain number of days to respond and/or dispute the findings. The auditee also has the option of receiving a hearing before the Commission regarding the findings.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>The TNRCC concurs with the SAO's status assessment of full implementation of this recommendation.</i></p>

This page intentionally left blank.

***An Audit Report on the Texas Natural
Resource Conservation Commission's
Oversight of Water Districts and Utilities***

December 1996

SAO Report No. 97-028



An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 1	
Integrate Financial, Managerial, and Operational Oversight	
Improve Data Management	
<ul style="list-style-type: none"> • Improve data management at the Division level or higher. • Ensure that Division-level data management incorporates standards for: <ul style="list-style-type: none"> – Input, data integrity, and processing controls – Security – Data ownership – System and user documentation • Develop methods for electronic filing of reports. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Water Utilities Division has created a division-wide data quality and development team and undertaken a major data integration effort. The Commission reports that "all aspects of control, security, ownership and documentation will be addressed in system development."</p> <p>At present, only one laboratory submits electronic reports. Water districts and utilities still submit paper reports.</p>
	<p>Status per Commission Partially Implemented</p> <p>Comments:</p> <p><i>Generally concur with SAO comments. The Water Utility Database Integration System Project (WUDS) will improve services to clients by providing all required reporting to the EPA in an electronic format. The electronic reports for bacteriological laboratories were listed as one phase of the data project submitted to DIR in the BOP. We will receive and process bacteriological data electronically, eliminating the data entry of individual samples, freeing staff to deal more effectively with data quality issues, thereby improving the accuracy and quality of the bacteriological data system.</i></p> <p><i>As noted above, the pilot project is underway with one laboratory that currently reports monthly bacteriological sample results electronically. The Texas Department of Health electronically reports a portion of the chemical analysis results, and the Lower Colorado River Authority is set to begin electronic reporting of all chemical analysis results. Additional bacteriological labs will be brought on line with electronic reporting as soon as possible based on the pilot with the current lab and as the data system capabilities are developed in those labs and within the Commission.</i></p> <p><i>After the completion of this initiative, the Water Utilities Division will continue exploring electronic filing of additional data, forms, and reports. However, unless the Legislature compels the water districts and utilities to</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 1	
Integrate Financial, Managerial, and Operational Oversight	
Improve Data Management	
	<i>update their reporting systems, we do not anticipate full participation in electronic filing. Many water districts and utilities do not have a computerized tracking and reporting system, nor do they have the means or technical expertise to be able to provide electronic reporting. Additionally, the Legislature would have to alter the statutes to allow these entities to file electronically in lieu of submitting the required paper documents.</i>

Finding No. 1	
Integrate Financial, Managerial, and Operational Oversight	
Ensure Coordination of Related Functions	
<ul style="list-style-type: none"> • Consider creating a Wastewater Section within the Division that parallels the Public Drinking Water Section . . . • Consider identifying and coordinating approaches to related functions, such as service area creations and financial monitoring, within the Division. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Office of Water was reorganized in April 1997; it now includes a Water Quality Division.</p> <p>The Division reports that internal reorganization will aid in implementing new initiatives such as database integration, capacity development of small utilities, and source water assessments.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>In addition, the Water Utilities Division created a division-wide data quality and development team. Inside the Division's Public Drinking Water Section, it has created a source water assessment and protection team. And, within the Water Utilities Division is a cross-program capacity development working group.</i></p> <p><i>Staff from both drinking water and wastewater divisions are preparing a guidance document for Commission approval to formalize lines of communication and coordination. Specifically, the guidance will speak to regionalization and the creation of new systems.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 2	
Exercise Regulatory Authority To Ensure Compliance and Prevent the Formation and Continuation of Nonviable Water Systems	
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> • Make active and consistent use of its existing authority by setting and maintaining minimum standards of performance from water systems. • Standards should address the following: <ul style="list-style-type: none"> – Technical capabilities (drinking water quality, deficiency scores, violations, enforcement) – Financial stability and integrity – Managerial competence, such as compliance with reporting requirements and books/records statutes • If it is clear that a system cannot meet the minimum standards, even with appropriate technical assistance, assist local residents in arranging for alternative service arrangements. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Division has reactivated its viability assessment initiative under the term "capacity development." Capacity development is required under the Safe Drinking Water Act.</p> <p>Senate Bill 1 clarified the Commission's responsibility to prevent the formation of nonviable utilities. The Commission has begun assessing how it might facilitate the consolidation of existing utilities and has articulated its intent to ensure the "financial, managerial, and technical viability of all water utilities."</p> <p>A technical assistance contract requires the contractor to assess financial, managerial, and technical capacity of public water systems.</p>
	<p>Status per Commission: Partially Implemented</p> <p>Comments:</p> <p><i>Concur with State Auditor comments. All program components within the Water Utilities Division are assessing the financial, technical and managerial capacities of public water systems. The Surveillance Program continues to monitor deficiency scores and operational issues for referral to the technical assistance contractor, and is coordinating this effort with Field Operations Division.</i></p> <p><i>There are minimum standards for water and wastewater systems within the Commission's rules. A "Small System Management Guide" will be published this fall with additional guidance for utilities on the business aspects of providing water service. The WUDS Project will allow full and effective review of all financial data. The technical assistance contract requires the contractor to perform at least 50 consolidation assessments per year.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 2	
Exercise Regulatory Authority To Ensure Compliance and Prevent the Formation and Continuation of Nonviable Water Systems	
Establish a Viability Assessment Program	
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> • Establish viability screening and assessment processes. • Strengthen and document the processes used to approve Certificates of Convenience and Necessity and create districts. • Dissolve financially dormant districts. • Decertify and assist in restructuring nonviable utilities. 	<p>Status per State Auditor: Implemented</p> <p>Comments: Senate Bill 1 increased the Commission's responsibility to consider alternatives to creating new Certificates of Convenience and Necessity or utility service areas. The Commission has defined new methods for dissolving inactive districts. According to new procedures, the Commission will review approximately 50 utilities per year to determine their potential for consolidation or regionalization.</p>
	<p>Status per Commission: Implemented</p> <p>Comments: <i>Concur with SAO comments. New rules which will be adopted in December 1998 contain a requirement for business plans for all new public water systems and a demonstration of financial, managerial, and technical (FMT) capacity for all new CCNs. Non-viable systems will be screened out through this process. Operating procedures are in place to ensure consistency during the review process. There are also provisions that require systems to provide financial assurances (under 30 TAC Chapter 37) if the Commission determines it is necessary, after evaluating a system's FMT capabilities.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Improve Administration of the Regulatory Assessment Fee	
<p>The Commission should:</p> <ul style="list-style-type: none"> • Develop collection procedures to optimize program revenue. • Impose administrative penalties on nonpaying entities. • Check remittance status before providing services. • For fees paid by investor-owned utilities and districts, check the reasonableness of the submitted amount against the entity's financial reports. If the entity has not submitted the required reports, assess the additional allowable administrative penalties. • Eliminate the discount for quarterly filing. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Commission has made an effort to collect overdue fees. The effort generated approximately \$125,000.</p> <p>We were not able to determine whether the Commission verifies the reasonableness of the submitted amount or penalizes nonpayers or nonfilers.</p> <p>The Commission reports that draft rules have been developed to eliminate the discount for quarterly filing of fees.</p>
	<p>Status per Commission: Partially Implemented</p> <p>Comments:</p> <p><i>Collection procedures are in place and are documented, resulting in significant revenue collections and improved compliance. Non-filers are referred to Enforcement and the violations are added to other violations. Staff personnel check remittance status when applications are received. Delinquent applicants are contacted to remit past due funds. Data base improvements will allow staff to check on the reasonableness of the submittals. As noted above, staff has developed draft rules to eliminate the quarterly filing discount.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Improve Administration of Technical Assistance Contracts; Establish an Active Referral System	
<p>The Commission should:</p> <ul style="list-style-type: none"> • Develop a data-driven approach to monitoring based on compliance reviews, analysis, and complaints; establish an active referral system based on these. • Require the contractors to submit detailed employee time records and record the number of on-site hours in the technical assistance progress reports. • Either limit technical assistance to entities that pay the fee or extend the fee to cover all entities. If the Commission plans to continue its current policy, it might seek clarification on the current state law as to whether it can lawfully use the funds to serve nonpayers. <p>Additionally,</p> <ul style="list-style-type: none"> • Since many system problems stem from financial or managerial weaknesses, rather than technical ones, expand training offerings to address these areas as well. • Establish a conflict of interest provision to ensure that state funds will not be used for the lobbying activities. <p>A documented, data-driven monitoring and referral system would allow the Commission to direct its technical assistance to the entities at highest risk of failure or noncompliance.</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>Completion of the data integration initiative will facilitate the extent to which referrals to the technical assistance contractor are data-driven. However, this effort is incomplete.</p> <p>The Commission administers a \$887,000 contract for on-site assistance to utilities. The contract includes</p> <ul style="list-style-type: none"> • Assessment of financial, managerial, and technical capacity • Technical assistance (which might involve financial and managerial assistance) • Assessment of potential for consolidation <p>The Commission has created a contract oversight committee to oversee administration of the contract. The Invitation for Bid outlined objectives, tasks, and deliverables.</p> <p>The Invitation for Bids requires two exhibits regarding lobbying: a certification and a disclosure.</p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Improve Administration of Technical Assistance Contracts; Establish an Active Referral System	
	<p>Status per Commission: Partially Implemented</p> <p>Comments:</p> <p><i>Since the contract is now funded primarily through PWS fees, which includes all water suppliers, there no longer is a need to limit the types of recipients of the technical assistance.</i></p> <p><i>The technical assistance provided by the contractor includes financial, managerial, and technical assistance to the system. The contractor provides corrective action plans where necessary that are designed to correct deficiencies in any or all of the three (financial, managerial and technical).</i></p> <p><i>The Invitation for Bid (IFB) contained specific language which limited acceptable bids to entities that could demonstrate that there is no conflict of interest. The current contractor has signed the two statements in the IFB regarding lobbying. These statements are maintained by the TNRCC.</i></p> <p><i>The contract is based on unit prices, with the exception of TNRCC's direct referrals portion, which allows for reimbursement for travel and man hours. The contractor bills the TNRCC for specific amounts and maintains documentation for TNRCC review and approval.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Refocus and Expand the General Supervision of Districts	
Analyze and Publish District Financial Data	
<p>We recommend that the data be used:</p> <ul style="list-style-type: none"> Internally, as part of a viability assessment program and as a risk assessment tool for identifying entities for follow-up activities To publish standard reports, or snapshots, on the financial condition of districts; this information would be of interest to State decision makers To return useful information to districts, such as benchmarked expenditures <p>This analysis should incorporate operating results, financial position, debt service capability, economic factors, and qualitative factors disclosed in the annual audit reports. To properly support the analysis and integrate financial data with other Commission databases, the Commission will need to maintain additional data and clarify some of its existing data elements, including:</p> <ul style="list-style-type: none"> Capture district asset and liability data. Capture total revenues and expenditures for combined funds. Capture qualitative information disclosed in the annual audit report, including doubt as a going concern, condition of capital assets, economic dependency, and internal control weaknesses. Incorporate Certificate of Convenience and Necessity number and Public Drinking Water identification numbers, where these are available. Clarify instructions for reporting single family equivalent connections and overlapping tax rates. <p>Require supplemental schedules from all districts meeting the financial reporting threshold.</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The District Administration Section compiled aggregated statistics and presented them at a water district conference. The information included average tax rates and costs for districts of various types/locations. The Section might consider broader distribution of the information via the Internet or the water district newsletter. The Section also prepares customized data reports upon request. Nevertheless, the Section "is hesitant to develop a system to rate districts as this may be viewed as subjective and potentially detrimental to the district's long-term viability."</p> <p>Following desk review of selected financial and audit reports. Staff may refer a district to the technical assistance contractor. The Section also has contracted for management audits of at-risk districts and has developed its own management audit capacity.</p> <p>The data fields needed to link to other databases will be addressed in the data integration project. The Section captures notes on going concerns, economic dependency, and internal control weaknesses. It does not record district asset and liability information or require schedules on capital assets.</p> <p>The Section published a newsletter in May 1997 clarifying equivalent single family connections and overlapping tax rates and requirements for filing supplemental schedules.</p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Refocus and Expand the General Supervision of Districts	
Analyze and Publish District Financial Data	
	<p>Status per Commission: Partially Implemented</p> <p>Comments:</p> <p><i>The District Administration Section has responded to the concerns expressed by the SAO staff. It has compiled aggregated statistical data, or "snapshots" and presented it to the water district community. Additionally, staff is available to respond to ad-hoc queries.</i></p> <p><i>Generally agree with SAO comments. Data integration issues will be addressed during the WUDS Project. The Section continues to use its newsletter as an information tool.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Refocus and Expand the General Supervision of Districts	
Move from Compliance Review Toward Field Reviews and Follow-Ups	
<p>We recommend that the Commission assume the following:</p> <ul style="list-style-type: none"> • Review of auditor working papers • Field audits of district financial records • Investigative management audits, possibly on a contract basis • Referral to the technical assistance contractors 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>As noted in the original audit, the Commission is no longer required to review all district financial reports. The District Administration Section has resumed review of auditor working papers. It does not trace Certified Public Accountant workpapers to district financial records, relying instead on auditor peer review. As noted, the Section has contracted for management audits and hired an in-house management auditor. The section has generally outlined procedures for referring at-risk districts to the technical assistance contractor.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>Procedures have been written for selection of candidates for and conducting management reviews. When performing a management review, staff performs a limited review of the district's financial, technical and managerial records. Resources are focused on desk reviews of audited financial reports (by independent auditors) and some review of auditor's working papers. We feel that our limited resources would be better spent in these areas. Referrals are made to the technical assistance contractors, upon supervisory approval.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3													
Strengthen Controls Over Critical Processes													
Refocus and Expand the General Supervision of Districts													
Refine Bond Review Procedures													
<p>We recommend that the Commission improve . . . reviews by:</p> <ul style="list-style-type: none"> • Documenting and standardizing bond review procedures • Refining tax rate caps • Considering potential oversizing of facilities 	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Status per State Auditor:</td> <td style="text-align: right;">Not Assessed</td> </tr> <tr> <td colspan="2">Comments:</td> </tr> <tr> <td colspan="2">The District Administration Section has stated that it continues to refine its bond review procedures using standardized memo formats and checklists. It does not believe that adjustment of the feasibility tax rate is necessary. It will take a closer look at potential oversizing of utilities in the future.</td> </tr> <tr> <td>Status per Commission:</td> <td style="text-align: right;">Implemented</td> </tr> <tr> <td colspan="2">Comments:</td> </tr> <tr> <td colspan="2"><i>Concur with SAO comments. In addition, bi-weekly meetings by the Application processing team are held to discuss procedures and assure consistency.</i></td> </tr> </table>	Status per State Auditor:	Not Assessed	Comments:		The District Administration Section has stated that it continues to refine its bond review procedures using standardized memo formats and checklists. It does not believe that adjustment of the feasibility tax rate is necessary. It will take a closer look at potential oversizing of utilities in the future.		Status per Commission:	Implemented	Comments:		<i>Concur with SAO comments. In addition, bi-weekly meetings by the Application processing team are held to discuss procedures and assure consistency.</i>	
Status per State Auditor:	Not Assessed												
Comments:													
The District Administration Section has stated that it continues to refine its bond review procedures using standardized memo formats and checklists. It does not believe that adjustment of the feasibility tax rate is necessary. It will take a closer look at potential oversizing of utilities in the future.													
Status per Commission:	Implemented												
Comments:													
<i>Concur with SAO comments. In addition, bi-weekly meetings by the Application processing team are held to discuss procedures and assure consistency.</i>													

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Streamline and Standardize Approach to Rate-Setting and Engineering Plan Reviews	
Redesign Annual Reporting Requirements for Investor-Owned Utilities	
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> • Gather information sufficient to facilitate rate setting and risk assessment. • Establish a more timely due date for the annual report. • Capture all annual report data in a data base; consider means of electronic submission of data. • Ensure compliance with the annual reporting requirements. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments: Due to time restrictions and the data integration project underway, the Utilities Rates and Services Section has not redesigned its annual reporting requirements. We have not confirmed the extent to which submittal rates have been improved or whether the data has been used either to set rates or identify low-performing utilities.</p>
	<p>Status per Commission: Implemented</p> <p>Comments: <i>The TNRCC requires annual reports from investor-owned utilities. This data is entered into a Paradox data base. Due dates have been accelerated and next year will be required about the time that tax returns are filed to ensure that the data will be timely. Non-filers are being followed up on and referred to Enforcement as appropriate. Obtaining sufficient data to set rates through an annual report would be an unnecessary and expensive task for these utilities.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Streamline and Standardize Approach to Rate-Setting and Engineering Plan Reviews	
Develop and Document a System of Accounts Approved by the Executive Director; Provide Guidance on Adjusting the NARUC Uniform System of Accounts	
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop and document a system of accounts approved by the executive director for all utilities Provide utilities guidance on how to adjust the National Association of Regulatory Utility Commissioner's (NARUC) uniform system of accounts to the requirements of the rate change application Ensure compliance with books and records statutes and consider requiring corrective action plans 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments: The Utility Rates and Services Section (Section) has developed a draft System of Accounts (System) for Small Water and Wastewater Utilities. The Section has shared the System with utilities in advance of its formal publication for the past two years. Utilities are not required to use the system; the Section has not provided additional guidance on tailoring NARUC.</p>
	<p>Status per Commission: Partially Implemented</p> <p>Comments: <i>Utilities are required by rule to use the NARUC accounts or an alternative system approved by the Executive Director. Staff developed the system of accounts two years ago, along with the Bookkeeping Guide for Very Small Utilities. Although these publications have not yet been published, drafts have been provided to utilities and proper record keeping is addressed in rate cases. Both manuals will be published this fall. The only systems that use more complex NARUC accounts have staff capable of understanding the requirements.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Streamline and Standardize Approach to Rate-Setting and Engineering Plan Reviews	
Ensure Mathematical Accuracy in Administrative Review	
<p>We recommend that the Commission include mathematical accuracy of the information presented on the rate change application as a criterion for administrative approval . . .</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Utility Rates and Services section has developed an operating procedure to guide general application processing and rate reviews. The procedures call for the analyst to review for inconsistencies or errors.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>Staff does review applications for mathematical accuracy, but we do not believe that there is a benefit in rejecting applications for mathematical errors, unless they impact the noticed annual increase or rate design, in which case, additional notice is required to address the deficiency.</i></p> <p><i>Being too strict on mathematical errors would result in the hiring of more consultants by the smaller systems, which would thereby increase the customer rates without providing any benefit to the customers.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No.3	
Strengthen Controls Over Critical Processes	
Streamline and Standardize Approach to Rate-Setting and Engineering Plan Reviews	
Develop Policies and Procedures for Rate Changes and Plans Reviews	
<p>The Commission should streamline and standardize its approach to rate changes and plans reviews by developing a standard set of policies and procedures for these processes, including work paper documentation . . .</p>	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Utility Rates and Services section (Section) has recently documented many of its procedures and intends to revisit them soon. The Section has developed operating procedures for rate applications and plans reviews. Over time, adherence to the procedures should result in improved work paper documentation.</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>Generally concur with SAO comments. The operating procedures are in place and are followed by staff, resulting in proper documentation. Procedures will be re-visited at least annually to ensure consistency and efficiency. More formal work papers for the Rates staff than that specified in the Section's standard operating procedures would increase their workload with no improvement in the quality of the cases presented. More than 80% of the cases never go to a formal hearing. Therefore, elaborate work papers are not an efficient use of limited staff resources</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Streamline and Standardize Approach to Rate-Setting and Engineering Plan Reviews	
Develop A Format And Review Criteria For The 85-Percent Plant Capacity Planning Report.	
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> • Develop a format and review criteria for the 85-percent capacity planning report. • Publish the format and review criteria for utility owners' use. • Develop a process to ensure that adequate policies and procedures are developed for new legislative requirements. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments: The Utility Rates and Services Section has a draft regulatory guidance document regarding the 85-percent rule. It includes a worksheet and assessment form. Additional guidance is provided in agency rules. While this guidance may be helpful to individual utilities, it does not allow for an aggregated look at utility capacities statewide.</p>
	<p>Status per Commission: Implemented</p> <p>Comments: <i>This requirement is for an individual utility and is not a statewide tool. The format and review and criteria will be published this fall with the "Small System Management Guide", which has been delayed in the Commission's publication process for two years.</i></p>

**An Audit Report on the Texas Natural Resource Conservation
Commission's Oversight of Water Districts and Utilities**

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Streamline and Standardize Approach to Rate-Setting and Engineering Plan Reviews	
Standardize and Publish the Rate-Setting Methodology	
We recommend that the Commission develop and publish a rate manual which addresses all aspects of rate-setting, including policies and procedures for rate change reviews and hearings	Status per State Auditor: Partially Implemented Comments: The Utility Rates and Services Section has developed a draft Management Guide for Privately Owned Utilities and a draft Bookkeeping Guide for Small Utilities. A Rates policy manual is under development and will probably be attached as an appendix to the Management Guide.
	Status per Commission: Partially Implemented Comments: <i>The Rates Manual will be published this fall with the Management Guide as an appendix. Additional rates guidance will be developed this spring to clarify the proposed rules which will be effective around the first of the year.</i>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Strengthen Management of the Public Drinking Water Strategy	
Improve Calculation of System Deficiency Scores	
<p>The Commission should:</p> <ul style="list-style-type: none"> Develop training to ensure that regional inspectors correctly calculate deficiency scores. Establish a quality control function to ensure data accuracy and inter-rater reliability. 	<p>Status per State Auditor: Implemented</p> <p>Comments: The Public Drinking Water program has developed Methods for Insuring the Accuracy of Deficiency Scores. The methods address standardization of ratings, quality control, and training.</p>
	<p>Status per Commission: Implemented</p> <p>Comments: <i>A new section was added to Chapter 20 of the Field Inspectors Technical Guidance Manual to standardize the deficiency rating process. This is reviewed at annual staff training conferences. Ten percent of the surveys are checked each month as part of our quality assurance /quality control process. The Field Operations Division Public Water System Committee continually evaluates the scoring process.</i></p>

An Audit Report on the Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Strengthen Management of the Public Drinking Water Strategy	
Increase the Number of Water System Inspections	
<p>We recommend that the Commission:</p> <ul style="list-style-type: none"> Either (1) contract with a vendor to collect samples or (2) transfer this responsibility to lower pay grade employees. <p>If the Commission decides to continue water sampling, it should provide additional training on proper collection and preservation techniques. If it decides to contract for water sampling, it should ensure that the contractor practices proper collection and preservation techniques.</p> <ul style="list-style-type: none"> Develop a mechanism whereby the Texas Department of Health informs the Commission about which systems have overdue accounts on a monthly basis. This would help the Commission reduce the rate of sample rejection. 	<p>Status per State Auditor: Partially Implemented</p> <p>Comments:</p> <p>The Public Drinking Water program has contracted for the collection of water samples. The sampling component of the contract costs approximately \$900,000 per year. While this should have increased the time available for inspectors to conduct additional sanitary surveys, the number of surveys conducted has continued to decline.</p>
	<p>Status per Commission: Partially Implemented</p> <p>Comments:</p> <p><i>The sampling contract was initiated in January 1998 with excellent results and performance to date. Through September 30, 1998, 17,493 samples have been collected, which exceeds the 9 month contract total of 16,875 samples. Sample rejects have been 2%, which is extremely low, with training provided to contract samplers on proper collection and preservation techniques.</i></p> <p><i>Routine monthly audits are performed by the Public Drinking Water program staff on samples collected, amounts billed, samples rejected and other performance measures. Field audits are conducted quarterly to evaluate sample collectors for proper collection and preservation techniques.</i></p> <p><i>Samples collected by Field Operations Division staff are limited because of the contract. The Field Operations Division has developed a work plan to increase the number of surveys. Methods are being developed to obtain monthly lists of delinquent accounts from LCRA and TDH for pursuing some type of enforcement action for non-payment of chemical analyses.</i></p>

An Audit Report on The Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 3	
Strengthen Controls Over Critical Processes	
Strengthen Management of the Public Drinking Water Strategy	
Monitor the Progress of the Public Drinking Water Section in Implementing Internal Audit Recommendations	
<p>The Commission's Internal Audit Department conducts a follow-up review of the Public Drinking Water program within the next 18 months. To provide additional assurance, it might expand its scope to include general administrative controls not considered during our review.</p>	<p>Status per State Auditor: Implemented</p> <p>Comments: The Commission's Internal Audit department routinely requests 6-month implementation reports to follow up on previous recommendations.</p>
	<p>Status per Commission: Implemented</p> <p>Comments: <i>Concur with SAO comments.</i></p>

An Audit Report on The Texas Natural Resource Conservation Commission's Oversight of Water Districts and Utilities

Report No. 97-028, December 1996

Finding No. 4	
Work With the Texas Legislature to Simplify Regulatory Oversight	
<p>We recommend the following options:</p> <p>(✓ - Recommendations that have been implemented)</p> <ul style="list-style-type: none"> Align the criteria for creating districts and granting Certificates of Convenience and Necessity to clarify the Commission's obligation to consider alternatives to new creations. Where water supply or sewer corporations have federal debt, develop an approach to prevent federal preemption. Establish financial reporting requirements for water supply or sewer corporations. Clarify elements from the last legislative session's recodification regarding Commission bond approval authority, district competitive bidding requirements, financial reports from groundwater districts, and election provisions for special law districts. Require counties to notify the Commission of new districts they have created. Require districts to seek multiple proposals in selecting CPA firms. Revise Chapter 13 to give the Commission greater flexibility in setting rates. Consider establishing incentives to encourage regionalization. 	<p>Status per State Auditor: Implemented</p> <p>Comments:</p> <p>The Commission reports that it is committed to working with the Legislature, as requested, to make any statutory changes that may be necessary.</p> <p>Senate Bill 1 addressed criteria, including the potential for regionalization, for granting certificates of convenience and necessity. It also gave the Commission additional flexibility in setting rates.</p> <p>Senate Bill 1865 clarified director's terms and election dates, competitive bidding requirements, and bond approval authority.</p> <p>A water district newsletter recently advised districts on finding a qualified auditor and ensuring a quality audit. It also noted that "if a district continues to rely on the services of the same auditor for a prolonged period of time, the auditor's independence can be impaired and is usually questioned by the district's customers."</p>
	<p>Status per Commission: Implemented</p> <p>Comments:</p> <p><i>Concur with SAO comments. Staff worked at length with the state legislature on Senate Bill 1 and other legislation and addressed many of these issues. Work is on-going with stakeholders to address issues related to federal debt and staff is optimistic that non-legislative solutions can be found.</i></p>

This page intentionally left blank.