



John Keel, CPA
State Auditor

A Report on

**State of Texas Compliance with
Federal Requirements for
Selected Major Programs at the
Water Development Board for
the Fiscal Year Ended
August 31, 2012**

February 2013

Report No. 13-021



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Overall Conclusion

The State of Texas complied in all material respects with the federal requirements for the Capitalization Grants for Clean Water State Revolving Funds Program (Clean Water Program), the Capitalization Grants for Drinking Water State Revolving Funds Program (Drinking Water Program), and the Severe Repetitive Loss Program in fiscal year 2012.

As a condition of receiving federal funding, U. S. Office of Management and Budget (OMB) Circular A-133 requires non-federal entities that expend at least \$500,000 in federal awards in a fiscal year to obtain annual Single Audits. Those audits test compliance with federal requirements in up to 14 areas that may have a material effect on a federal program at those non-federal entities. Examples of the types of compliance areas include allowable costs, cash management, and monitoring of non-state entities (subrecipients) to which the State passes federal funds. The requirements for 1 of those 14 areas vary by federal program and outline special tests that auditors are required to perform, such as requirements related to environmental reviews and financial commitments that the Water Development Board (Board) is required to make to its subrecipients. The Single Audit for the State of Texas included (1) all high-risk federal programs for which the State expended more than \$75,562,558 in federal funds during fiscal year 2012 and (2) other selected federal programs.

From September 1, 2011, through August 31, 2012, the State of Texas expended \$50.2 billion in federal funds for federal programs and clusters of programs. The State Auditor's Office audited compliance with requirements for the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program at the Board, which spent \$201,883,129 in federal Clean Water Program funds,

The Capitalization Grants for Clean Water State Revolving Funds Program

The Capitalization Grants for Clean Water State Revolving Funds Program (Clean Water Program), which is administered by the U. S. Environmental Protection Agency, provides states with a long-term source of financing for construction of wastewater treatment facilities and implementation of other water quality management activities.

The Capitalization Grants for Drinking Water State Revolving Funds Program

The Capitalization Grants for Drinking Water State Revolving Funds Program (Drinking Water Program), which is administered by the U. S. Environmental Protection Agency, provides states with a long-term source of financing to cover the costs of drinking water infrastructure.

The Severe Repetitive Loss Program

The Severe Repetitive Loss Program, which is administered by the U. S. Department of Homeland Security, provides states with assistance to reduce or eliminate the long-term risk of flood damage to residential properties insured under the National Flood Insurance Program that meet the definition of a severe repetitive loss property.

This audit was conducted in accordance with Single Audit Act Amendments of 1996 and Office of Management and Budget Circular A-133.

For more information regarding this report, please contact James Timberlake, Audit Manager, or John Keel, State Auditor, at (512) 936-9500.

\$96,375,994 in federal Drinking Water Program funds, and \$16,180,385 in federal Severe Repetitive Loss Program funds during fiscal year 2012.

Key Points

The Board complied in all material respects with requirements for the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program. (See text box for definitions of finding classifications.)

Although auditors identified findings at the Board, it is important to note that no finding was material to the federal programs audited. While this indicates that the State of Texas complied in all material respects with the requirements tested, the Board should correct certain non-compliance and significant deficiencies, which are summarized below.

Finding Classifications

Control weaknesses are classified as either significant deficiencies or material weaknesses:

- A **significant deficiency** indicates control weaknesses, but those weaknesses would not likely result in material non-compliance.
- A **material weakness** indicates significant control weaknesses that could potentially result in material non-compliance with the compliance area.

Similarly, compliance findings are classified as either non-compliance or material non-compliance, where material non-compliance indicates a more serious reportable issue.

The Board did not always comply with requirements for reports that it was required to submit to the federal government related to the Federal Funding Accountability and Transparency Act (FFATA).

The Board did not have adequate controls to ensure that it reported accurate information to the FFATA Subaward Reporting System or that it submitted reports in a timely manner. As a result, it incorrectly reported one subaward number associated with the Clean Water Program, and it did not report one subaward associated with the Severe Repetitive Loss Program. The Board also did not submit other reports for the Severe Repetitive Loss Program within the required time frames.

The Board did not always comply with requirements related to monitoring of its subrecipients. Specifically:

The Board could not provide evidence that it verified that one subrecipient of Drinking Water Program funds was not suspended or debarred or that the Board communicated required award information to that subrecipient. Additionally, the Board could not always provide evidence that management reviewed inspection reports that it used to monitor subrecipients, as required by its policy.

Prior to August 2012, the Board did not have a process to collect and review Single Audit reports from the subrecipients to which it provided Severe Repetitive Loss Program funds. In addition, the Board did not monitor the interest that subrecipients earned on federal funds that the Board advanced to them.

Auditors followed up on four findings at the Board from the prior fiscal year related to the Clean Water Program and Drinking Water Program.

The Board fully implemented recommendations for three findings from the prior fiscal year. The State Auditor's Office reissued the remaining finding from the prior fiscal year as a fiscal year 2012 finding in this report.

Summary of Management's Response

Management generally concurred with the audit findings. Specific management responses and corrective action plans are presented immediately following each finding in this report.

Summary of Information Technology Review

The audit work included a review of general and application controls for key information technology systems related to the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program at the Board. Auditors identified weaknesses related to access controls in the electronic Time Sheet Solution system that the Board uses to track employee time charged to federal awards.

Summary of Objectives, Scope, and Methodology

With respect to the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on those programs.

The audit scope covered federal funds that the State spent for the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program from September 1, 2011, through August 31, 2012. The audit work included control and compliance work at the Board.

The audit methodology included developing an understanding of controls over each compliance area that was material to the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program. Auditors' sampling methodology was based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2012. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when appropriate. Auditors assessed the reliability of data the Board provided and

determined that the data was reliable for the purposes of expressing an opinion on compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the programs identified above.

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Independent Auditor's Report

*State of Texas Compliance with
Federal Requirements for
Selected Major Programs at the
Water Development Board
for the Fiscal Year Ended
August 31, 2012*

Report on Compliance with Requirements that Could Have a Direct and Material Effect on
The Capitalization Grants for Clean Water State Revolving Funds Program,
The Capitalization Grants for Drinking Water State Revolving Funds Program, and
The Severe Repetitive Loss Program and on
Internal Control Over Compliance in Accordance with
U. S. Office of Management and Budget Circular A-133
Independent Auditor's Report

Compliance

We have audited the State of Texas's (State) compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program for the year ended August 31, 2012. Compliance with the requirements of laws, regulations, contracts, and grants applicable to the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following paragraph, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State's compliance with those requirements.

This audit was conducted as part of the State of Texas Statewide Single Audit for the year ended August 31, 2012. As such, the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program were selected as major programs based on the State of Texas as a whole for the year ended August 31, 2012. The State does not meet the OMB Circular A-133 requirements for a program-specific audit and the presentation of the Schedule of Federal Program Expenditures does not conform to the OMB Circular A-133 Schedule of Expenditures of Federal Awards. However, this audit was designed to be relied on for the State of Texas opinion on federal compliance, and in our judgment, the audit and this report satisfy the intent of those requirements. In addition, we have chosen not to comply with a reporting standard that specifies the wording that should be used in discussing restrictions on the use of this report. We believe that this wording is not in alignment with our role as a legislative audit function.

In our opinion, the State complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program for the year ended August 31, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items:

Agency	Cluster or Program	Compliance Requirement	Finding Number
Water Development Board	CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds	Reporting	13-181
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds	Procurement and Suspension and Debarment Subrecipient Monitoring	13-182
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds - ARRA		
	CFDA 97.110 - Severe Repetitive Loss Program	Reporting	13-183
	CFDA 97.110 - Severe Repetitive Loss Program	Subrecipient Monitoring	13-184

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with

OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the State's internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in internal control over compliance which are described in the accompanying Schedule of Findings and Questioned Cost to be significant deficiencies:

Agency	Cluster or Program	Compliance Requirement	Finding Number
Water Development Board	CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds	Allowable Costs/Cost Principles	13-180
	CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds - ARRA		
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds		
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds - ARRA		
	CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds	Reporting	13-181
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds	Procurement and Suspension and Debarment Subrecipient Monitoring	13-182
	CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds - ARRA		
	CFDA 97.110 - Severe Repetitive Loss Program	Reporting	13-183
CFDA 97.110 - Severe Repetitive Loss Program	Subrecipient Monitoring	13-184	

Schedule of Federal Program Expenditures

The accompanying Schedule of Federal Program Expenditures for the Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program of the State for the year ended August 31, 2012, is presented for purposes of additional analysis. This information is the responsibility of the State's management and has been subjected only to limited auditing procedures and, accordingly, we express no opinion on it. However, we have audited the Statewide Schedule of Expenditures of Federal Awards in a separate audit, and the opinion on the Statewide Schedule of Expenditures of Federal Awards is included in the *State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012*.

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State's responses and, accordingly, we express no opinion on the responses.

This report is intended for the information and use of the Governor, the Members of the Texas Legislature, the Legislative Audit Committee, the management of the State, KPMG LLP, federal awarding agencies, and pass-through entities. However, this report is a matter of public record, and its distribution is not limited.

John Keel, CPA
State Auditor

February 21, 2013

**Schedule of Federal Program Expenditures for
The Capitalization Grants for Clean Water State Revolving Funds Program, the Capitalization Grants
for Drinking Water State Revolving Funds Program, and the Severe Repetitive Loss Program
For the State of Texas
For the Year Ended August 31, 2012**

Schedule of Federal Program Expenditures CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds Program			
Agency	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Water Development Board			
Other than American Recovery and Reinvestment Act	\$15,187,986	\$157,012,570	\$172,200,556
American Recovery and Reinvestment Act	15,222,498	14,460,075	29,682,573
Total for Clean Water State Revolving Funds Program	\$30,410,484	\$171,472,645	\$201,883,129
Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i> .			

Schedule of Federal Program Expenditures CFDA 66.468 - Capitalization Grants for Drinking Water State Revolving Funds Program			
Agency	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Water Development Board			
Other than American Recovery and Reinvestment Act	\$69,950,383	\$797,953	\$70,748,336
American Recovery and Reinvestment Act	22,933,125	2,694,533	25,627,658
Total for Drinking Water State Revolving Funds Program	\$92,883,508	\$3,492,486	\$96,375,994
Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i> .			
Note 2: Federal expenditures for the Capitalization Grants for Drinking Water State Revolving Funds Program at state entities not included in the scope of this audit totaled \$7,809,572 for the year ended August 31, 2012.			

**Schedule of Federal Program Expenditures
CFDA 97.110 - Severe Repetitive Loss Program**

Agency	Federal Pass-through to Non-state Entity	Federal Direct Expenditures	Totals
Water Development Board	\$16,053,081	\$127,304	\$16,180,385
Total for Severe Repetitive Loss Program	\$16,053,081	\$127,304	\$16,180,385
<p>Note 1: This schedule of federal program expenditures is presented for informational purposes only. For the State's complete Schedule of Expenditures of Federal Awards, see the <i>State of Texas Federal Portion of the Statewide Single Audit Report for the Fiscal Year Ended August 31, 2012</i>.</p>			

Schedule of Findings and Questioned Costs

*State of Texas Compliance with
Federal Requirements for
Selected Major Programs at the
Water Development Board
for the Fiscal Year Ended
August 31, 2012*

Summary of Auditor's Results

Financial Statements

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012*.

Federal Awards

Internal Control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? Yes

Major programs with Significant Deficiencies:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.110	Severe Repetitive Loss Program

Type of auditor's report issued on compliance for major programs: See below.

Unqualified:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.110	Severe Repetitive Loss Program

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.458	Capitalization Grants for Clean Water State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Funds
97.110	Severe Repetitive Loss Program

Dollar threshold used to distinguish between type A
and type B programs: \$75,562,558

Auditee qualified as low-risk auditee? No

Section 2:

Financial Statement Findings

Issued under separate cover. See State Auditor's Office report entitled *State of Texas Financial Portion of the Statewide Single Audit Report for the Year Ended August 31, 2012*.

Section 3:

Federal Award Findings and Questioned Costs

This section identifies significant deficiencies, material weaknesses, and instances of non-compliance, including questioned costs, as required to be reported by Office of Management and Budget Circular A-133, Section 510(a).

Water Development Board

Reference No. 13-180

Allowable Costs/Cost Principles

CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds

CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds – ARRA

Award years - October 1, 2009 to August 31, 2014; June 6, 2011 to August 31, 2015; and October 1, 2008 to August 31, 2014

Award numbers - CS-48000210, CS-48000211, and 2W-96692401

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds - ARRA

Award years – September 20, 2006 to September 15, 2013; January 1, 2008 to December 31, 2014; September 1, 2009 to August 31, 2014; September 1, 2010 to August 31, 2015; September 1, 2011 to August 31, 2016; and February 1, 2009 to August 31, 2014

Award numbers – FS-99679510, FS-99679511, FS-99679513, FS-99679514, FS-99679515, and 2F-96692301

Type of finding – Significant Deficiency

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300(b)).

Questioned Cost: \$ 0

U.S. Environmental Protection Agency

The Water Development Board (Board) has not implemented adequate logical access controls for its automated timekeeping system, the electronic Time Sheet Solution (eTSS). This increases the risk of unauthorized system access and could result in the compromise of data.

Recommendation:

The Board should strengthen logical access controls for eTSS.

Management Response and Corrective Action Plan:

Management will enable password controls consistent with agency policy.

Implementation Date: *March 31, 2013*

Responsible Person: *Rebecca Trevino*

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Reference No. 13-181

Reporting

CFDA 66.458 - Capitalization Grants for Clean Water State Revolving Funds

Award year – June 6, 2011 to August 31, 2015

Award number – CS-48000211

Type of finding – Significant Deficiency and Non-Compliance

Transparency Act Reporting

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations (CFR), Chapter 170).

Questioned Cost: \$ 0

U.S. Environmental Protection
Agency

Additionally, recipients must report all required elements established in the Office of Management and Budget's *Open Government Directive- Federal Spending Transparency and Subaward and Compensation Data Reporting* (August 27, 2010), Appendix C, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number.

For 1 (14 percent) of 7 subaward projects tested for which the Water Development Board (Board) was required to submit FFATA reports, the Board did not accurately report the subaward number. That occurred because of a data input error that occurred when the Board entered the information into the FFATA Subaward Reporting System (FSRS).

The Board did not have a control, such as a review prior to submission, to ensure that all information it reported in FSRS was accurate.

Additionally, the Board performs a reconciliation to ensure that all subawards that require reports are identified; however, it did not perform that reconciliation on a monthly basis, as required by its procedures. Performing those reconciliations on a monthly basis could help to ensure compliance with the requirement to report subaward information through FSRS by the end of the month following the month in which the subaward was signed. Although auditors did not identify compliance issues regarding the timeliness of reports during testing, not reconciling subaward information increases the risk that the Board may not submit all required reports in a timely manner.

Reporting inaccurate information to FSRS decreases the reliability of information provided to the awarding agency and other intended users of that information.

Recommendations:

The Board should:

- Review reports prior to submission to ensure that reports are accurate.
- Perform its subaward reconciliation each month to help ensure that it submits all required reports in a timely manner.

Management Response and Corrective Action Plan:

To ensure proper controls are exercised for accurate, complete and timely reporting, two staff members are now required to perform the monthly exercise as a team activity. The first staff person will ensure that all data elements are correct before submitting the report. The second staff person (team lead position) will review the printed reports, on a monthly basis, to ensure that the data was correctly entered. If an inaccuracy is detected upon reconciliation, it will be corrected during the required submission period for the subaward thereby ensuring that

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subawards are entered accurately and in a timely fashion. All submissions are saved to our electronic files, as well as printed for review.

Implementation Date: January 2013

Responsible Person: Mary Fear

Reference No. 13-182

**Procurement and Suspension and Debarment
Subrecipient Monitoring**

(Prior Audit Issue 12-191)

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds - ARRA

Award years – September 20, 2006 to September 15, 2013; January 1, 2008 to December 31, 2014; September 1, 2009 to August 31, 2014; September 1, 2010 to August 31, 2015; September 1, 2011 to August 31, 2016; and February 1, 2009 to August 31, 2014

Award numbers – FS-99679510, FS-96679511, FS-99679513, FS-99679514, FS-99679515, and 2F-96692301

Type of finding – Significant Deficiency and Non-Compliance

Subrecipient Suspension and Debarment

Federal rules require that, when a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded from federal contracts. This verification may be accomplished by checking the Excluded Parties List System (EPLS), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity (Title 2, Code of Federal Regulations (CFR), Section 180.300).

Covered transactions include procurement contracts for goods and services awarded under a nonprocurement transaction that are expected to equal or exceed \$25,000 (Title 2, CFR, Section 180.220) and all nonprocurement transactions (i.e., subawards to subrecipients) irrespective of award amount (Title 2, CFR, Section 180.210).

Questioned Cost: \$ 0

U.S. Environmental Protection
Agency

For 1 (8 percent) of 13 subrecipients tested, the Water Development Board (Board) could not provide evidence that the subrecipient had certified that it was not suspended or debarred. The Board asserted that, although it received the certification form from the subrecipient, it did not retain the form due to a manual error. Auditors determined that the subrecipient was not currently suspended or debarred by checking the EPLS.

When the Board does not maintain evidence of its verification that subrecipients are not suspended or debarred, this increases the risk that it could enter into an agreement with a subrecipient that is not eligible to receive federal funding.

Award Identification

As a pass-through entity, the Board is required by Office of Management and Budget (OMB) Circular A-133, Subpart D, Section 400(d), and the OMB Circular A-133 Compliance Supplement Part 3, Section M, to identify to the subrecipient, at the time of the subaward, the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

The Board was unable to provide evidence that it communicated the CFDA number and other required information to 1 (8 percent) of 13 subrecipients tested. Although the Board sent an award letter to the subrecipient at the time of commitment, that letter did not contain the CFDA title and number or the award name and number. The Board asserted it changed the award letter template in fiscal year 2011 to include the CFDA title

WATER DEVELOPMENT BOARD

and number and the award name and number and that it sent an award letter to that subrecipient prior to making those changes. Auditors did not identify similar errors for awards tested after the beginning of fiscal year 2011.

Inadequate identification of federal awards could lead to improper reporting of federal funding on a subrecipient's schedule of expenditures of federal awards.

During-the-award Monitoring

As a pass-through entity, the Board is required by OMB Circular A-133, Subpart D, Section 400(d), to monitor the activities of subrecipients to ensure that federal awards are used in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Entities shall maintain internal control over federal programs that provides reasonable assurance that they are managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements (OMB Circular A-133, Subpart C, Section 300(b)).

The Board conducts monthly onsite inspections of subrecipients to monitor compliance with requirements related to projects in the construction phase. Based on the Board's policy, individuals in its Inspection and Field Support Division conduct those inspections, and a team lead in that division reviews the inspection reports.

For 3 (23 percent) of 13 subrecipients tested, the Board was unable to provide evidence that a team lead reviewed inspection reports. The Board asserted that, due to limitations in its Inspection and Field Support Services database, the Board did not consistently require review of inspection reports when the inspection was conducted by a field office manager or team lead. Although this lack of review increases the risk that the Board may not detect subrecipient non-compliance with federal requirements, auditors identified no compliance issues regarding the Board's inspection activities for the subrecipients tested.

Recommendations

The Board should:

- Maintain evidence that the subrecipients certified they were not suspended or debarred.
- Communicate required award information, including the CFDA title and number and the award name and number, to all subrecipients and maintain evidence of that communication.
- Consistently perform and document reviews of inspection reports.

Management Response and Corrective Action Plan:

Recommendation: The Board should maintain evidence that the subrecipients certified they were not suspended or debarred.

TWDB agrees that one subrecipient tested could not provide evidence of certification that they were not suspended or debarred, in compliance with current procedures. Since the time of this project, staff has standardized the preparation of approval memos associated with this test, and has automated the associated checklists in TxWise. In addition, staff is now scanning the certification documents into TxWise, which provides a back-up to the file room. Management feels that the automation of the process, including the scanning of documents into TxWise, which has been implemented, will address the issue going forward. However, management will evaluate the scanning procedure to ensure that it is reliable.

Implementation Date: April 2013

Responsible Person: Mark Hall

Recommendation: The Board should communicate required award information, including the CFDA title and number and the award name and number, to all subrecipients and maintain evidence of that communication.

WATER DEVELOPMENT BOARD

Management enhanced its procedures in March 2011 by implementing an Award Letter Policy for entities subject to Single Audit, and a letter template which includes all the required elements for use by staff. Commitments executed prior to that date may show noncompliance.

Implementation Date: March 2011

Responsible Party: Carleton Wilkes

Recommendation: The Board should consistently perform and document reviews of inspection reports.

This issue was first identified in a prior SAO audit of the Water Infrastructure Fund. In response to that audit, management enhanced its procedures to include secondary review and approval of all inspection reports, including manager generated reports, effective September 2012. The reviews will be documented within the IFSS database.

Implementation Date: September 2012

Responsible Person: Jeff Dunsworth

Reference No. 13-183

Reporting

CFDA 97.110 – Severe Repetitive Loss Program

Award years – September 12, 2011 to February 28, 2015 and June 25, 2012 to June 24, 2015

Award numbers – EMT-2011-SR-0002 and EMT-2012-SR-0001

Type of finding – Significant Deficiency and Non-Compliance

Transparency Act Reporting

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to capture and report subaward and executive compensation data regarding first-tier subawards that exceed \$25,000. A subaward is defined as a legal instrument to provide support for the performance of any portion of the substantive project or program for which a recipient received a grant or cooperative agreement award and that is awarded to an eligible subrecipient (Title 2, Code of Federal Regulations, Chapter 170).

Questioned Cost: \$ 0
U.S. Department of Homeland Security

Additionally, recipients must report all required elements established in the Office of Management and Budget’s *Open Government Directive- Federal Spending Transparency and Subaward and Compensation Data Reporting* (August 27, 2010), Appendix C, including the subaward date, subawardee Dun and Bradstreet Data Universal Numbering System (DUNS) number, amount of subaward, subaward obligation or action date, date of report submission, and subaward number.

The Water Development Board (Board) did not always submit reports to the FFATA Subaward Reporting System (FSRS) in a complete and timely manner as required. Specifically:

- For 1 (14 percent) of 7 subaward projects tested for which the Board was required to submit reports, the Board did not submit the required report to FSRS. Although the Board correctly identified that a FFATA report was required for that project, it did not have a control to ensure that it submitted the required report.
- For all 6 subaward projects tested for which the Board did submit FFATA reports to FSRS, the Board did not submit the reports within the required time frame. Specifically, the Board submitted those reports between 8 and 99 days late. Those errors occurred because the Board did not have a control to ensure that it submitted reports within the required time frame.

In addition, while auditors identified no compliance issues regarding the accuracy of required reports during testing, the Board did not have a formal, documented control to ensure that all information it reported in FSRS was accurate.

WATER DEVELOPMENT BOARD

Not submitting all required reports to FSRS in a complete and timely manner decreases the reliability and availability of information provided to the awarding agency and other users of that information.

Recommendations:

The Board should:

- Submit all required FFATA reports.
- Implement controls to help ensure that it submits FFATA reports within required time frames.
- Implement controls to help ensure that it reports accurate and complete information in FFATA reports.

Management Response and Corrective Action Plan:

Formalized and documented procedures are in place for FFATA reporting for Severe Repetitive Loss contracts. The procedures are maintained and performed by staff in Contract Administration. To ensure proper controls are in place for accurate, complete and timely reporting, two staff members are now required to perform the monthly exercise as a team activity. Printed logs of reporting activities and any issues are now also maintained and kept by the manager of Contract Administration for verification and audit purposes.

While the TWDB agrees that reporting was delayed as described above, it should be noted that the delays were beyond the control of TWDB staff. TWDB staff was unable to report within required time frames as specified because the Federal awarding agency, FEMA, was delayed in entering the prime award information. Without FEMA's prime award entry, agencies cannot report subrecipient information. This consequently affected our timeliness.

In the other instance where the TWDB did not submit the required report to FSRS, there was a conflict between the subaward entity and the subrecipient identified by the DUNS. TWDB staff sought clarification from the subaward entity and the Federal Service Desk as to whether or not reporting would be acceptable under the questioned DUNS. A response was received in October 2012, six months after the original inquiries were made, and reporting has been completed.

TWDB has submitted all subawards where prime awards have been entered into the FFATA Subaward Reporting System by our federal partners. The timeliness of our federal partners entering their awards continues to be our greatest challenge. As mentioned previously, Board staff is keeping printed logs of all activities related to federal award reporting as part of our standard procedure to support our good faith efforts, consistent with instructions from the Federal Service Desk.

Implementation Date: December 2012

Responsible Persons: David Carter

WATER DEVELOPMENT BOARD

Reference No. 13-184

Subrecipient Monitoring

CFDA 97.110 – Severe Repetitive Loss Program

Award years – September 11, 2008 to September 10, 2013; September 8, 2009 to May 13, 2013; and September 12, 2011 to February 28, 2015

Award numbers – EMT-2008-SR-0001, EMT-2009-SR-0002, and EMT-2011-SR-0002

Type of finding – Significant Deficiency and Non-Compliance

Subrecipient Audits

According to Office of Management and Budget (OMB) Circular A-133, the Water Development Board (Board) must ensure that each subrecipient expending federal funds in excess of \$500,000 obtain an OMB Circular A-133 Single Audit and provide a copy of the audit report to the Board within nine months of the subrecipient's fiscal year end (OMB Circular A-133, Sections 320 and 400). In addition, the Board must issue a management decision on audit findings within six months after receipt of a subrecipient's audit report (OMB Circular A-133, Section 400). In cases of continued inability or unwillingness of a subrecipient to obtain the required audits, the Board must take appropriate action using sanctions (OMB Circular A-133, Section 225).

Questioned Cost: \$ 0

U.S. Department of Homeland
Security

The Board did not effectively monitor or enforce subrecipient compliance with the requirement to obtain Single Audits. Prior to August 2012, the Board did not have a process to determine whether subrecipients for the Severe Repetitive Loss Program were subject to Single Audit requirements; therefore, it did not review those subrecipients' Single Audit reports. After auditors inquired about the Board's process for reviewing those subrecipients' Single Audits reports, the Board began monitoring those subrecipients' compliance with the requirement to obtain a Single Audit.

For 5 (63 percent) of 8 subrecipients tested, the Board completed its review of the subrecipients' Single Audit reports between August 28, 2012, and August 29, 2012. For all five of those subrecipients, the Single Audit reports (or the subrecipients' certification that no audit was required) were provided to the Board more than nine months after the end of the subrecipients' fiscal years. The Board had previously reviewed the Single Audit reports for the remaining three subrecipients tested because those subrecipients received federal funds for other programs the Board administers.

Not ensuring that subrecipients obtain Single Audits and not following up on deficiencies noted in subrecipients' Single Audit reports increases the risk that deficiencies could go unaddressed.

During-the-award Monitoring

OMB Circular A-133, Subpart D, Section 400(d), requires the Board to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved. Pass-through entities must ensure that subrecipients conform substantially to the same standards of timing and amount that apply to cash advances by federal agencies (Title 44, Code of Federal Regulations (CFR), Section 13.37 (a)(4)). Additionally, grantees and subgrantees must promptly, but at least quarterly, remit interest earned on advances to the federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses (Title 44, CFR, Section 13.21(i)).

For all three subrecipients tested that received advances of federal funds, the Board did not monitor the interest the subrecipients earned. The Board has not established a process to monitor subrecipients that may be required to return interest or to ensure that subrecipients remit interest in a timely manner. As a result, the Board drew funds on an advance basis for subrecipients, but it did not determine whether interest associated with those advances was due.

When the Board does not monitor interest earned on advances of federal funds to subrecipients, that increases the risk that subrecipients may not remit interest as required.

WATER DEVELOPMENT BOARD

Recommendations:

The Board should:

- Monitor and enforce subrecipient compliance with the requirement to obtain Single Audits, and promptly review all Single Audit reports that subrecipients submit.
- Monitor the interest that subrecipients earn on advances of federal funds.

Management Response and Corrective Action Plan:

Recommendation: The Board should monitor and enforce subrecipient compliance with the requirement to obtain Single Audits, and promptly review all Single Audit reports that subrecipients submit.

Management has implemented procedures to monitor and enforce subrecipient compliance with the requirement to obtain Single Audits.

Implementation Date: January 2013

Responsible Party: Carleton Wilkes

Recommendation: The Board should monitor the interest that subrecipients earn on advances of federal funds.

The subrecipient enters into a contract with TWDB. The contract requires the subrecipient to notify TWDB if interest is earned on advanced funds. Of the three subrecipients tested, only one has ever earned interest on advanced grant funds. In this case, the subrecipient promptly notified TWDB, as per the conditions of the contract between the two parties that interest had been earned during the previous month. TWDB coordinated with FEMA and the subrecipient to ensure that interest earned was returned to FEMA within the month.

To mitigate any future concerns, TWDB has revised the "TWDB Quarterly Financial Report" which is signed and submitted by the subrecipient on a quarterly basis. The submission of this report is a current condition within the contract. The report now includes a section concerning advances of grant funds and interest earned. The subrecipient will indicate (and provide documentation, if required) whether interest was earned on advances and whether interest earned was handled pursuant to 44 CFR Section 13.

Implementation Date: January 2013

Responsible Party: Gilbert Ward

Summary Schedule of Prior Year Audit Findings

Federal regulations (OMB Circular A-133) state, “the auditee is responsible for follow-up and corrective action on all audit findings.” As part of this responsibility, the auditee reports the corrective action it has taken for the following:

- Each finding in the 2011 Schedule of Findings and Questioned Costs.
- Each finding in the 2011 Summary Schedule of Prior Audit Findings that was not identified as implemented or reissued as a current year finding.

The Summary Schedule of Prior Audit Findings (year ended August 31, 2012) has been prepared to address these responsibilities.

Water Development Board

Reference No. 12-188

Allowable Costs/Cost Principles

CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds

CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds - ARRA

Award years – October 1, 2009 to September 30, 2012 and October 1, 2008 to August 31, 2014

Award numbers – CS-48000210 and 2W-96692401 (ARRA)

Type of finding – Material Weakness and Non-Compliance

In accordance with Title 2, Code of Federal Regulations (CFR), Part 225, Appendix B, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Are prepared at least monthly and must coincide with one or more pay periods.
- Are signed by the employee.

Budget estimates that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

For 12 (57 percent) of the 21 payroll charges tested, the Water Development Board (Board) did not base its payroll charges on actual work completed. For certain employees expected to work on multiple activities, the Board determined payroll charges based on a predetermined level of effort estimate developed at the beginning of the fiscal year rather than an after-the-fact distribution of actual time worked. The Board allocated \$2,817 of the

Initial Year Written: 2011
Status: Implemented
U.S. Environmental Protection Agency

payroll charges tested to Capitalization Grants for Clean Water State Revolving Funds (Clean Water), non-ARRA, based on predetermined estimates.

In addition, the Board determined that \$1,124,929 charged to Clean Water (non-ARRA) and \$223,993 charged to Clean Water - ARRA was attributed to fiscal year 2011 payroll charges that were not based on an after-the-fact determination. Determining payroll charges based on factors other than an after-the-fact distribution of actual time worked could result in overcharging the federal award.

Corrective Action:

Corrective action was taken.

Reference No. 12-189

Subrecipient Monitoring

CFDA 66.458 – Capitalization Grants for Clean Water State Revolving Funds
Award years – October 1, 2008 to September 30, 2014 and October 1, 2009 to September 30, 2012
Award numbers – CS-48000209 and CS-48000210
Type of finding – Significant Deficiency and Non-Compliance

As a pass-through entity, the Water Development Board (Board) is required by Office of Management and Budget (OMB) Circular A-133, Section .400(d), and the OMB Circular A-133 Compliance Supplement, Part 3, Section M, to identify to the subrecipient, at the time of the subaward, federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements.

Initial Year Written: 2011 Status: Implemented U.S. Environmental Protection Agency

The Board was unable to provide evidence that it communicated the CFDA number and other required information to 1 (14 percent) of 7 subrecipients tested. Although the Board asserted that it sent that information to the subrecipient, it could not provide a copy of that communication. Inadequate identification of federal awards could lead to improper reporting of federal funding on a subrecipient’s Schedule of Expenditures of Federal Awards.

Corrective Action:

Corrective action was taken.

WATER DEVELOPMENT BOARD

Reference No. 12-190

Allowable Costs/Cost Principles

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds - ARRA

Award years – September 1, 2009 to August 31, 2014, September 1, 2010 to August 31, 2015, and February 1, 2009 to August 31, 2014

Award numbers – FS-99679513, FS-99679514, and 2F-96692301 (ARRA)

Type of finding – Material Weakness and Non-Compliance

In accordance with Title 2, Code of Federal Regulations (CFR), Part 225, Appendix B, when employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and signed by the employee or supervisory official having firsthand knowledge of the work performed by the employees. For employees who are expected to work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation that:

Initial Year Written: 2011
Status: Implemented
U.S. Environmental Protection Agency

- Reflect an after-the-fact distribution of the actual activity of each employee.
- Account for the total activity for which each employee is compensated.
- Are prepared at least monthly and must coincide with one or more pay periods.
- Are signed by the employee.

Budget estimates that are developed before services are performed do not qualify as support for charges to federal awards but may be used for interim purposes, provided that at least quarterly comparisons of actual costs to budgeted amounts are made and any adjustments are reflected in the amounts billed to the federal program. Costs charged to federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show that the differences between budgeted and actual costs are less than 10 percent.

For 24 (67 percent) of the 36 non-ARRA payroll charges tested and 7 (28 percent) of the 25 ARRA payroll charges tested, the Water Development Board (Board) did not base its payroll charges on actual work completed. For certain employees expected to work on multiple activities, the Board determined payroll charges based on a predetermined level of effort estimate it developed at the beginning of the fiscal year, rather than an after-the-fact distribution of actual time worked. The Board allocated \$13,092 of the payroll charges tested to Capitalization Grants for Drinking Water State Revolving Funds (Drinking Water) and \$17,098 of the payroll charges tested to Drinking Water - ARRA. The following table identifies known questioned costs by award number.

<u>Program</u>	<u>Questioned Costs</u>	<u>Award Number</u>
CFDA 44.468 Drinking Water	\$ 738	FS-99679513
CFDA 44.468 Drinking Water	\$12,354	FS-99679514
CFDA 44.468 Drinking Water –ARRA	\$17,098	2F-96692301

The Board determined that \$763,083 charged to Drinking Water and \$263,614 charged to Drinking Water - ARRA in fiscal year 2011 was attributed to payroll charges that were not based on an after-the-fact determination. Determining payroll charges based on factors other than an after-the-fact distribution of actual time worked could result in overcharging the federal award.

Corrective Action:

Corrective action was taken.

WATER DEVELOPMENT BOARD

Reference No. 12-191

Subrecipient Monitoring

CFDA 66.468 – Capitalization Grants for Drinking Water State Revolving Funds

Award years – September 27, 2005 to September 15, 2011 and February 1, 2009 to August 31, 2014

Award numbers – FS-99679509 and 2F-96692301

Type of finding – Significant Deficiency and Non-Compliance

As a pass-through entity, the Water Development Board (Board) is required by Office of Management and Budget (OMB) Circular A-133, Section .400(d), and the OMB Circular A-133 Compliance Supplement Part 3, Section M, to identify to the subrecipient, at the time of the subaward, the federal award information, including the Catalog of Federal Domestic Assistance (CFDA) title and number, award name and number, whether the award is research and development, name of federal awarding agency, and applicable compliance requirements. The Board also is required to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes timely and appropriate corrective action on all audit findings (OMB Circular A-133, Section .400(d)).

Initial Year Written: 2011 Status: Partially Implemented

U.S. Environmental Protection Agency

Pre-award Monitoring

The Board was unable to provide evidence that it communicated the CFDA number and other required information to 1 (20 percent) of 5 subrecipients tested. Although the Board asserted that it sent the information to the subrecipient, it could not provide a copy of the communication. Inadequate identification of federal awards could lead to improper reporting of federal funding on a subrecipient's Schedule of Expenditures of Federal Awards.

A-133 Single Audit Compliance Monitoring

The Board did not issue a management decision on audit findings within 6 months after receipt of a subrecipient's audit report for 1 (50 percent) of 2 subrecipients tested that had single audit findings. Not meeting the six-month requirement for issuing management decisions on audit findings could result in delays in subrecipients' development and implementation of corrective action plans and continued non-compliance. Excluding findings from the Board's tracking tool could result in the Board delaying or not conducting follow-up on findings, delays in subrecipients' development and implementation of corrective action plans, and continued non-compliance.

Corrective Action:

This finding was reissued as current year reference number: 13-182.

Appendix

Objectives, Scope, and Methodology

Objectives

With respect to the Capitalization Grants for Clean Water State Revolving Funds Program (Clean Water Program), the Capitalization Grants for Drinking Water State Revolving Funds Program (Drinking Water Program), and the Severe Repetitive Loss Program, the objectives of this audit were to (1) obtain an understanding of internal controls, assess control risk, and perform tests of controls unless the controls were deemed to be ineffective and (2) provide an opinion on whether the State complied with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program.

Scope

The scope of this audit covered federal funds that the State spent for the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program from September 1, 2011, through August 31, 2012. The audit work included control and compliance work at the Water Development Board (Board).

Methodology

The audit methodology included developing an understanding of controls over each compliance area that was material to the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program. Auditors selected non-statistical samples for tests of compliance and controls for each compliance area identified based on the American Institute of Certified Public Accountants' audit guide entitled *Government Auditing Standards and Circular A-133 Audits* dated February 1, 2012. In determining the sample sizes for control and compliance test work, auditors assessed risk levels for inherent risk of noncompliance, control risk of noncompliance, risk of material noncompliance, detection risk, and audit risk of noncompliance by compliance requirement. Auditors selected samples primarily through random selection designed to be representative of the population. In those cases, results may be extrapolated to the population but the accuracy of the extrapolation cannot be measured. In some cases, auditors may use professional judgment to select additional items for compliance testing. Those sample items generally are not representative of the population and, therefore, it would not be appropriate to extrapolate those results to the population. Auditors conducted tests of compliance and of the controls identified for each compliance area and performed analytical procedures when

appropriate. Auditors assessed the reliability of data the Board provided and determined that the data was reliable for the purpose of expressing an opinion on the compliance with the provisions of laws, regulations, and contracts or grants that have a direct and material effect on the Clean Water Program, the Drinking Water Program, and the Severe Repetitive Loss Program.

Information collected and reviewed included the following:

- Board data for expenditures, procurement, reporting, cash revenue, required matching funds, program income, and subrecipients.
- Federal notices of award and award proposals.
- Transactional support related to expenditures, procurement, and revenues.
- Board-generated reports and data used to support reports, revenues, and other compliance areas.
- Information system support for Board assertions related to general controls over information systems that support the control structure related to federal compliance.

Procedures and tests conducted included the following:

- Analytical procedures performed on expenditure data to identify instances of non-compliance.
- Compliance testing for samples of transactions for each direct and material compliance area.
- Tests of design and effectiveness of key controls and tests of design of other controls to assess the sufficiency of the Board's control structure.
- Tests of design and effectiveness of general controls over information systems that support the control structure related to federal compliance.

Criteria used included the following:

- The Code of Federal Regulations.
- United States Code.
- U. S. Office of Management and Budget Circulars A-87, A-102, and A-133.
- The American Recovery and Reinvestment Act.
- The Federal Funding Accountability and Transparency Act.
- Federal notices of award and award proposals.

- Federal agency circulars, handbooks, and guidance.
- Board policies and procedures.

Project Information

Audit fieldwork was conducted from August 2012 through December 2012. Except as discussed above in the Independent Auditor's Report, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

The following members of the State Auditor's staff performed the audit:

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Copies of this report have been distributed to the following:

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The Honorable Joe Straus III, Speaker of the House, Joint Chair

The Honorable Thomas “Tommy” Williams, Senate Finance Committee

The Honorable Jim Pitts, House Appropriations Committee

The Honorable Harvey Hilderbran, House Ways and Means Committee

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