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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

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

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ATTACHMENT

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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