

An Audit Report on

Management Controls at the Texas Natural Resource Conservation Commission



Office of the State Auditor
Lawrence F. Alwin, CPA

February 1995

Report No. 95-065



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Members of the Legislative Audit Committee:

The Texas Natural Resource Conservation Commission has accomplished much in terms of consolidation and program implementation since its creation in September 1993. In terms of overall management systems, however, much remains to be accomplished. This is not unexpected, given that neither the Texas Air Control Board nor the Texas Water Commission had existing management systems sophisticated enough to support the complex operations of the consolidated entity.

Some basic management systems need work:

- A better system is needed for translating the Commission's strategic plan into day-to-day operations.
- The budget needs to be more actively used to control and direct expenditures. Duplicative financial information systems need to be identified and eliminated.
- Human resource requirements need to be more fully assessed, and the processes supporting them need to be completed.
- The performance management system needs to be expanded and more actively used to manage performance.
- Important user information needs, both internal and external, need to be identified and met.
- Agency-wide guidelines for the design and management of individual programs are needed.
- The Commission's process improvement efforts need additional controls.

Improving management systems while simultaneously dealing with known problems and implementing new programs is a challenge. The commissioners and their management team, however, have demonstrated their determination to meet this challenge. Teams have already begun to develop plans to implement these and other external and internal audit recommendations. We will obtain copies of these detailed plans as they are developed and follow up on their implementation.

We appreciate the courtesy and cooperation demonstrated by Commission management and staff during this audit.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence F. Alwin".

Lawrence F. Alwin, CPA
State Auditor

Key Points Of Report

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Key Facts and Findings

- The Commission's strategic planning process has helped it identify what it wants to accomplish. However, the Commission does not have the information it needs, at an agency-wide level, to ensure a clear, realistic picture of how it will get there, what it will cost to get there, and how long it will really take. Day-to-day operations are managed according to the organization structure, not the strategic plan. Work plans are not detailed enough to ensure adequate planning and allow for monitoring of milestones. In addition, the Commission lacks a comprehensive system for performance measurement.
- Improvements are still needed in the systems used to manage financial and human resources. An internal audit report estimates that about \$314,000 is spent annually on supplementary financial tracking and reporting systems. A 187 percent increase in compensatory time indicates possibly insufficient or misallocated human resources.
- Important user information needs, both internal and external, are not being met. A comprehensive needs assessment would be a good first step. An internal team gathered some initial information and recommended further work, but management's response to their recommendations is pending.
- Agency-wide guidelines for the design and management of individual programs are needed. The Commission is constantly adding and amending programs required by state and federal legislation. Such guidelines would ensure that the management weaknesses found in some programs would not be repeated in other programs, both new and existing.
- Although the Commission's process improvement efforts have had some positive effects, important techniques, controls, and procedures normally found in such programs are lacking. For example, although data collection and analysis are normally key program components, information about the overall costs and benefits of the Commission's initiative is not readily available. In addition, management's support of these efforts, both in terms of participation and in terms of resources provided, has been inconsistent and limited.

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This management control audit was conducted in accordance with Government Code, Section 321.0133.

Table of Contents

Executive Summary 1

Detailed Issues and Recommendations 5

Section 1: OVERALL MANAGEMENT

**Having Generally Consolidated Its Operations,
The Commission Should Now Develop the Broader
Management Systems Needed to Ensure
Sustained Progress Toward Its Goals** 5

Section 2: POLICY MANAGEMENT

**A Coordinated, Comprehensive System For
Developing And Implementing Policy Is Needed** 7

Significant Changes To The Organization Structure Should Be
More Carefully Considered, Planned, And Implemented ... 7

The Information Needed To Support Policy Management
Should Be More Systematically Collected And Used 9

Work Plans Should Be Detailed Enough To Ensure Adequate
Planning And Facilitate Monitoring 10

Responsibility For Implementing The Strategic Plan Should Be
Assigned And Those Responsible Held Accountable 11

The Strategic Planning Process Has Improved 13

Section 3: BUDGET AND FINANCIAL MANAGEMENT

**While The Budget Process Has Improved, More Work
Is Needed To Make The Budget Process A More Fully
Developed Financial Management Tool** 13

A Broader View Of The Budget Process Should Be Developed
And Used To Identify, Plan, And Implement Further Process
Improvements 14

The Commission Should Look For Ways To Decrease Or At
Least Standardize And Control The Use Of Secondary
Accounting Systems 15

Table of Contents, continued

Budget Information Should Be More Systematically
Gathered, Reported, And Used 17

Section 4: HUMAN RESOURCE MANAGEMENT

**More Work Is Needed To Complete The Human
Resource Management System And Integrate It
With Agency Management Processes
And Operations 18**

Human Resource Needs Should Be Assessed And The Human
Resource Management System Should Be Adjusted To Meet
The Needs Identified 19

The Design And Implementation Of Classification,
Performance Appraisal, And Training Processes Should Be
Completed 21

The Performance Of The Human Resource Management
System Should Be Measured And The Results Used To Align
This System With Agency-Wide Processes And Needs 24

Section 5: PERFORMANCE MANAGEMENT

**Expand The Performance Measurement System And
Actively Use The Information To Manage
Performance 25**

Section 6: INFORMATION MANAGEMENT

**Management Information Needs Should Be Assessed
And Steps Taken To Fulfill These Needs 27**

Section 7: IMPLEMENTATION - GENERAL

**Agency-Wide Controls Over The Design And
Management Of Individual Programs Are Needed
To Reduce The Risk Of Program Inefficiency
Or Ineffectiveness 29**

Table of Contents, concluded

Section 8: PROGRAM IMPLEMENTATION - QUEST PLAN

Before Fully Implementing Its Quality Environmental Services To Texas (QUEST) Plan, The Commission Needs To Refine QUEST-Related Planning, Implementation, And Monitoring Systems	31
Clarify Management's Rationale For And Role In QUEST	33
Enhancements Are Needed In The Quantity And Quality Of The Resources Which Service The QUEST Plan	34
The Cost Of The QUEST Plan And Its Individual Components Should Be Specified	36
Systems For Assessing The QUEST Plan's Performance And Benefits Should Be Developed	37

Appendices:

1 - Management's Response	40
2 - Objective, Scope, and Methodology	42
3 - Background Information	46
3.1- Commission Financial Information - Fiscal Year 1994	46
3.2- Commission Profile	50
3.3- Organization Charts	52
4 - Reference List	56
5 - Supplemental Information	59
5.1- Accountability Systems	59
5.2- Comparison of Strategic Priorities, Environmental Risk, and Funding	69
5.3- Relationship Between Strategic Plan and Organization Structure	73
5.4- Analysis of Indirect Costs of Grid Seminars	75

Executive Summary

The Texas Natural Resource Commission has faced many management challenges since its consolidation in September 1993. It has physically consolidated the central and field offices of several agencies, continued to implement major new state and federal programs, and made changes to its permitting and other processes.

However, weaknesses in the Commission's overall management systems have made these challenges more difficult to meet. A clear chain of accountability does not exist between agency-level plans and program-level operations. Improvements have been made in the processes used to manage both human and financial resources, but these systems still lack an agency-wide perspective. Performance and information management systems are also incomplete.

These problems are not unexpected given that neither of the existing agencies had management systems sophisticated enough to support the complex management needs of the newly consolidated entity. Improving these management systems while maintaining day-to-day operations will be difficult and will take time.

The Commission has recognized the need to improve its management systems and has made some changes. However, some of its recent initiatives have lacked realistic completion dates and had insufficient resources. In addition, results have not been consistently monitored to determine if the initiatives have actually improved operations. These problems indicate that changes are needed in the way the Commission identifies, implements, and controls needed improvements and initiatives.

A Coordinated, Comprehensive System For Developing And Implementing Policy Is Needed

As required by the Legislature and the Legislative Budget Office, the Commission has developed a strategic plan and an internal/external assessment. However, some elements in this development process could be improved. For example, the strategic planning process needs a better link with the Environmental Protection Agency (EPA) funded environmental risk assessment project. And, while the Commission collects a wide variety of information important to the development of its plans and policies, it does not have a process for systematically collecting and using this information.

Weaknesses also exist in strategic plan implementation. Responsibility for implementing the strategic plan has not been specifically assigned to offices and divisions within the organization structure. Recent multiple changes in the organization structure have unnecessarily disrupted operations. Work plans, which translate strategic plans to the operational level, need more detailed descriptions of tasks, resources, and timelines. This additional information would help management evaluate plan reasonableness and monitor implementation.

While The Budget Process Has Improved, More Work Is Needed To Make The Budget Process A More Fully Developed Financial Management Tool

The Commission has improved the design and documentation of its budget process and conducted management training to ensure that the new process is understood. Additional changes are needed to improve the interface

Executive Summary

between the budget and other management processes. For example, management assumptions needed for budget preparation need to be made earlier in the process.

The Commission also needs to determine the extent to which information available from the Uniform Statewide Accounting System (USAS) can be used to eliminate existing parallel accounting systems. Such systems are costly and, when not correctly managed, increase the risk of inaccurate or inconsistent data. Information needs that cannot be met by USAS need to be met in a more organized way. For example, multiple systems exist for tracking purchases.

The existing budget reports need to be more actively used to hold managers accountable for fiscal management. Existing procedures require budget analysts to identify and explain variances between budgeted and expended amounts, but they do not require the person actually managing the funds to verify and document the variance. Better procedures would not only improve fiscal management but would also improve data accuracy.

More Work Is Needed To Complete The Human Resource Management System And Integrate It With Agency Management Processes And Operations

Better alignment is needed between the Commission's human resources needs and its current level of staffing. The Commission had 15 percent fewer full-time equivalent employees than were budgeted in fiscal year 1994, and this reduced staff worked almost three times as much overtime as in the previous year. Some divisions appear to be affected more than others. A comprehensive needs assessment would help specify which areas have a poor match between resources

and needs.

Some basic human resource processes are still incomplete. Detailed identification and resolution of existing classification problems are still in process. The current plan for developing a performance appraisal process was on track at the end of September. The training process, however, is fragmented, lacks a current, comprehensive needs assessment, and collects limited information on course effectiveness.

Lastly, human resource related information should be more systematically exchanged and used. Operating divisions should be required to provide information on projected hiring, terminations, and retirements. The Human Resources Division should more broadly share information on turnover, training, and performance appraisal dates. This information could also be used by management to determine whether human resource processes were working as intended. For example, performance appraisals could be monitored and evaluated for timeliness.

Expand The Performance Measurement System And Actively Use The Information To Manage Performance

Complete and accurate performance information is needed if the Commission is to make fully informed, data-based decisions on changes to its operations. The Commission also needs performance information to determine if these changes have actually improved operations.

The Commission has identified and collects information on selected performance measures. However, the performance measures selected are not comprehensive, controls over data collection are missing, and

Executive Summary

monitoring and use of performance information is limited and irregular.

Management Information Needs Should Be Assessed And Steps Taken To Fulfill These Needs

Some of the information needed by internal and external users, key management systems, and key regulatory functions is missing or difficult to get. Most of this information is probably available somewhere in the Commission. However, if managers and others are to make timely, data-based decisions, they need such information to be more timely, accurate, and accessible.

Agency-Wide Controls Over The Design And Management Of Individual Programs Are Needed To Reduce The Risk Of Program Inefficiency Or Ineffectiveness

The Commission has actively addressed many of the problems in its individual programs. However, it has tended not to look beyond these programs -- to its agency-wide management systems -- for causes and solutions. Consequently, problems that occur in one program may appear again later in another program. For example, contract monitoring was a problem in the Petroleum Storage Tank program and also in the Superfund program.

Agency-wide program design and management guidelines which identify and resolve the existing problems in the Commission's programs are needed. Use of such guidelines would not only correct existing problems but would also provide some assurance that other programs, both new and existing, would not make the same

mistakes. (A partial listing of some of the common problems reported by previous audits is included in Section 7.)

Before Fully Implementing Its Quality Environmental Services To Texas (Quest) Plan, The Commission Needs To Refine Quest-Related Planning, Implementation, And Monitoring Systems

To make more comprehensive improvements to its operations, the Commission has adopted and begun implementing a continuous process improvement plan called QUEST. Prior to plan approval, the Commission created a number of "QUESTeams." Although these teams did generate some valuable suggestions and information, the system for managing them lacked a number of controls commonly found in such initiatives. Uniform guidelines for the reviews conducted by the teams were missing, resources were lacking in both quality and quantity, and assessment of costs and benefits of team activities was limited.

The Commission should temporarily limit QUEST implementation until improvements can be made in its ability to plan, implement, and monitor QUEST activities. QUEST has the potential to make some fairly far-reaching changes to Commission operations if correctly managed and implemented. If implementation is poorly managed, however, QUEST will simply add additional changes, processes, and procedures to an already overburdened system, resulting in costs that outweigh benefits.

Executive Summary

Summary of Management's Responses

We concur with almost all of the recommendations. They will help us meet our goal of making the Commission a model public agency. We have already moved forward on some of the budget and human resources issues. A plan for addressing the remaining issues has been drafted and is being reviewed and discussed. We will keep your office informed of our progress.

Summary of Audit Objectives and Scope

The objective of this audit was to evaluate the existing management control systems within the Texas Natural Resource Conservation Commission and identify both strengths and opportunities for improvement.

The scope of the audit included consideration of the Commission's policy, information, resource, and performance management systems and some of the key processes supporting them.

Section 1: OVERALL MANAGEMENT

**Having Generally Consolidated Its Operations, The Commission
Should Now Develop The Broader Management Systems Needed To
Ensure Sustained Progress Toward Its Goals**

The Commission has undertaken and completed a number of complex tasks in order to implement the consolidation mandated by the 72nd Legislature. It has relocated its central offices and employees, started consolidating field offices, combined the administrative functions of the consolidating agencies, and begun establishing its own policies and procedures. In addition to the consolidation, the Commission has had the responsibility of complying with several recent state and federal requests for new programs and changes to existing programs. The implementation of the Clean Air Act alone has required and will continue to require significant changes in the Commission's operations. The Commission has also undertaken a number of initiatives, such as implementing a Total Quality Management program, designed not only to consolidate but also to improve its overall operations. It has made some progress on all of these fronts.

However, the Commission does not yet have the basic management systems it needs to ensure that this newly consolidated entity will effectively and efficiently meet these challenges. Given that neither the Texas Air Control Board nor the Texas Water Commission had existing management systems sophisticated enough to support the complex operations of the consolidated entity, this lack of basic management systems is not unexpected. Improving these management systems while at the same time maintaining day-to-day operations will be difficult and will take time.

Important weaknesses exist in the Commission's overall management systems and the connections between them. The policy management system is fragmented. Although the budget process is improved, the budget is not yet being used as a financial management tool. Important parts of the human resource management system are missing. The performance management system is incomplete. The Commission has yet not identified its management information needs. Furthermore, the weaknesses in these overall management systems have resulted in similar management weaknesses in the Commission's day-to-day operations.

The Commission is aware that its management systems need improvement. Several of the problem areas included in this report have been previously targeted for improvement by Commission management. However, weaknesses exist in the methods used to actually make the improvements to these systems:

- The identification of needed improvements, which should begin with a clear understanding of both existing and needed management systems, appears instead to be crisis-driven.

- The process for deciding which improvements should be made does not include a step for routinely collecting and considering available data, such as the cost of the improvement versus its benefit.
- The Commission lacks a process for ensuring that identified improvements are adequately planned, implemented, and monitored.

As a result, the Commission has had mixed results from the improvements it has undertaken since consolidation. Individual programs and processes, such as strategic planning, budgeting, and human resource management, have improved. Numerous initiatives, such as QUEST (see page 31), have been started only to be redirected or stalled due to inadequate assessment of the resources required by such initiatives. Some initiatives, such as the telephone answering policy, have had negative effects on other parts of the organization. The effectiveness of some initiatives is difficult to determine due to the lack of adequate performance measurement and monitoring.

Recommendation:

The Commission needs a more comprehensive and structured process for developing and improving its overall management systems. Many models exist for accomplishing this. However, the basic framework usually includes the following steps:

- Develop a clear, comprehensive, and detailed picture of what the Commission's systems and processes should look like. The review should consider systems for managing policy, resources, performance, and information. (See Appendix 5.1 for the structure of systems and processes used for this report.) It should also consider the connections between these systems.
- Assess the Commission's current systems for managing policy, resources, performance, and information, using this and other reports generated by both internal and external groups and other appropriate sources.
- Develop and prioritize strategies for moving from the current systems toward the optimum systems.
- Evaluate and prioritize additional proposed changes according to how well they align with these strategies.
- Develop task-specific work plans for those changes that are identified as highest priority.
- Monitor, report on, and adjust implementation of these plans on a regular basis. Alter plans, strategies, and the design of the optimum systems as needed.

A Coordinated, Comprehensive System For Developing And Implementing Policy Is Needed

The policy management system at the Commission is not working as a coordinated whole, although individual processes within this system have improved. Poorly planned changes to the organization structure have disrupted operations. The information needed to develop strategic and other plans and policies is not collected and used in a systematic way.

Alignment between the strategic plan and the different components of the organization structure, which carry out these plans, is unclear. Work plans are not detailed enough to specify their connection with the strategic plan, ensure adequate planning, or monitor implementation. Improvements have been made in the process used to develop the strategic plan.

Policy management systems identify what the entity should be doing (mission, goals, objectives, and strategies) and begin the process of translating these intentions into actions by articulating strategic plans, defining the organization structure, establishing policies and procedures, and creating work plans.

Section 2-A:

Significant Changes To The Organization Structure Should Be More Carefully Considered, Planned, And Implemented

Since its reorganization in September 1993, the Commission has made numerous changes to its organization structure. Although a rationale for each of these changes exists, the following situations indicate that problems exist with the way these changes are planned and implemented:

- Multiple major changes have been made to the same functions.
- Changes have been made and then unmade.
- Related costs and organizational effects have not been fully considered.
- Implementation plans have not been completed prior to the announcement of the change.
- Input from and communications with those affected has been inadequate.

For example, the policy management section of the organization was restructured in early October 1994. (See Appendix 3.3 for organization charts.) The intent of the reorganization was clear -- to address legislative concerns about the consistency of policy and rulemaking within the Commission. Commission management decided that locating all policymaking operations within one division would resolve these concerns. This restructuring affected every division in the agency. It also had an

effect on agency-wide morale and standing working relationships across and within divisions.

However, planning for this change was limited. Management determined what the new organization structure would look like, who would fill each position, and communicated the change through meetings and an agency-wide memo. It does not appear that the Commission formally and fully assessed the organizational need and support for such a broad change. The Commission did not identify or quantify even the direct costs of the reorganization -- costs to completely redo budget codes, move employees, reconnect phones, reassign parking, reprint phone books, etc. -- or fully compare the costs of such a change compared to its benefits. We could not determine if a work plan for the implementation of this major reorganization was prepared. A deadline of November 1, 1994, was published for the implementation of this reorganization, but not met. Furthermore, seven weeks later this reorganization was restructured to change the reporting relationship of 15 positions affected by the initial reorganization.

Changes to an entity's organizational structure, even when they are well planned, can have profound effects on the ability of the entity to perform. However, the changes made by the Commission have not been well planned. The disruption caused by some of these changes, as well as the direct costs incurred due to them, may be far greater than the benefits gained. We agree with the Texas Research League's recommendation that "the agency would be best served to let the new organization settle . . . before any additional changes are implemented."

Recommendation:

The Commission needs to reconsider the way in which it has been using formal reorganization as a management tool. Formal reorganization is only one of many options for changing the way an entity operates. Cross-functional teams can also be used to align similar functions occurring within different divisions. For example, the Commission could have created a cross-functional policy team to focus policy management without restructuring the organization.

Formal reorganizations, when they are necessary, need to be fully analyzed, planned, and carefully implemented. This includes, at a minimum:

- Identification of how the proposed change will support the strategic plan or further the Commission's mission
- Creation of a process for ongoing input from and communications with affected staff
- A determination of where the proposed change ranks relative to existing priorities
- A full analysis of the costs and benefits associated with the proposed change
- Identification of tasks; determination of resource needs; assignment of responsibility, authority, and accountability; and establishment of completion dates

- Regular monitoring of implementation, assessment of actual results, and adjustment of plans as needed

Section 2-B:

The Information Needed To Support Policy Management Should Be More Systematically Collected And Used

Although the Commission collects a wide variety of information related to policy management, it does not systematically manage this information agency-wide. Agency-level information needs are met by an informal system based upon calling the person who would be most likely to have the information. A listing of commonly used information and who might have it does not exist. Also, such information is not actively monitored at the agency level to ensure timely collection or regularly analyzed to determine its possible effect on plans and operations.

Lack of controls over the collection process increases the likelihood that information gathering will be inefficient or ineffective.

- Information may be collected by more than one group or may not be collected by anyone.
- The information collection process may not be timely.
- Information may not be collected from the most accurate sources.

More consistent, agency-wide tracking and analysis of trends might also improve the Commission's ability to predict potential problems or identify increased needs for different kinds of regulatory activities. For example, population growth, which is used by the Air Office in developing its air quality models, could also be used to help predict geographical areas of potential water quality or quantity problems. Industrial growth figures could be used to predict potential increases in hazardous waste education, permitting, or enforcement activities.

The Commission has numerous processes for collecting information related to policy management. For example:

- An internal/external assessment is prepared in conjunction with the strategic plan.
- Individual offices and divisions within the Commission collect industry, population, and other statistics related to their activities.
- A number of advisory committees have been created to collect input from external stakeholders such as industry groups and citizens.
- The Small Business Advocate's Office both collects and provides information related to the difficulties small businesses encounter in complying with new rules and regulations.

The Policy and Research Division acts as a clearinghouse for much of this information. In addition, some individual divisions and/or programs within the Commission do

have fairly active information-gathering functions. However, these information gathering functions at various operational levels are not identified, coordinated, and used to improve availability and use of information agency-wide.

Recommendation:

Establish a policy management information collection and analysis process, including the following steps:

- Identify and prioritize key policy management information, i.e. factors in the external environment that could affect Commission operations. 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.

Section 2-C:

Work Plans Should Be Detailed Enough To Ensure Adequate Planning And Facilitate Monitoring

The work plan format currently used by the Commission is lacking several key items:

- A clear description of the connection between the work plan and the strategic plan
- A breakdown of tasks to be accomplished
- Identification of the resources needed to accomplish the tasks
- The date(s) the task(s) will be accomplished

These omissions limit the ability of the Commission to control the implementation of plans.

The current work plan format does not require offices and divisions to sort the activities and actions listed in the work plan according to particular goals and strategies in the strategic plan. As a result, it is difficult to determine which activities support which elements of the Commission's strategic plan. Without such information, the Commission cannot determine whether its individual strategies are adequately supported by its activities and take steps to create a better balance between the two.

In addition, the existing work plan format does not include sufficient information to allow management to determine the feasibility of the work plan or monitor its implementation. Although the work plan format requires identification of some performance measures, it does not require the identification of specific resources to be used and the expected completion dates of the actions. This causes two problems. First, it is not possible to determine the alignment between the actions to be carried out and the resources available to carry them out. Many plans and goals have already lapsed due to obviously insufficient resources. Secondly, without assignment of specific responsibility and completion dates it is difficult to manage the implementation of the plans and goals. Many pending actions in completed work plans had no identified completion dates.

Recommendation:

Office and division-level work plans should:

- 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.

Section 2-D:

Responsibility For Implementing The Strategic Plan Should Be Assigned And Those Responsible Held Accountable

The Commission does not currently have a formal process for connecting its strategic plan to the various operational and administrative divisions within its organization structure. Since the Commission's organization structure and its strategic plan are organized along somewhat different lines (see Appendix 5.3), this connection is difficult to make. Without this connection, however, management cannot hold its divisions accountable for the implementation of its plan.

The effects of this lack of accountability are particularly apparent where multiple divisions are implementing a single goal. For example, one of the Commission's goals is "to pursue an effective and efficient enforcement program." Various field offices and divisions (air, water, and hazardous waste) participate in this goal. However, no one is held specifically accountable for its implementation. As a result:

- Participants are not all working from the same policy base.
- Resource needs are not well-identified.
- Performance standards are inconsistent.
- Information is not available, aside from the standard performance measure reports to the Legislative Budget Office, on the overall management of this strategy.

Administrative divisions, such as human resources, financial reporting, information resources, and legal services, should also be assigned responsibility and held accountable. Although these divisions do not directly assist in the implementation of the strategic plan, the services they provide to operating divisions have an indirect, but important, effect on plan implementation. If the administrative divisions do not provide operating divisions with the support they need, costly parallel management systems may develop, creating hidden additional administrative costs (see discussion of parallel accounting systems on page 15). If administrative divisions lack a clear picture of customer needs, they may spend resources developing information that is ultimately neither used nor useful.

A comprehensive review of the relationship between administrative support and operating divisions is needed. Several different managers within the Commission felt that they were not getting the information they needed from various support services divisions to manage their area. Part of the problem may be insufficient resources available to provide the services, given that, according to personnel records, some of these same support services divisions are working substantial overtime. Ongoing communication between these divisions also needs improvement. Evidence indicates that operational divisions make changes that affect administrative division workloads without consulting with or informing them.

Recommendation:

Assign responsibility for strategy implementation to specific persons or divisions within the Commission. Require these parties to:

- 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.

The relationship between the administrative support and operating divisions should be reviewed as follows:

- The needs of the operating divisions should be identified and regularly updated.
- Kind, quality, and quantity of services to be delivered by support divisions should be identified, based on the needs assessment.
- Processes should be designed to provide the needed services.
- Resources required to implement these processes should be determined and reconciled with available resources.
- Work plans should be developed and used to implement and monitor the needed support processes.

Section 2-E:

The Strategic Planning Process Has Improved

The Commission has taken steps to improve several elements of its strategic planning process. It solicited input from its internal and external stakeholders, identified and used in-house expertise to expand its internal/external assessment, and started a project to assess environmental risk.

However, additional improvements could be made. Only a few opportunities exist for the public to provide input on the completed plan. In addition, the Commission does not yet have plans to use the results of its environmental risk project to review and adjust its strategic plan. The federal Environmental Protection Agency is funding this program because it did a similar comparison between environmental risks and its programs in the region which includes Texas. It found that most of the money was going to programs addressing low-risk environmental problems. While the Commission is limited in its ability to fully align its activities with environmental risk due to funding restrictions, adjustments may be possible. The Commission may be able to present such information to its funding sources and obtain adjustments to the funding restrictions.

Recommendation:

Continue to improve the strategic planning process, as follows:

- 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. (A sample of what such a review would look like is included in Appendix 5.2.)

Section 3: BUDGET AND FINANCIAL MANAGEMENT

While the Budget Process Has Improved, More Work Is Needed To Make The Budget Process A More Fully Developed Financial Management Tool

Though only consolidated for one year, the Commission has done a good job of simultaneously developing and using a new budget process. It now needs to expand the goals and use of budgeting beyond producing a

Resource management systems identify, develop, maintain, and provide the human, financial, and physical assets needed by the entity to implement its plans. They also ensure that these resources are used efficiently and effectively and are guarded against fraud and misuse.

budget document on time or accounting for dollars spent. The Commission should consider the following:

- What its budget system both does and should look like agency-wide
- How the budget system should relate to other management systems
- How it can plan and implement an improved system while decreasing dependence on secondary accounting systems
- How it can use the budget system to manage and monitor progress toward agency goals

Section 3-A:

A Broader View Of The Budget Process Should Be Developed And Used To Identify, Plan, And Implement Further Process Improvements

For the Commission's budget process to give managers at all levels the financial information they need to guide motion toward agency goals and objectives, the process must specify: (1) what budget information is required to manage each goal, objective, and strategy; (2) how the whole budget process should be structured and managed to provide such information; and (3) how the budget process relates to other management functions. This broader view of budgeting would help the Commission:

- Prioritize and assess the efficiency of fund use.
- Clarify the reasons for and effects of future budget process changes.
- Meet the information needs of budget process participants.
- Coordinate process steps to produce a more accurate and timely result.
- Decrease the need to rework budget data, repeat document reviews, reallocate funds, readminister transactions, and transfer funds between cost centers and object codes.

In order to monitor and learn from its most recent budget process, the Commission convened a Budget Process Review Committee. Through this Committee and other means, the Commission has undertaken numerous budget-related improvements, including:

- Developing and implementing agency-wide appropriation and budget preparation instructions and related training
- Clarifying and expanding budget-related policies and procedures
- Drafting criteria governing the review of budget requests
- Assessing and beginning to change how administrative and support costs are allocated
- Improving internal controls, data security, and financial reporting

Recommendation:

In continuing to improve the budget process, the Commission should now:

- Maintain the Budget Process Review Committee as a quality steering council for the budget process and expedite management review of their previous suggestions.
- Develop a budget process which:
 - pursues and measures process efficiency, effectiveness, and economy as stated goals
 - increases opportunities for stakeholder input
 - specifies and captures what information is needed to manage each goal, objective, and strategy
 - details how budgeting should relate to other management processes, especially strategic planning, human resources, and management information systems
 - ensures that such key decisions as budget assumptions, method-of-finance decisions, administrative cost allocations, fund balances, and revenue/expenditure projections are made as early as possible in the budget cycle
 - documents criteria and processes for setting fund use priorities and for reviewing budget requests
- Develop work plans for the implementation and ongoing monitoring of the improved budget process and related policies and procedures.

Section 3-B:

The Commission Should Look For Ways To Decrease Or At Least Standardize And Control The Use Of Secondary Accounting Systems

The way in which the Commission is currently using secondary accounting systems compromises the integrity of budget data, the efficiency of the budget process, and the effectiveness of budget-related management decisions. Some divisions use such secondary systems and/or spreadsheets to provide details on line items of expense. Others use them to track purchasing transactions and help them stay more up-to-date on individual account balances. These secondary systems tend to develop when users do not fully know what the Commission's current accounting system can do for them or when this system does not presently meet a specific need. (The Commission currently uses USAS.)

While such systems may provide interim information, use of such uncontrolled and often unreconciled secondary systems creates various risks, including:

- Increased margin for data error and duplication of effort from administering budget-related information on more than one system
- Lack of uniformity in the way transactions are entered

- Inconsistencies in the contents and formats of reports from USAS and secondary systems
- Lack of clarity about which budget data are most appropriate for making financial and management decisions and for responding to stakeholder requests
- Increased need to reconcile USAS and secondary systems and related conflict

The Commission recognizes these problems and has taken steps to make sure that managers and others understand and use the information that is available from USAS by :

- Expanding USAS-related training for Administrative Services Coordinators who oversee and/or implement USAS at the office, division, function, or program level and for all managers
- Developing a plan and process for reviewing and modifying its financial reporting systems to provide more user-friendly and informative reports based on USAS data
- Making USAS reports available to users on-line, thereby helping managers track fund availability in cycles of 7 days rather than the previous 30 or more days

In addition, the Commission has identified and is in the process of making improvements to subsystems and processes for accounts receivable, cash receipts, cost recovery, purchasing, federal overtime billing, employee time and attendance, and labor distribution. However, the Financial Systems Development Manager in charge of these improvements directs staff in other divisions but often lacks formal authority over such staff. This decreases control over financial systems development and enforcement of minimum system testing standards.

Recommendation:

Continue to consider ways to reduce or control the use of secondary systems, including the following steps:

- Identify all existing secondary accounting systems and determine their nature, scope, and costs. Prioritize by cost and risk.
- Determine whether existing USAS information can be substituted for the information currently developed on a secondary system and provided in a way that meets user needs.
- Where USAS can meet user needs, develop a plan for changing from these secondary systems to USAS.
- Where USAS information cannot meet user needs and these needs are wide-spread, develop an agency-wide system for meeting these needs.
- Give the Financial Systems Development Manager authority over the staff assigned to develop these additional systems.
- Eliminate secondary systems replaced by these new agency-wide systems.

- To both identify and limit the use of information coming from "unauthorized" secondary systems, consider designating all financial reports not generated with USAS or other approved data and issued by financial administration as "unofficial."
- Require proposals for additional substantial secondary systems to be justified and reviewed.
- Coordinate transition from one system to another with internal audit to ensure control risk is minimized.

Section 3-C:

Budget Information Should Be More Systematically Gathered, Reported, And Used

A completed budget is just the beginning of the budget process. For a budget to actually function as an ongoing management control, actual expenditures and budgets must be actively compared and the results used to adjust operations. While the present budget process generates an enormous amount of information, current systems and processes for reporting and using this information are incomplete. For example:

- Budget reports organized according to goals, objectives, or strategies are available, but are rarely used by management.
- Existing controls prevent expenditures in excess of the total annual budgeted amount. However, they do not compare actual-to-date expenditures against pro-rata budgeted amounts. As a result, no early warning system for potentially excessive expenditures exists.
- Budget variances are researched and documented by the budget analyst, but those accountable for such variances are not required to review and approve these explanations.
- Present administrative and support cost allocation methods are based upon allowed costs. Although this approach is correct with respect to identifying available funds, it does not fully capture and report the true proportions of such costs at the program level. Such information would be useful in negotiating fee increases or and adjustment of allowed cost restrictions.

As a result of these factors, budgetary accountability relationships are at times unclear, as is the relationship between financial activity and agency goals. Also, processes for using budget information to manage agency decisions and activities are not fully defined.

The Commission recognizes the need to develop stronger budget management systems. These enhancements are either completed or already underway.

- Improving controls over USAS access and reporting
- Expanding procedures, training, and staff to ensure that USAS Program Cost Account's appropriately link to appropriations
- Improving controls over unappropriated expenditures

- Developing management reports which better track issues of concern and summarize information in a more useful way
- Seeking ways to use USAS better to allocate and track administrative and support costs
- Reviewing the methods used to project and analyze revenues

Recommendation:

Based on the improved budget process recommended on page 14, the Commission should consider the following actions as it continues to develop a better budget management system:

- Improve accountability for the strategic plan by requiring explanations for variances from the amounts appropriated.
- Improve linkages between USAS, the operating budget, and the strategic plan so as to provide better information to internal and external stakeholders.
- Establish policies and procedures for identifying interim variances between actual and budgeted revenues and expenditures. Existing USAS reports already provide information that allows a comparison between percentage of budget spent and percentage of year elapsed.
- Require written feedback from those accountable for such variances.
- Establish budget management as a performance criterion for deputy directors, division directors, and managers (as recommended in an internal audit report).

Section 4: HUMAN RESOURCE MANAGEMENT

More Work Is Needed To Complete The Human Resource Management System And Integrate It With Agency Management Processes And Operations

Numerous basic human resource management issues, such as a needs assessment, compensation, classification, training, and performance appraisal, need to be addressed more fully. Policies and procedures supporting these processes also require further development and use. The Commission needs to monitor its human resource management system.

Resource management systems identify, develop, maintain, and provide the human, financial, and physical assets needed by the entity to implement its plans. They also ensure that these resources are used efficiently and effectively and are guarded against fraud and misuse.

Section 4-A:

Human Resource Needs Should Be Assessed And The Human Resource Management System Should Be Adjusted To Meet The Needs Identified

While the Commission has made multiple changes to the structure and function of its human resource management system since consolidation, no processes or policies exist for determining agency-wide human resource needs. As a result, the Commission cannot always tell if its human resources are allocated between management, administration, and operations in the most beneficial way. Particular concern exists that moving staff around to address backlogs in one area (e.g., inspection, enforcement, or permitting) may only create additional backlogs elsewhere.

Human resources constitute a large part of Commission expenditures, some 28 percent of the total budget and roughly 59 percent of the total budget less contracts. Much of the agency's work is performed by highly trained technical personnel. Since the quality of the personnel affects the quality of the work completed, the Commission's human resource management system is an important factor in the Commission's ability to regulate the environment.

Although Commission planning and budgeting processes identify the number and location of employees, the agency has not conducted a complete assessment of the number and type of human resources it actually needs. Some divisions, such as legal services, have analyzed their workload, overtime, and turnover trends to support requests for additional staff, but such analysis is not the norm. Some evidence exists to indicate the Commission may not have enough human resources:

- Overtime (state, FLSA at time-and-a-half, and holiday) worked went from 161,679 hours in fiscal year 1993 to 464,779 hours in fiscal year 1994, a 187 percent increase.
- Of these hours, 22,561 were lost because employees were unable to take it or carry it over, an amount equal to approximately 11 full-time equivalent (FTE) employees. Approximately 36 percent of this time was lost by employees in administrative support divisions.

While this rise in overtime has not significantly increased overall staff turnover, it has driven up workloads, stress, and resignations in some divisions. Further, despite this rise in overtime, the Commission has not filled the number of positions for which it is funded.

- The Commission averaged approximately 2,600 FTEs for fiscal year 1994, 16 percent below the budgeted FTEs of 3,110. Using an average agency salary of \$34,600, these 510 vacant positions generated up to \$17.6 million in salary savings, part of which went to fund shortfalls in agency rent payments and expected revenues.

Besides not specifying how many employees are needed, the agency has not fully developed the policies and procedures required to meet the needs of such resources

once acquired. According to its Employee Handbook, the Commission desires a well-trained staff who in turn need to:

- Be involved in decision-making processes.
- Have input into and participate in agency operations.
- Develop along clearly defined career paths.
- Be paid at levels that encourage retention and recognize achievement.

However, existing human resource management processes and policies do not fully align with or support these needs:

- Employee training is fragmented and not based on a current agency-wide needs assessment.
- Staff input into decisions affecting them is often limited or absent.
- Job classifications and compensation are not consistent across divisions.
- Performance appraisal and development processes are incomplete.
- No funds have been budgeted for merit raises or bonuses in fiscal year 1995. Funds for promotions and step adjustments (due to classification corrections) are limited. Use of salary savings for this purpose may leave the agency understaffed.

Finally, multiple changes have been made to the structure of the human resource management system and its location on the organization chart in the last year. These changes further complicate alignment of the overall human resource management system with agency processes and staff needs.

Recommendation:

A periodic assessment of agency human resource needs should be done, and human resource management processes and policies should be adjusted to support meeting these needs.

In determining how many human resources it needs, the Commission should:

- Determine the number of employees needed to service agency goals, objectives, strategies, and tasks.
- Assess workloads and address existing and projected backlogs.
- Specify standard times and other quality standards which must be met to complete desired tasks.
- Consider such trends as leave time, sick time, training, and attrition.
- Adjust priorities, processes, tasks, resources, and/or funding as needed.
- Periodically review and update the assessment.

To adjust its human resource management processes and policies, the Commission should:

- Review its overall human resource objectives.

- Determine the compensation, classification, training, performance appraisal and other processes required to meet these objectives.
- Adjust its processes and policies as needed.

Section 4-B:

The Design And Implementation Of Classification, Performance Appraisal, And Training Processes Should Be Completed

Some basic human resource management processes are still not in place, even though the Human Resource Departments of the former Texas Air Control Board and Texas Water Commission combined a year before agency consolidation. More work is needed to create a working classification management process. A final performance appraisal process is in progress. The training process is fragmented and needs a coordinator. Training effectiveness is not assessed.

Classification

The Commission has identified several problems related to job classification, including inconsistent classification of similar jobs across divisions, inconsistent spans of control among similarly classified managers, and differences in classification practices between the two consolidating entities. Among the impacts of these conditions are:

- internal turnover both among operating divisions and between operating and administrative divisions due to differences in funding for similar positions
- 42 percent of staff saying their pay is unfair when compared to other employees in the organization
- technical staff taking management positions to secure promotions or higher salaries

The Commission has taken a number of steps to address these issues. It applied to the Governor's Office for approval of a \$250,000 consulting contract to study and resolve these problems. After the Governor's Office declined this request, several classification auditor positions were established and filled, and plans were made to conduct classification reviews. The Classification Division of the State Auditor's Office began an audit in the fall of 1994. These steps, if supported by a detailed work plan and adequate resources, should help the Commission further identify and resolve its classification problems.

Further, the Commission has developed a written policy for maintaining the consistency of its classifications once these problems are resolved. A Classification Review Committee was also selected by the previous Executive Director in August 1994, but has not yet convened. The purpose of the committee is to hear appeals of job classification reviews and provide recommendations on classification policies and procedures.

Recommendation:

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.

The Commission also needs to look closely at how funding disproportions between air, water, and waste programs contribute to classification problems and internal transfers of staff. Resolving such problems may be difficult. However, if the costs of the turnover created are measured and compared to the costs of additional funding, perhaps a case could be made for additional funds.

Performance Appraisals

The Commission still has not completed the design and implementation of its performance appraisal process. The lack of a comprehensive performance appraisal system creates several risks. According to data from an employee survey, only 17 percent of employees believe that promotion takes place based upon ability. The lack of timely performance appraisals also makes it difficult for the agency to adequately assess its training needs.

The Commission has made several attempts to develop a comprehensive performance appraisal system. A new process was drafted in January 1994 but was never approved or published. An executive directive was issued to complete evaluations on "everyone by November 15, 1994." No conclusive evidence exists as to whether or not these reviews were actually conducted. The new Director of Human Resources prepared an interim performance management policy which was published in August 1994. Current plans call for research, development, drafting, and approval of a proposed appraisal system by the end of November 1994, with actual implementation to occur in January 1995. In the interim, previous appraisal forms and processes from the two former agencies, as well as the draft forms proposed in January 1994, are being used.

This most recent initiative to address these issues is currently on target. A plan has been developed and documented, and major milestones, with dates, have been identified. The research phase was completed on time. The development phase was in process at the end of audit. However, since the actual performance appraisal form was not yet drafted, auditors could not assess its adequacy. It is also unclear who will be responsible for reviewing and approving this draft, given a recent change in the location of Human Resources within the organization structure.

Recommendation:

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 plan.

More detailed plans for implementing the new process should also be developed to include:

- 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

Training

Although the Commission has expressed its intention of having a well-trained staff, management of the training function is fragmented and incomplete:

- **Planning**
 - The training function was reorganized at least four times in the last two years.
 - A comprehensive training plan does not exist. While one was drafted and approved in the fall of 1993 (at a cost of \$5,600), it was not implemented.
 - The last comprehensive training needs assessment was done in November 1992. However, the Technical Training Academy is currently conducting a needs assessment for technical training within the offices of air, water, and waste.
 - The Commission reports an overall fiscal year 1995 training budget of \$2.5 million. However, the relationship of this figure to individual division budgets is unclear.
- **Implementation**
 - Though training is administered by five different divisions -- Human Resources, Quality Management, Technical Training Academy, Budget, and Information Resources -- coordination between them is minimal.
 - Trainers have been asked to develop training on policies prior to approval of such policies.
 - Management training for technical staff moving to management positions has been regularly unavailable.
- **Monitoring**
 - Actual training costs, both direct and indirect, are not routinely collected or analyzed.
 - Although participant evaluations are collected, no further system exists for assessing if the knowledge gained is actually used or if the training is effective.
 - Although the agency has a largely professional staff, no agency-wide system exists to ensure that all eligible in-house training qualifies, where possible, for continuing professional education credits. Such credits could reduce the need for employees to attend external training.

- A system for tracking training agency-wide was still being implemented as of September 1994.

As a result of these problems, the Commission cannot provide assurance that:

- Training benefits exceed costs.
- The training provided is effective, efficient, or properly used to enhance agency management, administration, and operations.
- Training most appropriate to employee needs is available.

For example, the Commissioners included in their fiscal year 1994 agenda a requirement that all managers attend a specific type of organizational development training called "Grid." While such training may have value, it is not clear how it was determined that this training should take first priority. In fact, Grid implementation caused the discontinuance of basic management courses that are perceived by some as being more relevant to day-to-day activities.

Recommendation:

Training should be viewed and managed as a key human resource function. This does not mean that all the various components of training should be consolidated on the organization chart. It does require that a person or group be identified as the training coordinator and charged with the responsibility of overseeing the training function from an agency-wide perspective. This coordinator should:

- Conduct an agency-wide training needs assessment which also considers information provided by the new performance appraisal system.
- Develop an agency-wide 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 agency-wide system to track training courses taken.
- Research and apply additional methods for measuring training use and effectiveness.

Section 4-C:

The Performance Of The Human Resource Management System Should Be Measured And The Results Used To Align This System With Agency-Wide Processes And Needs

Human resource management information is not used in a consistent, comprehensive way. The human resource management division collects data on a number of key human resource system performance measures: turnover, overtime, overtime lost, diversity, and training. However, managers are, at times, unaware of the existence or appropriate use of such information. For example, one manager was unaware of a new

statewide performance appraisal tracking system the Commission plans to use and was planning to develop his/her own system for tracking appraisals.

Moreover, operating divisions are not required to regularly report vital information, such as planned retirements, anticipated hirings, etc. This lack of a human resource information management system creates many risks.

- Lack of coordination between operating divisions and the Human Resources Division may encourage proliferation of parallel management and information systems.
- Insufficient monitoring of performance appraisal quality and timeliness could negatively affect promotions, salary increases, training and development, and staff morale.
- Managers may not adequately plan to meet human resource needs and, as a result, consistently generate overtime in their divisions, thereby increasing employee stress, burn-out, and turnover.

In addition, the Human Resources Division could use such information to plan and adjust its operations and to improve the services it provides to agency divisions.

Recommendation:

A stronger system for gathering, distributing, and using human resource management information is needed. This system should:

- Determine key human resource management information needed by management, administration, and operating divisions.
- Determine information needed by human resources from management, administration, and operating divisions.
- Include a process for collecting and reporting the information identified.
- Define a material variance for each key indicator.
- Require managers to explain variances and adjust both operations and human resource management to improve outcomes.

Section 5: PERFORMANCE MANAGEMENT

Expand The Performance Measurement System And Actively Use The Information To Manage Performance

The Commission's performance management system has several problems, namely:

Performance management systems monitor and analyze both interim and final outcomes of operations and programs to determine if the entity is doing what it intended to do and use this information to adjust and improve progress toward overall entity goals, objectives, and strategies.

- The primary performance measurement system, which is the information gathered and reported to the Legislative Budget Office (LBO), does not have systematic controls to ensure data accuracy. Different divisions have different kinds and levels of controls.
- Performance measures for administrative functions are included in work plans but are not routinely reviewed, monitored, discussed, or acted upon.
- The performance measures selected for use in the strategic plan and work plans do not cover all aspects of operations. Most seem focused on outputs and outcomes. Efficiency measures are limited. The Commission is not limited to the performance measures required by the LBO.
- Variances between planned and actual performance are not adequately explored as the basis for adjusting operations and programs.
- Opportunities exist for the Commission to benchmark similar operations in different divisions and/or different field offices to identify and disseminate best practices.

Without a comprehensive performance measurement system the Commission runs the risk of changing processes without making lasting improvements. For example, the Commission currently measures its permitting process in terms of "days to issue a permit." This is an outcome measure based on the viewpoint of the customer -- the number of days it takes from the time the customer turns the permit in until it is approved. Commission reports indicate that these outcomes have been improving. However, the Commission does not measure the internal processing time for its permitting process -- the number of employee hours required to actually accomplish the processing steps. As a result, it is not possible to tell whether the process itself has really improved. Some comments indicate that the "days to issue a permit" has improved simply because additional resources were added, not because any basic system or process improvements were made.

The Commission also runs the risk of "solving" a performance problem in one area only to create a different performance problem in another area. For example, the Commission established a performance goal for customer service of answering all telephone calls within a certain time frame. In the Legal Services Division, meeting this goal required the designation of at least one attorney on a full-time basis. As a result, the division lost a person to handle regular legal duties. So, the external customer service goal had a negative impact on the Legal Services Division's performance with internal customers.

Recommendation:

Develop and implement a comprehensive performance measurement system. This system should include:

- 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, etc.
- 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

Section 6: INFORMATION MANAGEMENT

Management Information Needs Should Be Assessed And Steps Taken To Fulfill These Needs

Although this audit did not focus specifically on the Commission's management information system, it has a very basic problem -- the Commission has not yet identified the information needs of its top level managers and its key customers, such as legislators, and taken steps to fulfill these needs.

Furthermore, the combination of the lack of basic management information and the availability of personal computer-based information management software appears to have caused the proliferation of individualized information management systems. This creates some obvious risks:

- Multiple reporting formats make it difficult, if not impossible, for upper management to consolidate the outputs of these various systems and manage the Commission as a whole.
- Controls over these systems are inconsistent, increasing the risk of inaccurate data.
- Exchanging or comparing information between systems is difficult.

Information availability problems exist in many of the Commission's management systems:

- Policy management

Information management systems identify the information needed to manage entity policy, resources, and performance and create a process for accurately collecting, sorting, and reporting it in a timely fashion.

- A process for coordinating the gathering, analysis, and reporting of information relevant to policy management does not exist.
- Resource management
 - Budget -- many parallel budget and accounting systems have been developed because of perceived weaknesses of USAS information.
 - Human Resources -- basic information is available, but many managers are unaware of its availability or most appropriate uses.
- Performance management
 - A data base exists for performance measures reported to the LBO, but other performance measures are reported on an informal basis and not managed for the agency as a whole.
 - The right information, i.e. the right kind of performance measures, has not always been identified and collected.

Furthermore, both internal and external users reported problems obtaining information. Managers from the Commission level down to the program level expressed frustration about the lack of management information readily available to them. When we pointed out the cost and risks of parallel systems, they pointed to the risk of making decisions without timely, accurate information. External parties, particularly legislative contacts, expressed frustration with the time it took to obtain what they thought was routine information. A QUEST (see Section 8) team on the communication process identified a number of weaknesses in both the kind of information that is available and the processes used to communicate it.

In one instance, information that is very basic to the Commission's regulatory function is not being collected and managed. Apparently, no process exists for routinely documenting rule interpretations that are made by various employees throughout the organization. This creates a number of potential problems:

- Lack of consistent interpretations
- Loss of expertise and continuity when long-time employees leave
- Licensees are more likely to protest and more likely to prevail if the Commission cannot show a history of similar, previously upheld, interpretations

The rule-making consolidation team made a recommendation along these lines in September 1993 that was adopted. However, as of September 1994, it had not been implemented.

Recommendation:

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:

- the needs of various user groups, including:
 - legislators

- managers at all levels
- customers
- information needed by different management systems, such as:
 - policy management: external environment
 - resource management: financial, human resources, inventory, etc.
 - performance management: output, outcomes, efficiency, both interim and final measures
- information needed by different regulatory functions, such as:
 - education
 - licensing and permitting
 - enforcement
 - 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 information and available should be conducted. The gaps should be prioritized and plans made to fill them. Unused and redundant information should be eliminated.

Section 7: IMPLEMENTATION - GENERAL

Agency-Wide Controls Over The Design And Management Of Individual Programs Are Needed To Reduce The Risk Of Program Inefficiency Or Ineffectiveness

The Commission does not have a process for ensuring that its new programs are well-designed and have adequate management controls. In the last legislative session alone, at least 15 pieces of new legislation related to Commission operations were passed. A large part of recent Commission management effort has been directed toward implementing the programs required by this legislation. The absence of a process to control the design and implementation of these programs greatly increases the risk that these new programs will have problems.

A more comprehensive approach to fixing identified weaknesses in existing programs and processes is also needed. The Commission has spent much of its time and effort addressing existing program and process weaknesses identified by internal and external audit reports. Improvements have been made. However, improvement efforts have largely been focused within these individual programs and processes. If the Commission were to establish higher level management controls for addressing related weaknesses across multiple programs, it would not only address previously identified problems but also prevent additional ones.

It is clear that the Commission has had problems with program design and implementation (see Appendix 4 for a listing of previously issued internal and external audit reports). This management audit and the current review of federal programs for the statewide financial audit found indications that the Commission continues to have these same kinds of problems in its programs. In fact, taken together, these reports and audits indicate a fairly consistent pattern of weaknesses.

- Links between overall Commission goals and strategies and program goals and strategies are poor. For example, although the Commission has a general enforcement policy, specific enforcement strategies at the program level vary greatly between different field offices, programs, and divisions.
- The effect of new rules or new programs on divisions outside the program are not routinely considered. For example, the rule-making process does not require the consideration of whether additional programming, hardware, or software will be needed, although the availability of such resources can be vital to program implementation.
- Work plans are not consistently prepared and used to support and direct program/rule implementation. Particularly in the case of regulations which are phased-in, or have additional requirements depending upon the level of compliance, long-range planning can be critical to program success.
- Activities are not routinely prioritized.
- Resource needs are inadequately identified, assessed, and managed.
- Controls over contracts and monitoring of contracts have been weak in some areas. Contracts constitute 52 percent of the fiscal year 1994 budget and are primarily located in the 30 Petroleum Storage Tank and Waste Clean-up programs. A 1992 internal audit report identified several opportunities for improvements in the Petroleum Storage Tank contracts section.
- The most recent statewide federal compliance audit conducted by the State Auditor identified weaknesses in the processes used to document and ensure compliance with some federal requirements in the Superfund program.
- Performance measurement identification, monitoring, and subsequent use to improve program results are not comprehensive or consistent. For example, although the Office of Air has a comprehensive performance measure for "the percent of air pollution sources complying with statutory and regulatory requirements," the field offices actually enforcing the small business portion of the Clean Air Act could not tell us the compliance rate for their area.

Recommendation:

The Commission needs to establish program management guidelines that fully consider and provide links to all key agency-level management systems. These guidelines should include, but not be limited to, consideration of the following systems and requirements:

- Policy Management
 - Determine which of the Commission's goals, objectives, and policies (voluntary compliance and equity, for example) are related to the proposed program.
 - Consider the impact on Commission operations or funding of ineffective rules (particularly the effect of non-attainment of Clean Air standards).
 - Identify specific program-level implementation policies, consistent with both the program requirements and the identified agency-level policies, which specify the types of regulatory activities to be used

(education, assistance, monitoring, enforcement, etc); determine the order in which they are to be used, and specify the criteria for waiving the policy.

- Develop detailed work plans.
- Identify performance measures to be used to determine program effectiveness.
- Resource Management
 - Identify the internal resources, including divisions outside the program, to be used.
 - Identify the external resources, such as municipal authorities or volunteer groups, to be used.
 - Determine the amount and kind of services to be provided.
 - Assess the adequacy of existing resources to provide the services.
 - Adjust the services to be provided or the resources available.
 - Identify high risk areas (for example, if the program activities consist primarily of contracting for services, contracting would be a high risk area) and design and implement control systems over these areas.
- Performance Management
 - Develop, implement, and use comprehensive interim and final performance measures to monitor and adjust activities.
- Information Management
 - Determine Commission information needs and design and provide appropriate reports.

These guidelines should be used to evaluate existing programs and design new ones. The results of these reviews could then be used to identify patterns of problems or successes and update the guidelines to resolve problems and replicate successes throughout the agency.

Section 8: PROGRAM IMPLEMENTATION - QUEST PLAN

Before Fully Implementing Its Quality Environmental Services To Texas (QUEST) Plan, The Commission Needs To Refine QUEST-Related Planning, Implementation, And Monitoring Systems

The Commission is in the initial stages of QUEST, a long-range plan to consolidate its approach to management and improve how it does business. Yet, until the systems and processes used to plan, implement, and monitor QUEST are strengthened, it will be hard to tell if the plan is cost-effective or produces the desired results. While QUEST's use of Total Quality Management and Organization Development tools may help address issues noted on pages 5-6, the plan faces major obstacles, including:

- Rationale for the plan is not clear or tied to agency goals, objectives, strategies, and operations.

- Other than the Employee Survey Project, few mechanisms exist for ensuring that collection and use of data routinely supports QUEST management and team decision-making.
- Implementation resources are often lacking.
- Systems for assessing and communicating plan costs, benefits, and performance are inadequate.
- Frequent changes in organization structure disrupt planning and implementation.

As adopted on August 31, 1994, this plan includes related training for all staff over the next two years and ultimately intends to:

- Redefine the Commission's vision, values, and goals.
- Align staff behind the new vision, values, and goals.
- Define the needs of Commission customers.
- Develop and implement team-based projects to address such needs.
- Establish processes for the continuous improvement of all agency activities.

Ad hoc and formal QUEST teams have existed since well before plan adoption and have proposed and/or implemented many changes in agency processes, policies, and procedures. Most notable of these are the "Employee Survey QUEST Teams" formed to address issues identified in a survey of all Commission staff. These teams looked at six areas of management and operations and made over 200 recommendations in a report issued in May 1994. Management completed review of these recommendations in October 1994.

Recommendation:

The Commission should temporarily limit implementation of QUEST and concentrate the plan on a few key projects. The agency can then use these projects to refine its ability to plan, implement, monitor, and adjust the systems needed to insure the longer term success of QUEST. In planning and executing these pilot projects, the Commission should:

- Tie QUEST to its goals, objectives, strategies, and operations.
- Specify and distribute a concise, data-based statement of how QUEST is intended to improve performance.
- Gather and use valid, reliable data to support all key QUEST-related decisions.
- Develop ways to assess and communicate real costs, benefits, and performance as fully as possible.
- Ensure ongoing and informed executive-level participation.

Clarify Management's Rationale For And Role In QUEST

No formal attempt has been made to gather data on the question "why is QUEST a good idea for the Texas Natural Resource Conservation Commission?" The most frequent response to this question received by auditors strongly suggests that QUEST has been mandated into being. In general, responses showed no specific relationship to known circumstances or measurable goals. The ability to translate general process improvement theory into specific actions to be taken in day-to-day operations is necessary if QUEST is to become an integral part of the way the Commission does business.

Also missing is a management level, cross-functional steering committee for QUEST. Such committees are recommended in process improvement efforts to ensure management's ongoing participation and commitment. A management-level, cross-functional steering committee for QUEST formerly existed at the Commission as the Quality Review Team. This team assembled resources from across the agency and was formed to provide broad, agency-level oversight of the planning, implementation, and monitoring of QUEST. However, the team was disbanded in 1993, though the Leadership Team has tried to take up the slack with varying success.

Since the Quality Review Team suggested action in many of the areas listed below, their absence has contributed, at least in part, to the continued existence of the following problems in QUEST implementation:

- **Planning**
 - No clear and documented connection exists between QUEST and customer needs or agency goals, objectives, strategies, and operations.
 - Possible criteria for QUEST (Baldrige Awards, Texas Quality Awards, Austin Quality Awards) have been identified but have not been selected or used.
 - Planning has lacked both continuity and adequate executive-level input.
- **Implementation**
 - Decision-making processes neither ensure consistent gathering and use of valid, reliable data nor protect against action based on untested hypotheses.
 - The Commission cannot tell if the plan is being implemented where most needed.
 - No clear relationship exists between the various components of QUEST or between QUEST and other training functions.
 - Staff may not understand how QUEST affects their jobs.
- **Monitoring**
 - No formal system exists for monitoring and reporting how the plan supports progress toward agency goals, objectives, and strategies.
 - Communications about QUEST have been erratic and/or incomplete.

Recommendation:

To clarify management's rationale for and role in QUEST, the Commission should consider the following:

- Squarely confront the perception that QUEST is mandated from above.
- Specify and publish the need, rationale, and intended results of QUEST. Strive for greater consensus, participation, and commitment on this issue at the executive level.
- Tie QUEST to Commission goals, objectives, strategies, and operations.
- Reconvene a cross-functional, management-level group to assist the Quality Management Division in agency-wide planning, implementation, and monitoring.
- Select, publish, and plan around known criteria. The Austin Quality Awards criteria are suggested.
- Publish all key planning decisions, including deliverables, timelines, staff responsible, specific expected costs and benefits, and performance measures.

To improve QUEST implementation, the Commission should consider the following:

- Prioritize and implement QUEST where valid, reliable data indicate it is most needed.
- Ensure that each project gather, analyze, and properly use the data required to make good decisions.
 - Build on the example of the Employee Survey Project.
 - Use brainstorming, judgment sampling, and focus groups only as sources of hypotheses for further testing, not as sources of conclusive information.
- Formally and routinely assess and report on management and staff commitment to and participation in QUEST.

Section 8-B:

Enhancements Are Needed In The Quantity And Quality Of The Resources Which Service The QUEST Plan

The Commission lacks the human and information resources needed to implement QUEST in its present form. Also, a formal process does not exist for matching available resources with planned actions. Many published decision deadlines and deliverable dates have already been missed in large part due to the lack of adequate or suitable resources. Among specific concerns are:

- Resource quantity
 - Interviewees voiced concern about how they could simultaneously service the QUEST Plan and perform their routine duties.
 - Ten months passed between the beginning of QUEST planning and plan adoption.

- Executive-level participation has been erratic, and proxies are often sent to QUEST-related functions, such as training graduations.
- Staff workloads in the Quality Management Division are extreme. Virtually all such staff are servicing multiple plan components.
- Resource quality
 - Formal process analysis, statistical process control, organization diagnosis, and other relevant basic expertise is often lacking.
 - Team recommendations tend to focus on narrow operational issues rather than on more fundamental system and process issues.
 - No management-level quality officer exists to continuously assess actions against established total quality management and organization development criteria.

The Commission has sought to gather and develop the resources needed to support QUEST by:

- Resource quantity
 - training teamwork facilitators in numerous levels and operational areas
 - using volunteer trainers and facilitators
- Resource quality
 - placing the Quality Management Division in the Executive Director's cluster to facilitate both communications with and participation of the Leadership Team
 - sending all managers through basic Total Quality Management and Organization Development training
 - using the Employee Survey Project and Employee Survey QUESTeams to broaden staff exposure to data gathering and process analysis techniques
 - taking initial steps to analyze the processes of delivering QUEST-related training
 - adding a Business Practices Consultant and a Performance Measurement Specialist to Quality Management Division staff

Recommendation:

To enhance the resources supporting QUEST, the Commission should:

- Develop and use a formal process for deciding if the resources for each QUEST activity are appropriate, adequate, and available. Adjust plans, projects, and deadlines as needed.
- Resource quantity
 - Work with the Human Resources Division to learn where possibly useful human resources already exist.
 - Avoid gathering the same information twice. Work with Information Resources and other areas of the Commission to learn what sorts of

data the agency already produces. Determine if and how such data relate to QUEST projects.

- Resource quality
 - Expand the relevant knowledge and skills of executives, managers, and team facilitators, particularly in process analysis and data-based decision-making.
 - Establish an executive-level quality officer to help establish and maintain Total Quality Management and Organization Development principles, processes, and practices, particularly at the management level. Preferably, this person should also chair the quality steering council and have background both in implementing quality initiatives and in the business side of agency operations. In the interim, continue engaging external expertise, as needed and funded.
 - Strive to make all QUEST-related training just-in-time. Apply training promptly upon receipt. Monitor application to determine if learning has, in fact, occurred.

Section 8-C:

The Cost Of The QUEST Plan And Its Individual Components Should Be Specified

The present version of the QUEST Plan contains no cost data. Costs tracked at the program level focus on direct or "hard" costs and largely ignore the cost of time spent participating in or supporting QUEST-related decision-making, planning, and implementation. The costs of participant time to prepare for and attend training are not tracked. In one instance (Appendix 5.4), including such costs raised training cost estimates from \$608,834 to \$2,641,377. Moreover, budgets for QUEST teams are generally absent, and cost estimates for implementing team recommendations often do not exist, are quoted as "\$0," or are not thorough enough to be realistic.

Failure fully to consider indirect or "soft" costs may expose the Commission to non-compliance with the Fair Labor Standards Act (FLSA), particularly as QUEST training spreads through rank-and-file staff. Since FLSA requires that such staff be directly compensated for overtime, it will no longer be appropriate for the Commission to ask employees to complete training prework on their own time. Continuing to handle such overtime work this way may also encourage false overtime reporting, skew overtime data, and/or increase the amount of uncompensated overtime.

Numerous barriers exist to Commission efforts at determining "How much does QUEST cost?":

- Cost systems tend to hide administrative, support, internal, and other indirect or "soft" costs, particularly if such costs are generated outside the Quality Management Division.
- Costs generally are monitored at the level of the Quality Management Division rather than at the level of individual QUEST-related programs or activities.

- Neither QUEST as a whole nor its individual components can generate the cost information required by activity-based cost systems.

The Commission has made strides toward being able to determine and minimize the cost of QUEST by:

- beginning to use USAS to track and report the QUEST-related hard costs
- using spreadsheet applications to improve cost management information
- beginning to identify costs associated with each training delivery task
- securing favorable discounts on training materials
- delivering most QUEST training in-house

Recommendation:

As the Commission continues to seek better QUEST-related cost information, it should:

- Develop and promulgate a clear policy on how staff are to charge time spent on QUEST. Limit risk exposure to non-compliance with FLSA when developing such policy.
- Identify all factors of direct and indirect costs for each QUEST activity, including:
 - hard costs already tracked and reported
 - time and goods expended on administrative, logistic, communications, and consultant support, preparing for and attending training, and on procuring and handling training materials
 - the effect of productivity lost or gained by staff participating in QUEST-related activities
- Use these cost factors to develop budgets for each QUEST activity.
- Use these budgets to monitor and adjust QUEST activities.
- Strive for an activity-based cost system which:
 - gives as much detail and flexibility of data use as possible and reasonable
 - determines such unit costs as cost per participant per training, cost per meeting, cost per implementation project, etc.

Section 8-D:

Systems For Assessing The QUEST Plan's Performance And Benefits Should Be Developed

Current gaps in QUEST-related performance assessment and reporting systems make it hard to determine if QUEST is progressing toward its own goals and objectives or toward the Commission's goals and objectives. The following issues are of concern:

- Performance assessment
 - No system exists to track variances between planned and actual performance.

- Existing measures do not link to agency strategies or performance measures, focus on such outputs as number of staff trained, lack specificity, and often report data without norms as points of comparison.
- Data available on QUEST's effects (e.g., staff turnover, absenteeism, sick time, time spent in meetings, organization culture shift, etc.) are not fully used.
- Performance reporting
 - Little is known about the goals, activities, status, or results of some teams. At times, teams are called "QUESTeams" though they have not been so designated.
 - No central reporting mechanism exists for QUEST. Processes for reporting the status of team actions or related management decisions are incomplete and erratic.
 - Team meeting minutes are often taken but not fully distributed to management.

The Commission has made some progress in assessing and reporting the status and results of QUESTeam activity. Among these improvements are:

- Performance assessment
 - establishing training-related output measures
 - adding Quality Management Division staff with performance measurement skills
 - analyzing who is responsible for certain training delivery tasks
- Performance reporting
 - distributing to all staff both the results of the Employee Survey and a report on the activities and recommendations of the Employee Survey QUESTeams
 - distributing to the Leadership Team a monthly Quality Management Division Status Report and monthly Training Report
 - developing a QUESTeam Project Kit which includes a draft results report form
 - making some use of all available communications media to inform staff about QUEST, such as e-mail, employee newsletters, management briefings, presentations in staff meetings, training calendars, divisional QUEST libraries, etc.

Recommendation:

The Commission needs to integrate QUEST with agency-level performance assessment and reporting processes. Such integration will facilitate broader monitoring and adjusting of QUEST decisions and actions and help determine if QUEST is actually improving agency systems, processes, functions, and programs. Toward this end, the Commission should:

- Clearly establish which teams are QUESTeams and which are not.

- Require that all teams design and use a performance management system which monitors team performance by:
 - regularly reporting team agendas, plans, projects, and performance to the entire agency and interested stakeholders, preferably through a single in-house source
 - using fully-trained team facilitators and process observers to independently monitor, critique, report, and suggest improvements in team decisions and actionsand also monitors the results of team recommendations by:
 - using a few simple measures which directly relate both to strategic plan measures and to measures of customer satisfaction
 - moving beyond output measures to track the benefits, outcomes, and productivity gains of QUEST and comparing these to pre-existing benchmarks and criteria
- Design a communication system which keeps staff and interested stakeholders well enough informed that they can tell when duplication of effort or opportunities for input and cooperation arise.
- Assess and communicate organizational learning over time so as both to show results and identify new ways to use QUEST to improve Commission management and operations.

Appendix 1:

Management's Response

John Hall, *Chairman*
Pam Reed, *Commissioner*
Peggy Garner, *Commissioner*
Dan Pearson, *Executive Director*



TEXAS NATURAL RESOURCE CONSERVATION COMMISSION

Protecting Texas by Reducing and Preventing Pollution

January 23, 1995

Mr. Lawrence Alwin, State Auditor
Office of the State Auditor
P. O. Box 12067
Austin, Texas 78711-2067

Dear Mr. Alwin:

We appreciate the opportunity to review the draft report resulting from the management audit your agency recently completed on the Texas Natural Resource Conservation Commission (TNRCC). We also appreciate the diligent and high quality efforts your staff put into this audit and the open discussion that took place as they finished earlier drafts of the report.

Our commitment is to bring the performance of the TNRCC to where it is recognized as a model public agency. The insights and recommendations in your report will help us meet that goal.

We concur with almost all of the recommendations and are moving forward in developing a comprehensive plan to implement the recommendations. I would also like to make you aware that we have already moved forward on some key items in your report. For example, we have reinstated a Budget Review Committee, as recommended to address budget issues and other concerns identified by TNRCC management and staff. We have also invited a representative of your office to participate on this committee. Additionally, our Human Resources Division has completed a revamping of our performance appraisal system. We are confident that the new system will improve the linkage between organizational goals and individual responsibilities and performance, and we will begin training the staff in the use of the newer appraisal system next month.

As we move forward to address other recommendations in the report, we will keep your office informed. Again, we appreciate the time and effort you and your staff put into the management audit of our agency.

Sincerely,


Dan Pearson
Executive Director

cc: Mr. John Hall, Chairman
Ms. Peggy Garner, Commissioner
Ms. Pam Reed, Commissioner

P.O. Box 13087 • Austin, Texas 78711-3087 • 512/239-1000

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Objective, Scope, and Methodology

Objective

Our audit objective was to evaluate the existing management control systems at the Texas Natural Resource Conservation Commission and to identify both strengths and opportunities for improvement.

The evaluation addressed the following questions:

- Do existing systems provide the information and the means needed to manage the Commission efficiently and effectively?
- Is management information properly used both to monitor and adjust progress toward goals, objectives, and strategies and to allocate resources?
- Do the budget process and accounting system provide accurate and timely information which is then properly used to direct and monitor expenditures?
- How well do existing systems acquire, allocate, and monitor the performance of human resources?
- How well does the Commission adjust its operations to comply with new laws, regulations, and rules?
Does the Commission have adequate systems for planning, implementing, and monitoring its process improvement and change management initiatives?

Scope

The scope of this audit included consideration of the Commission's overall management systems: policy management, budget development and monitoring, human resource management, performance management, and information management. It also considered the effect of these management systems in two different operational areas: the development, implementation, and enforcement of programs, particularly those related to Clean Air Act Amendments; and the planning, implementation, and monitoring of ongoing Total Quality Management and Organization Development efforts.

The consideration of the Commission's policy management system included a review of:

- processes used to create, monitor, and adjust Commission plans documents for strategic, operating, and work plans
- internal and external policy environment scanning efforts
- Commission Legislative Appropriation Requests
- relationship between the strategic plan and the organization structure
- processes used to determine and implement changes to the organization structure
- plans for the strategic planning cycle

The consideration of the Commission's budget development and monitoring system included a review of:

- processes used to create, monitor, and adjust Commission budgets
- Commission Legislative Appropriation Requests and Operating Budgets
- USAS reports and other budget-related documents
- plans for budget system changes
- administrative cost allocation methods

The consideration of the Commission's human resources system included a review of:

- processes used to acquire, allocate, and monitor the performance of Commission employees
- human resource management plans, policies, and procedures
- information on employee training and performance review

The consideration of the Commission's performance management system included a review of:

- processes used to identify, track, and use performance measures
- performance measure reports

The consideration of the Commission's information management system included a review of:

- user needs, both internal and external
- existing management reports
- information gathered by the Communication Process QUESTeam

The consideration of the effect of the Commission's management systems on the development, implementation, and enforcement of programs, particularly those related to Clean Air Act Amendments, included a review of:

- Commission policies, procedures, and other documents related to program implementation
- processes used to create, promulgate, and assess the performance of rules applicable portions of federal and state laws and regulations
- previous audit reports, both internal and external, on the Commission's various programs

The consideration of the effect of the Commission's management systems on the planning, implementation, and monitoring ongoing Total Quality Management and Organization Development efforts included a review of:

- processes used to plan, budget, manage, and assess these initiatives
- relevant strategic, operating, and work plans
- relevant policies, procedures, and other documents

Methodology

The methodology used on this audit consisted of collecting information, performing audit tests and procedures, analyzing the information, and evaluating the information against established criteria.

Information collected to accomplish the audit objectives included the following:

- Interviews with management and staff of the Texas Natural Resource Conservation Commission
- Interviews with concerned stakeholders both in state government and among the Commission's customers
- Interviews with appropriate subject matter experts
- Documentary evidence, including:
 - State and federal statutes, regulations, and rules
 - Commission documents, plans, policies, procedures, manuals, reports, publications, surveys, memoranda, minutes, and other written communications
 - Various audit and management reports from both internal and external sources
 - Agency-generated financial data and reports
- Enabling legislation

Procedures and tests conducted:

- Reviews for alignment with Legislative Budget Office directives on strategic planning, policy environment assessment, and budgeting
- Review of contract monitoring controls and tools
- Direct observation of training and budgeting processes
- Reviews for compliance with selected provisions of the Fair Labor Standards Act and Equal Employment Opportunity Act

Analytical techniques:

- Process review and analysis
- Trend analysis
- Comparison of planned and actual training costs
- Comparison of planned and actual project and program implementation dates
- Chronologies of program development
- Flow charts
- Survey validation and frequency counts
- Content analysis

Criteria used:

Statutory requirements
General Accounting Office publication *Assessing Internal Controls in Performance Audits*

- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project (see Appendix 5.1)
- State Auditor's Office Management Control Methodology and Models
- Process criteria from the State Comptroller's Office, Texas Municipal League, and various Texas municipal entities
- Guidelines offered by external subject matter experts, including consultants to the Commission
- Various Total Quality Management and Organization Development criteria, including those for the Malcolm Baldrige, Quality Texas, and Austin Quality Awards
- Other standards and criteria developed through secondary research sources both prior to and during fieldwork. (See Reference List in Appendix 4.)

Other Information

Fieldwork was conducted from May 1994 through October 1994. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

No significant instances of noncompliance with these standards occurred.

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

- Linda C. Lansdowne, CPA (Project Manager)
- Mattye G. Keeling
- Beverly J. Schulke, CPA
- Court W. Thieleman
- Bruce E. Truitt, MPA*
- John C. Young, MPA*
- Barnie C. Gilmore, CPA (Audit Manager)
- Craig D. Kinton, CPA (Audit Director)

* Master of Public Affairs

Appendix 3:

Background Information

Appendix 3.1:

Commission Financial Information - Fiscal Year 1994

Goals/Objectives/Strategies	Original Appropriations (A)	Revised Budget (B)	Actual Expenditures (C)
A. PROTECTING PUBLIC HEALTH			
A.1 Reduce generation of pollutants and disposal of wastes			
A.1.1 Waste minimization grants	\$ 11,948,000	\$ 9,241,706	\$ 9,034,989
A.1.2 Recycling solid wastes	\$ 7,763,125	\$ 9,608,840	\$ 7,955,815
A.1.3 Chemical collection	\$ 3,937,000	\$ 3,441,645	\$ 2,660,368
A.1.4 Waste management planning	\$ 2,066,000	\$ 4,066,000	\$ 3,505,868
A.1.5 Waste regulation	\$ 12,073,000	\$ 15,474,358	\$ 11,292,001
TOTAL, Objective A.1	\$ 37,787,125	\$ 41,832,549	\$ 34,449,041
A.2 Cleanup contaminated superfund, storage tank and solid waste sites			
A.2.1 Superfund cleanup	\$ 101,130,000	\$ 94,587,227	\$ 59,593,072
A.2.2 Storage tank cleanup	\$ 65,282,000	\$ 118,787,429	\$ 128,842,347
A.2.3 Solid waste cleanup	\$ 29,893,000	\$ 21,300,735	\$ 20,503,619
TOTAL, Objective A.2	\$ 196,305,000	\$ 234,675,391	\$ 208,939,038
TOTAL, Goal A	\$ 234,092,125	\$ 276,507,940	\$ 243,388,079

Goals/Objectives/Strategies	Original Appropriations (A)	Revised Budget (B)	Actual Expenditures (C)
B. MANAGING TEXAS' WATER			
B.1 Assess and reduce point and nonpoint source water pollution			
B.1.1 Reduce water pollution	\$ 18,226,000	\$ 12,027,756	\$ 12,237,757
B.1.2 Texas-Mexico border water	\$ 4,216,165	\$ 6,584,487	\$ 6,757,970
B.1.3 Occupational Licensing	\$ 614,000	\$ 458,019	\$ 368,531
TOTAL, Objective B.1	\$ 23,056,165	\$ 19,070,262	\$ 19,364,258
B.2 Manage the state's water resources			
B.2.1 Regulate surface water	\$ 2,953,715	\$ 3,211,042	\$ 2,276,956
B.2.2 Management plans (CCMPS)	\$ 1,485,000	\$ 1,532,393	\$ 1,294,970
B.2.3 Floodplain management	\$ 675,000	\$ 413,750	\$ 407,170
B.2.4 Safe drinking water	\$ 6,024,000	\$ 5,606,480	\$ 5,237,944
B.2.5 Water utilities	\$ 2,929,000	\$ 2,747,588	\$ 2,405,889
TOTAL, Objective B.2	\$ 14,066,715	\$ 13,511,253	\$ 11,622,929
TOTAL, Goal B	\$ 37,122,880	\$ 32,581,515	\$ 30,987,187
C. INCREASING COMPLIANCE			
C.1 Increase compliance of regulated facilities and other entities			
C.1.1 Inspection and enforcement	\$ 19,597,130	\$ 15,654,405	\$ 15,275,659
TOTAL, Goal C	\$ 19,597,130	\$ 15,654,405	\$ 15,275,659

Goals/Objectives/Strategies	Original Appropriations (A)	Revised Budget (B)	Actual Expenditures (C)
D. ENSURING AIR QUALITY			
D.1 Ensure air pollution sources comply with regulatory requirements			
D.1.1 Enforcement	\$ 7,038,495	\$ 6,344,685	\$ 6,350,636
D.1.2 Permit review	\$ 15,989,802	\$ 9,336,473	\$ 9,240,632
TOTAL, Objective D.1	\$ 23,028,297	\$ 15,681,158	\$ 15,591,268
D.2 Monitor the levels of air toxics in metropolitan areas			
D.2.1 Air quality monitoring	\$ 11,782,470	\$ 8,938,077	\$ 9,533,683
TOTAL, Objective D.2	\$ 11,782,470	\$ 8,938,077	\$ 9,533,683
D.3 Air quality planning and regulation development			
D.3.1 Develop control programs	\$ 7,181,460	\$ 4,574,706	\$ 4,563,081
D.3.2 Mobile source programs	\$ 5,251,146	\$ 2,412,314	\$ 2,417,917
TOTAL, Objective D.3	\$ 12,432,606	\$ 6,987,020	\$ 6,980,998
TOTAL, Goal D	\$ 47,243,373	\$ 31,606,255	\$ 32,105,949
E. SALARY INCREASE			
	\$ 2,877,748	\$ 1,159,639	\$ 0
F. ADMINISTRATIVE COSTS			
F.1 Central administration		\$ 7,558,206	\$ 7,572,562
F.2 Financial and personnel services		\$ 5,522,038	\$ 5,515,492
F.3 Information resources technology		\$ 14,135,876	\$ 14,188,165
F.4 Operating support		\$ 16,840,157	\$ 16,770,389
TOTAL, Administrative	allocated to strategies	\$ 44,056,277	\$ 44,046,608

Goals/Objectives/Strategies	Original Appropriations (A)	Revised Budget (B)	Actual Expenditures (C)
G. OTHER			
G.1 Riders		\$ 1,401,776	\$ 264,602
G.2 Article V, Sec. 110, cost savings		\$ 1,686,305	\$ 0
G.2 Unemployment, worker compensation reimbursement, and miscellaneous		\$ 307,708	\$(841,869)
G.3 OASI match and state		\$ 17,374,411	\$ 9,601,833
G.4 Seminar, training account		\$ 1,047,202	\$ 995,084
G.5 Emergency appropriation		\$ 1,194,066	\$ 277,164
TOTAL, Other		\$ 23,011,468	\$ 10,296,814
GRAND TOTAL	\$ 340,933,256	\$ 424,577,499	\$ 376,100,296

- (A) per General Appropriations Act, excluding amounts for riders and including administrative costs within strategies
- (B) as adjusted for additional revenues, riders, formal budget revisions, etc.
- (C) as of 1/11/95, cash expenditures plus accruals and encumbrances related to fiscal year 1994

Commission Profile

Mission

The Commission's mission is "to protect human health, environmental quality and natural resources by ensuring clean air for Texans to breathe; an adequate, affordable supply of clean water; conservation of resources; reduction of pollution; and proper and safe disposal of various forms of pollutants, consistent with economic and employment growth. The Texas Natural Resource Conservation Commission is also committed to providing efficient and continually improving service to the citizens of Texas."

Background

As part of state consolidation efforts, the Commission acquired jurisdiction over both the municipal solid waste and drinking water hygiene programs of the Texas Department of Health on March 1, 1992. Two other acquisitions, the Water Well Drillers Board and the Board of Irrigators, occurred in September 1992. The final stage of consolidation was the merger of the Texas Air Control Board with the Texas Water Commission in September 1993 into a consolidated environmental agency, the Texas Natural Resource Conservation Commission.

Operations

Three full-time Commissioners perform the legislative and judicial functions of the agency. They are appointed for six-year terms by the Governor with the advice and consent of the Texas Senate. Their terms are staggered so that one member's term expires every two years, and a Commissioner may not serve more than two six-year terms. The Governor also names who will chair the Commission.

Rules necessary to carry out the responsibilities of the agency are adopted by the three-member Commission. The Commission meets as necessary to render decisions concerning matters within its jurisdiction. The Commission also establishes general agency policies.

The Commission hires an Executive Director to administer agency programs. The Executive Director appoints Deputy Directors to the offices of:

- Waste Management
- Water Resource Management
- Air Quality
- Legal and Regulatory Services
- Administrative Services
- Policy and Regulatory Development

The following offices report directly to the Commissioners:

- General Counsel
- Hearings Examiners
- Public Interest Counsel
- Chief Clerk
- Small Business Advocate
- Internal Audit
- Agency Ombudsman

Three of the Commission's offices are organized according to the resources they regulate: air, water, and waste. The remaining three offices have an agency-wide focus. The Office of Legal and Regulatory Services provides legal services and coordinates field office activities for all of the "resource" offices. The Office of Policy and Regulatory Development handles policy and rule-making. The Office of Administrative Services provides financial information, information system development and support, and other administrative services.

The Commission has 15 regional service areas, each conforming to the legislatively mandated Uniform State Service Region plan. As of September 1993, the Commission presently operated consolidated regional offices in San Antonio, Lubbock, Austin, Amarillo, San Angelo, and Abilene. Remaining regional offices will be consolidated as lease agreements expire or are renegotiated.

Appendix 3.3:

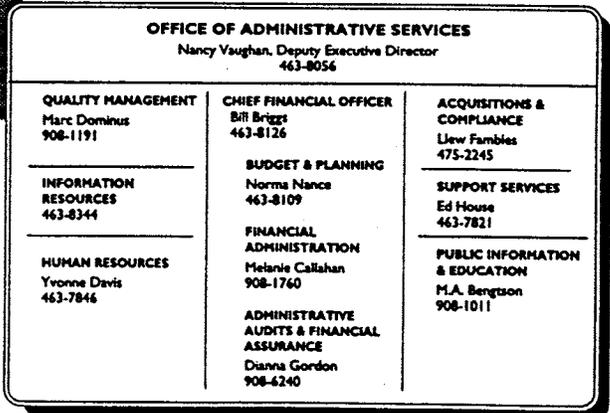
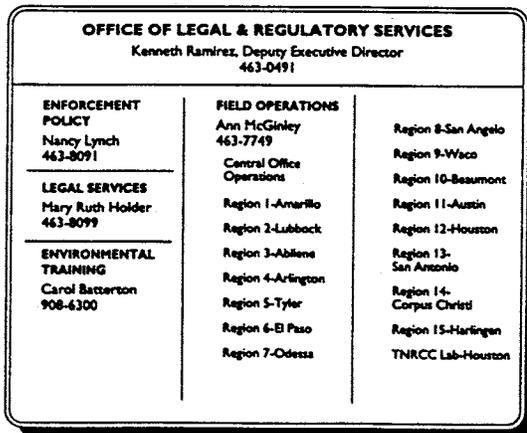
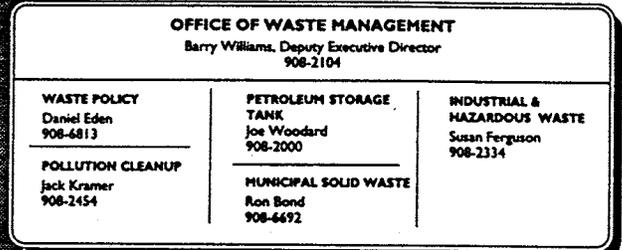
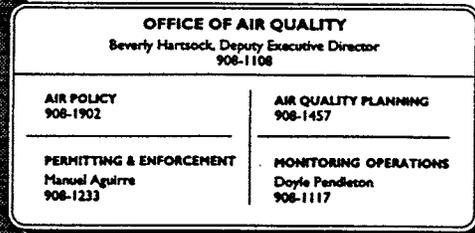
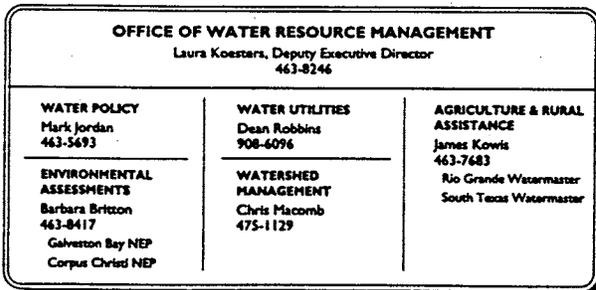
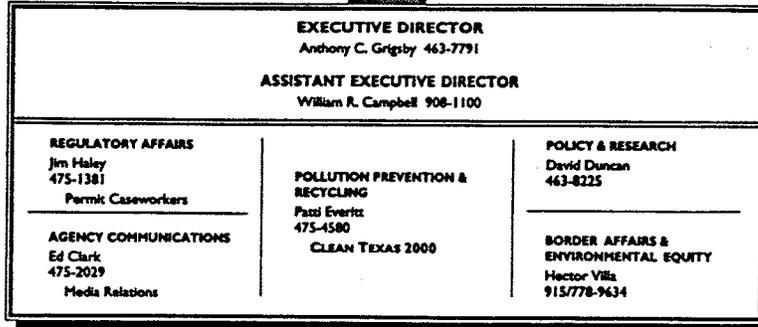
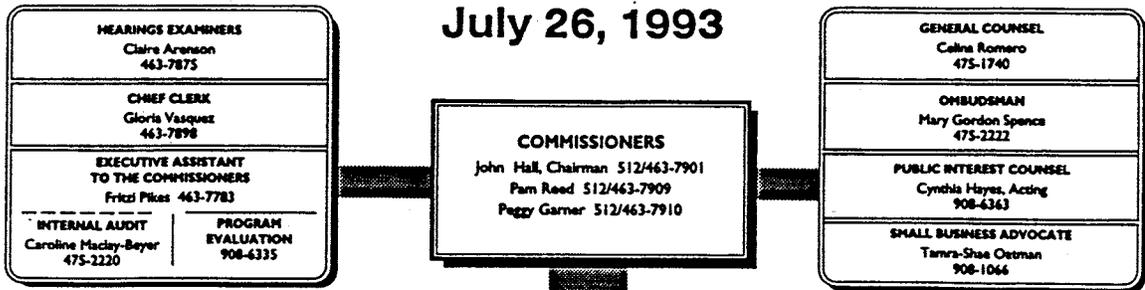
Organization Charts

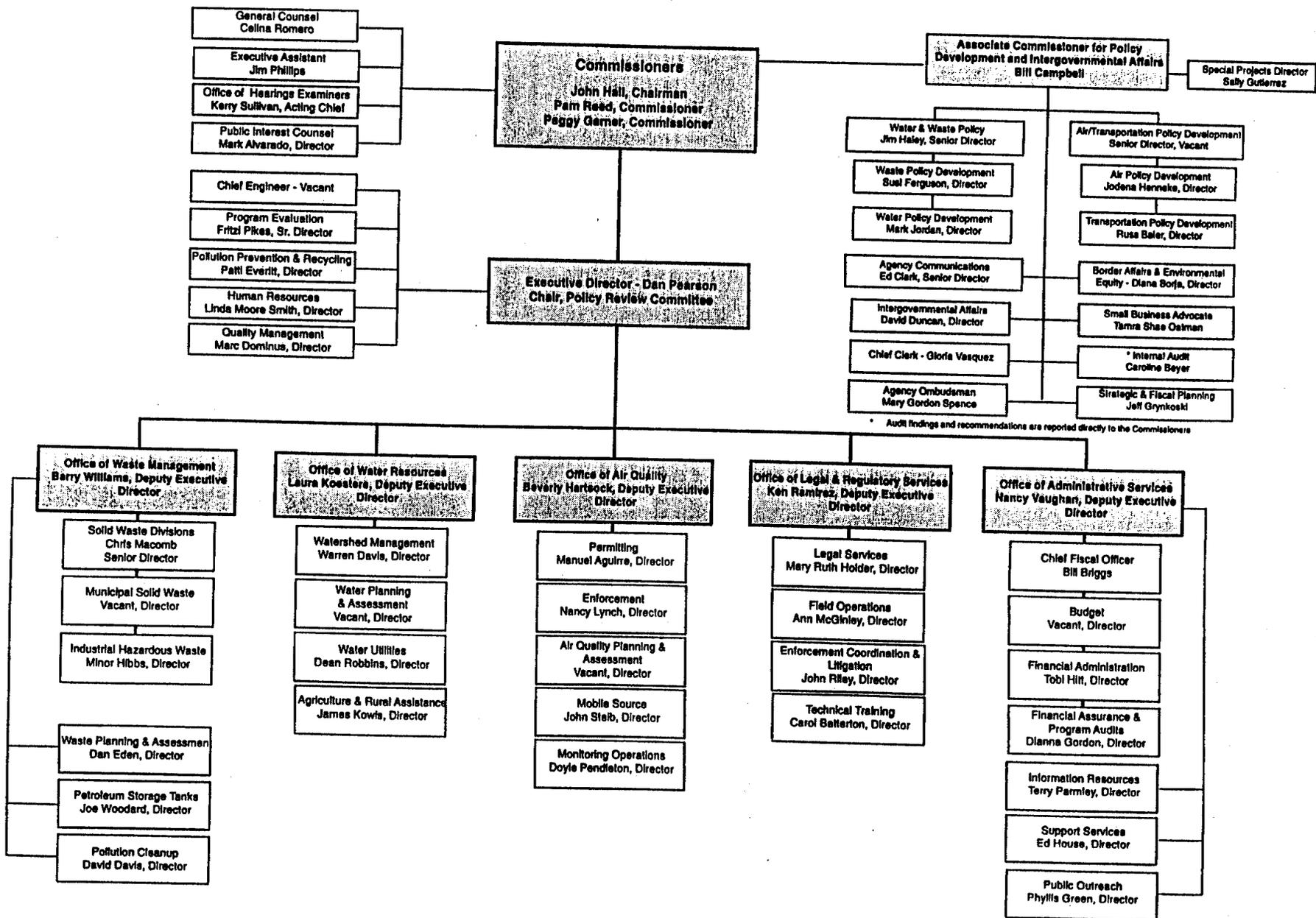
The following organization charts are from July 1993, October 1994, and December 1994. They demonstrate the number and kinds of changes the Commission has made to its organization structure over the past year. Between July 1993 and October 1994 three additional organization charts were issued but the changes were not as widespread, so they are not included here.

A comparison of the July 1993 organization chart to the November 1994 organization chart reveals that the agency started with 49 positions, added 19, and deleted 12, leaving a total of 56. Many positions **changed** location and reporting relationships. In addition, the people assigned to 14 positions changed during this time period. Only 21 positions from the original organization chart were unaffected by these changes.

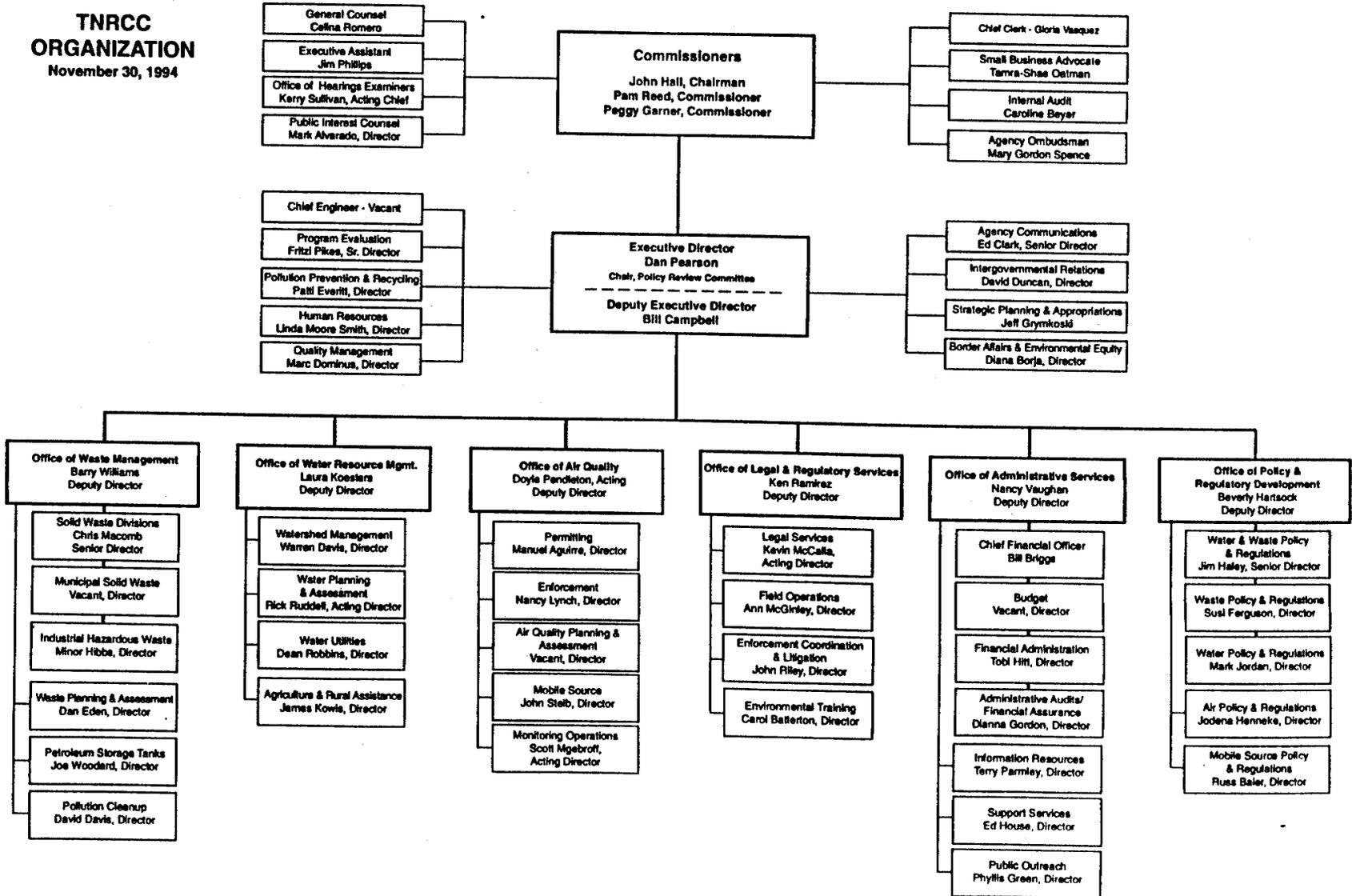
TNRCC ORGANIZATION

July 26, 1993





**TNRCC
ORGANIZATION**
November 30, 1994



Reference List

The books, articles, reports, etc., listed below are relevant to the former Texas Air Control Board:

State of Texas. Comptroller of Public Accounts. *Texas Air Control Board: Performance Review*. 1992.

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United States. Environmental Protection Agency. *State of Texas Hazardous Waste Management Program Activities: FY 92 End-of-Year Report*.

The books, articles, reports, etc., listed below are relevant to the Texas Natural Resource Conservation Commission:

State of Texas. Governor's Environmental Agencies Transition Committee. *A Blueprint for Consolidation Creating the Texas Natural Resource Conservation Commission Through Coordinated Planning*. 1992.

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Texas Research League. *TNRCC: Evaluating the New Organization*. 1993.

Supplemental Information

Appendix 5.1:

Accountability Systems

Key accountability systems are the controls an agency uses to ensure that what should happen, does happen. Accountability systems are established by management to achieve expected results, to establish and maintain an environment that protects against scandals and financial disasters, and to ensure that resources are used economically and effectively.

KEY ACCOUNTABILITY CONTROL SYSTEMS OF STATE AGENCIES AND UNIVERSITIES

Policy Management			Information Management
Strategic Planning	Organization Structure	Policies & Procedures	
Environmental Scans Risk Assessment Mission Analysis Goal Setting Budgeting Action Plans Measures Monitor/Review Evaluate/Revise	Board/Mgt. Oversight Responsibility Assignment Authority Assignment Staffing Levels Functional Groups Evaluation	Development Documentation Communication Enforcement Review Revisions	Selection Collection Classification Evaluation Reporting Storage Updating

Resource Management								
Human Resources	Cash	Investments	Inventory	Fixed Assets/ Infrastructure	Purchased Services	Revenue	Debt	Automation
Recruitment/ Selection Training Job Descriptions Evaluation Compensation	Receipts Disbursements Balances Management Custody Collateral Allocation	Acquisition Custody Collateral Performance Disposal	Acquisition Storage Usage Disposal	Acquisition Construction Safeguarding Maintenance/ Renovations Depreciation Disposal	Service Definition Contract Design Contracting Monitoring	Identification Collection Authorization Enforcement Resolution	Needs Analysis Authorization Issuance Performance Disposal	Needs Analysis Development Cycle Physical Security Disaster Recovery Access Input Processing Output/ Distribution Interfaces

Performance Management		
Performance Measures	Program Evaluation	Quality Control/ Assurance
Progress Tracking Evaluation Alignment	Appropriateness Customer Satisfaction Alignment	Benchmark Monitoring Feedback Adjustment

Accountability systems are grouped into four major *management areas*. These are **policy management, information management, resource management, and performance management**. Generally the systems related to policy, information, and resources will cut across all aspects of an agency's operations. Performance management systems may often be associated with specific strategies (programs) of the agency.

Under each management area are various *control areas*. Examples of the control areas are strategic planning, organization structure, human resources, cash, etc. The control areas consist of activities or resources that are generally found at all agencies. Some may be more significant than others to a particular entity. Some of these control areas, such as investments or debt, may not be applicable to a particular agency.

Each control area covers several *processes* that should exist for that activity or resource. Examples of the processes include environmental scans and risk assessment for strategic planning, and recruitment and training for human resources. These processes are where the foundations of the accountability systems are established. The agency should have controls in place for each process that is significant to their operations.

The following tables explain the elements of each control area and process identified in the Key Accountability Systems chart.

POLICY MANAGEMENT		
Strategic Planning - The processes in this control area should be designed to ensure that the agency has identified what it should be doing and how it should be doing it. The "how" includes how available resources are allocated.		
Environmental Scans	Establishing ongoing processes to identify and use outside expectations and environmental factors - includes consideration of impact on other agencies - coordination with other agencies to avoid duplication of effort	
Risk Assessment	Identifying and analyzing the risks that could interfere with achievement of the agency's objectives, forming a basis for determining how the risks should be managed and prioritized	
Mission Analysis	Developing a mission statement that reflects legislative interest and incorporates the environmental scans and risk assessment - reviewing this statement on an ongoing basis	
Goal Setting	Evaluating present condition and identifying future goals, objectives, and strategies	
Budgeting	Identifying and allocating the resources needed to accomplish the goals, objectives, and strategies	
Action Plans	Developing the specific operating plans necessary to accomplish the goals, objectives, and strategies	
Measures	Developing ways to measure the progress toward achievement of goals, objectives, and strategies	

POLICY MANAGEMENT (continued)

Monitor/Review	Ongoing monitoring of progress toward achievement of all strategic plans - goals, objectives, and strategies - more than just monitoring performance measures
Evaluate/Revise	Reviewing the strategic planning items - mission, goals, budgets, etc. - and determining whether the decisions made during planning are still appropriate and revising them if not

Organization Structure - The processes in this control area should be designed to ensure that management has structured the agency in a manner conducive to communication and accomplishment of the strategic plans.

Board/Mgmt. Oversight	Board/Management approving and monitoring the strategic planning and implementation of the plan - taking an active and appropriate role in <u>overseeing</u> the activities of the agency, not micro-managing the day-to-day operations
Assignment of Responsibility	Clearly assigning the lines of responsibility for core processes so that each person involved knows what their responsibility is
Assignment of Authority	Clearly assigning the authority commensurate with responsibility so that each person involved knows what their authority is
Staffing Levels	Reviewing staffing levels to ensure that the resources are allocated appropriately to accomplish the strategies
Functional Groups	Grouping similar tasks into work units for maximum efficiency and coordination
Evaluation	Periodically reviewing the organization structure to determine whether changes are needed

Policies and Procedures - The processes in this control area should be designed to ensure that the agency has provided the policies and procedures that are necessary to conduct the operations of the agency.

Development	Developing policies and procedures where needed for all of the agency's operations - developed by appropriate level in organization.
Documentation	Putting the agency's policies and procedures in writing.
Communication	Communicating the policies and procedures to all employees within the organization

POLICY MANAGEMENT (concluded)

Enforcement	Ensuring the policies and procedures are carried out as intended and taking corrective action when needed
Review	Periodically reviewing the established policies and procedures to determine whether they are still applicable and necessary
Revisions	Revising the policies and procedures to keep up with changes in the environment and the agency's strategic planning

INFORMATION MANAGEMENT

The processes in this control area should be designed to ensure that the agency knows what its information needs are, that this information is available and accurate, and that it is appropriately maintained.

Selection	Identifying <u>what</u> information is needed for all levels of the organization - executive and operational
Collection	Gathering the information from the appropriate sources
Classification	Classifying information to accurately reflect what has occurred and organizing it so that it can be used
Evaluation	Analyzing the information that is available for decision-making
Reporting	Delivering information in a complete, accurate, and timely fashion to those who need it - both internal and external users
Storage	Storing information so that it is accessible and available for later use - this may include legal requirements to keep information for a certain time period
Updating	Maintaining the information and keeping it up-to-date

RESOURCE MANAGEMENT

Human Resources - The processes in this control area should be designed to ensure that the employees have the skills to do their job, know what their job is, are trained so that they can do their job effectively, are evaluated on their performance, and are appropriately compensated.

Recruitment/ Selection	Effectively matching applicant skills and interests with agency staffing needs, job requirements, assignments, and tasks in a manner that complies with agency goals and applicable laws
Training	Providing on-the-job and formal training for employees as needed for them to perform their job effectively
Job Descriptions	Providing summaries of the most important features of a job, including duties and responsibilities and the level of work performed for all employees - includes minimum qualifications
Evaluation	Assessing job performance of employees in a way that helps develop the employees and contributes to the agency's mission
Compensation	Ensuring compliance with an established compensation system, including salary and payroll administration, classification

Cash - The processes in this control area should be designed to ensure that the cash activity of the agency is adequately controlled. "Cash" is the resource that has the highest risk of fraud/abuse and should be controlled accordingly.

Receipts	Controlling and protecting all incoming cash until it is deposited
Disbursements	Ensuring that all payments are authorized and appropriate
Balances	Monitoring, reconciling, and confirming cash balances to ensure accuracy of recorded activity
Management	Managing the cash flow of the organization - including how federal funds are requested - allowability of interfund borrowing
Custody	Safeguarding any cash that is held by the agency or a depository agent
Collateral	Requiring a depository agent to provide adequate collateral to cover the amounts on deposit - monitoring collateral levels
Allocation	Recording receipts and disbursements to the right object/strategy and allocating indirect costs appropriately

RESOURCE MANAGEMENT (continued)

Investments - The processes in this control area should be designed to ensure that sound investment decisions are made and that investments are protected, authorized, and maximized.

Acquisition	Identifying who is authorized to initiate investment purchases and ensuring that only authorized, legal investments are made
Custody	Safeguarding any investments held by the agency or a depository agent
Collateral	Requiring a depository agency to provide adequate collateral when required - monitoring collateral levels
Performance	Establishing an investment policy and reviewing the results of applying that policy - should include conflict of interest restrictions
Disposal	Identifying who is authorized to sell or redeem investments and ensuring that all proceeds are appropriately delivered to the agency

Inventory - The processes in this control area should be designed to ensure that inventories are effectively managed - economically purchased and used, protected against waste and abuse. The cost effectiveness of inventory management should be considered.

Acquisition	Purchasing inventory in accordance with agency needs (economic order points, stock levels, quality criteria) and legal requirements - including bids where applicable
Storage	Storing inventory so that it is protected from theft, exposure to elements, and waste - keeping track of inventory on hand, including periodic counts-evaluating storage and distribution costs
Usage	Using inventory for legitimate and authorized purposes
Disposal	Disposing of obsolete inventory, when necessary, in a manner to minimize loss - disposing of hazardous materials in compliance with local, state, and federal requirements - methods to identify when inventory is obsolete

Fixed Assets/Infrastructure - The processes in this control area should be designed to ensure that fixed assets - both capitalized and non-capitalized - and infrastructure are economically purchased/constructed, economically used, and adequately protected against waste and abuse.

Acquisition	Purchasing fixed assets in accordance with agency needs and legal requirements - including bids where applicable - obtaining legal titles to real and other property where applicable
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RESOURCE MANAGEMENT (continued)

Construction	Managing the construction of assets from conception through completion of the project
Maintenance/ Renovation	Analyzing the condition of fixed assets and determining the need for repair or renovation - repairs/renovation are cost effective
Safeguarding	Storing fixed assets so that they are protected from theft, exposure to elements, and waste - keeping track of fixed assets, including periodic counts - assigning responsibility for items
Depreciation	Assessing the wear and tear on fixed assets over time to help determine need for replacement and/or repair
Disposal	Disposing of obsolete assets, when necessary, in a manner to minimize loss - disposing of assets in compliance with state and federal requirements - method of identifying when assets are obsolete

Purchased Services - The processes in this control area should be designed to ensure that accountability is maintained for services that are purchased rather than provided by the agency.

Service Definition	Clearly defining the work to be done and preparing for the RFP process - identifying and analyzing the need for purchased services - identifying applicable legal provisions
Contract Design	Writing comprehensive and enforceable contracts - including all necessary elements and performance requirements in the contracts
Contracting	Selecting the best service provider - including bid solicitation and awarding contracts - considering past performance of contractors- prohibitions against conflicts-of-interest
Monitoring	Monitoring the performance of contractors against the terms of the contract - taking actions against contractors when needed - monitoring the performance of contractors against the agency's strategic plans (performance measures for contracting vs. providing service)

Revenue - The processes in this control area should be designed to ensure that all revenues that should be collected have been received and that all potential revenues have been identified.

Identification	Identifying all potential sources of revenues to maximize use of state and other funds
Collection	Identifying revenues that should have been collected and verifying that they have been collected - informing payees of the obligation

RESOURCE MANAGEMENT (continued)

Enforcement	Auditing and other enforcement procedures to collect revenues due to the state that have not been received
Resolution	Settling disputes with taxpayers for taxes and other sources of revenue for which payment is protested - either through the protest or the redetermination process

Debt - The processes in this control area should be designed to ensure that it is appropriate to issue debt and that there is proper authorization and repayment of bonds and long-term debt.

Needs Analysis	Analyzing cash flow and agency needs to decide when debt should be issued, how much debt should be issued, and what type of debt should be issued
Issuance/ Authorization	Issuing debt is done in accordance with legal and policy requirements
Performance	Determining whether it's best to repay, retire, or refund debt - reviewing decisions about debt management to determine whether they were sound decisions - ensuring that the agency is complying with bond covenants
Disposal	Disposing of debt by repayment, retirement, or refunding is done in accordance with legal and policy requirements

Automation - The processes in this control area should be designed to ensure that the general environment and computer applications are developed, maintained, and protected.

Needs Analysis	Analyzing the needs of the agency before purchasing/developing new systems - both hardware and software - to determine what needs exist and to ensure that they can be met
Development Cycle	Systematically working through the process of developing systems to ensure that the systems are planned, monitored, tested, and evaluated
Physical Security	Providing an environment for the hardware and software that protects them from damage by elements - water, temperature, fire, etc. - and by unauthorized individuals
Disaster Recovery	Developing, maintaining, and testing a plan to keep computer operations going in the event of a disaster
Access	Limiting access to systems and applications to only those employees who need it for their job responsibilities

RESOURCE MANAGEMENT (concluded)	
Input	Validating that data entered is authorized and accurate - edits, totals, etc.
Processing	Validating that all transactions entered are processed - edit checks, batch totals, etc.
Output/ Distribution	Reviewing output to ensure that it is complete and limiting availability and distribution of output to only those employees who need it for their job responsibilities
Interfaces	Determining interface needs of the agency - designing and testing interfaces to ensure completeness and accuracy of data exchange

PERFORMANCE MANAGEMENT	
Performance Measures - The processes in this control area should be designed to ensure that progress toward achievement of objectives is routinely and accurately measured and the information is used to improve performance (evaluating whether the programs are working).	
Progress Tracking	Designing methods for effectively and efficiently capturing performance measure information - routinely gathering the information
Evaluation	Monitoring and reviewing the performance measures system to ensure its accuracy, usefulness, and effectiveness
Alignment	Aligning performance measures with strategic plans when there are changes in the entity mission or structure or when measures are determined not be useful or effective
Program Evaluation - The processes in this control area should be designed to ensure that programs are evaluated to determine whether the program was the appropriate program to meet the needs of the people it serves and the mission of the agency.	
Appropriateness	Evaluating the allocation of resources between programs and whether programs are accomplishing the intended results
Customer Satisfaction	Identifying if customers needs are being met and if the delivery of products/services has been conducted to the satisfaction of the people receiving it

PERFORMANCE MANAGEMENT (concluded)

Alignment	Revising programs/allocations between programs to accomplish the intended results if they are not and to align with strategic planning if the agency's mission or structure changes
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Quality Control/Assurance - The processes in this control area should be designed to ensure that the quality of the products and services delivered are evaluated throughout the delivery process.

Benchmarking	Identifying what "good" delivery looks like - what acceptable error rates are
Monitoring	Routinely monitoring the operations of the agency to determine achievement of benchmarks - includes determining adherence to policies and procedures - includes monitoring of subrecipients and internal audit
Feedback	Providing results of the monitoring to the people performing the operations and those managing the operations
Adjustment	Improving procedures based on the results of feedback from the monitoring function - making the changes necessary to achieve the benchmarks

Appendix 5.2:

Comparison of Strategic Priorities, Environmental Risk, and Funding

The following table is intended to demonstrate the type of analysis that the Commission could do after completing its Environmental Protection Agency funded environmental risk assessment project. It identifies, for each strategy included in the Commission's 1996-1997 Legislative Appropriations Request, the Commission's ranking of the importance of the strategy on its priority allocation table, the environmental problem(s) addressed, the EPA risk ranking for the environmental problem(s) addressed by the strategy, and the percent of the total fiscal year 1996 budget allocated to the strategy. The EPA rankings were taken from a study done on EPA Region 6, which includes Texas.

It might also be interesting to include in the analysis a comparison of the type and amount of funding available for each strategy and the amount that would be needed to fix the problem if money were no object. This would allow the agency to determine the amount of additional funds needed to fix the highest ranked problems.

It should also be noted that the Commission is not the only state agency addressing some of these environmental problems. A comprehensive evaluation of the strategies and funding associated with a particular environmental problem would also need to consider what actions these other agencies were taking.

Goal - Objective - Strategy (A)	Description of Strategy, in Priority Order (A)	Environmental Problem Area (B)	Ecological Risk (B)	Human Health Risk (B)	Economic Risk (B)	Overall Risk	% of Agency Budget (A)
01-02-01-01	Investigate and remediate Superfund sites (see also 01-02-01-02 below)	Superfund sites	L	M	L	L	3.6%
02-02-04	Implement a safe drinking water program	Drinking water	Not rated	M	M	L	2.0%
04-01-02-01	Perform complete and timely review of permit applications (air only)	Air Ozone	M M	M H	M H	M H	4.8%
01-01-05	Regulate toxic and solid waste	Hazardous waste sites	M	M	L	M	4.0%
02-02-01	Regulate and protect surface water	Water and wetlands Drinking water	H Not rated	Not rated M	M M	M L	1.0%
04-02-01	Maintain and expand state and local monitoring (air only)	Air Ozone	M M	M H	M H	M H	3.5%
02-01-01	Assess water quality and enforce water pollution regulations	Groundwater Industrial wastewater Nonpoint source	M M M	M M M	M M M	M M M	5.4%
01-01-01	Promote pollution prevention, waste minimization, and reduction	Municipal solid waste Pesticides Municipal wastewater	M H M	L H M	L M M	L H M	1.3%
01-01-02	Implement recycling and waste reduction programs	Municipal solid waste Industrial solid waste	M M	L L	L Not rated	L L	3.4%
03-01-01	Develop and maintain aggressive inspection and enforcement programs	Applies to many EPA problem areas					4.7%

Goal - Objective - Strategy (A)	Description of Strategy, in Priority Order (A)	Environmental Problem Area (B)	Ecological Risk (B)	Human Health Risk (B)	Economic Risk (B)	Overall Risk	% of Agency Budget (A)
04-01-01-01	Determine compliance status of air pollution sources	Air Ozone	M M	M H	M H	M H	4.0%
04-03-01	Develop air pollution control programs	Air Ozone	M M	M H	M H	M H	2.1%
04-03-02-01	Mobile source emission control programs	Air Ozone	M M	M H	M H	M H	2.7%
01-02-01-02	Investigate and remediate Superfund sites (see also 01-02-01-01 above)	Superfund sites	L	M	L	L	28.1%
01-02-03	Investigate and remediate contaminated industrial and solid waste sites	Industrial solid waste	M	L	Not rated	L	7.1%
01-02-02	Investigate and remediate leaking storage tanks	Storage tanks	L	M	L	L	14.6%
01-01-03	Household and agricultural chemical collection programs	Pesticides	H	H	M	H	1.0%
02-01-02	Regional water quality assessments	Water and wetlands	H	Not rated	M	M	1.6%
		Drinking water	Not rated	M	M	L	
02-02-03	Implement a floodplain management program	Water and wetlands	H	Not rated	M	M	0.2%
02-02-02	Develop comprehensive conservation management plans	Water and wetlands	H	Not rated	M	M	0.5%
		Drinking water	Not rated	M	M	L	

Goal - Objective - Strategy (A)	Description of Strategy in Priority Order (A)	Environmental Problem Area (B)	Ecological Risk (B)	Human Health Risk (B)	Economic Risk (B)	Overall Risk	% of Agency Budget (A)
02-02-05	Regulate and manage water and sewer utilities	Municipal wastewater	M	M	M	M	0.7%
04-01-02-02	Perform complete and timely review of permit applications (air only)	Air Ozone	M M	M H	M H	M H	1.6%
04-01-01-02	Determine compliance status of air pollution sources	Air Ozone	M M	M H	M H	M H	0.6%
04-03-02-02	Mobile source emission control programs	Air Ozone	M M	M H	M H	M H	0.4%
03-01-02	Establish and maintain professional certification programs						0.5%
01-01-04	Municipal solid waste management planning	Municipal solid waste	M	L	L	L	0.7%
02-01-03	On-site wastewater treatment council	Municipal wastewater	M	M	M	M	0.1%

- (A) From the Commission's 1996 priority allocation table included in its legislative appropriation request
- (B) Per EPA environmental risk assessment project for region 6 (which includes Texas)

<p>Key:</p> <p>H = High</p> <p>M = Medium</p> <p>L = Low</p>
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Appendix 5.3:

Relationship Between Strategic Plan and Organization Structure

The following chart shows the relationship between the strategies in the strategic plan and the various offices of the Commission's organization chart. It is based upon preliminary 1995 budget numbers. It does not represent the actual 1995 budget, nor does it reflect the addition of the Office of Policy and Regulatory Development to the organization chart. Administrative costs are broken out as a separate line item and are not allocated to strategies. (This is accomplished through a separate cost allocation process.)

Note that all of the Commission's strategies are carried out by more than one division, and all of the offices are involved in more than one strategy.

BY OFFICE	Commissioner's Office	Executive Office	Admin Services	Legal and Regulatory	Waste Management	Water Management	Air Quality	Agency-Wide	TOTALS BY STRATEGY
BY STRATEGY									
Administration	\$ 4,408,800	\$ 542,583	\$ 37,042,756	\$ 793,691				\$ 980,440	\$ 43,768,270
Waste minimization	482,093	1,897,629		905,218		276,895	252,663	374,260	4,188,758
Recycling solid wastes		6,446,513		41,487	2,091,713	289,119		77,000	8,945,832
Chemical collection				71,306		3,012,579		11,000	3,094,885
Waste mgmt planning				50,973	3,144,550			7,300	3,202,823
Waste regulation			143,583	3,736,932	7,777,074	25,175		326,200	12,008,964
Superfund cleanup			64,686	452,971	112,769,445	122,608		139,200	113,548,910
Storage tank cleanup			1,119,517	635,724	48,208,705			98,800	50,062,746
Solid waste cleanup			251,846	1,980,355	21,795,923			146,600	24,174,724
Reduce water pollution				6,064,658	82,211	9,795,725		318,900	16,261,494
Texas-Mexico border		450,375		49,775	58,649	4,890,012		44,100	5,492,911
Occupational licensing				408,568		231,500		229,500	869,568
Regulate surface water				106,160		2,306,191		55,000	2,467,351
Management plans				40,415		1,616,058		18,400	1,674,873
Floodplain management		11,247		41,590		509,067		14,700	576,604
Safe drinking water				4,139,148		2,093,424		165,000	6,397,572
Water utilities				1,000		2,095,867		51,300	2,148,167
Inspection and enforcement			123,675	7,289,363	1,932,310	733,815	2,506,290	285,900	12,871,353
Air enforcement				8,611,544	249,204		1,734,715	267,500	10,862,963
Air permitting				315,482			13,381,033	395,600	14,092,115
Air quality monitoring				1,547,505			8,737,724	503,966	10,789,195
Develop control programs				110,757			5,904,856	128,200	6,143,813
Mobile source programs				1,315,960			5,732,326	109,500	7,157,786
TOTALS BY OFFICE	\$ 4,890,893	\$ 9,348,347	\$ 38,746,063	\$ 38,710,582	\$ 198,109,784	\$ 27,998,035	\$ 38,249,607	\$ 4,748,366	\$ 360,801,677

Appendix 5.4:

Analysis of Indirect Costs of Grid Seminars

The following table demonstrates how failure to include one element of indirect cost, time spent doing prework for and attending Grid seminars, skews cost data. Note that this table addresses only one of several components of QUEST-related training.

INDIRECT COST OF TIME SPENT BY TNRCC STAFF IN PREPARING FOR AND ATTENDING GRID SEMINARS (Actual 1994 and Projected 1995)						
1 Type of Seminar	2 Total Staff Trained	3 Hours for Prework	4 Hours to Attend	5 Total Hours (3 + 4)	6 Average Participant Wage/Hour	7 Total Indirect Cost (2 x 5 x 6)
MGRID	222	20	44	64	\$ 28.11	\$ 399,387
TGRID	336	10	28	38	28.11	358,908
EGRID	510	10	24	34	16.64	288,537
SGRID	600	10	24	34	16.64	339,456
IGRID	10	20	44	64	16.64	10,649
TOTAL INDIRECT COST OF TIME TO PREPARE FOR AND ATTEND GRID						\$ 1,396,937

Sources: Columns 1-2 = TNRCC Memo on Grid Budget Request, June 3, 1994, and Monthly Grid Report, August 10, 1994
 Columns 3-4 = TNRCC Memo on Grid Implementation, September 26, 1994
 Column 6 = Interview with TNRCC Compensation Staff

Key: MGRID = Managerial Grid SGRID = Supervisory Grid
 TGRID = Teambuilding IGRID = Instructor Preparation Grid
 EGRID = Employee Grid

Note: Column 4 assumes an 8-hour day, though Grid Seminars often run beyond 8 hours per day. Also, costs are most likely underestimated by use of the lower bound of estimated prework time. On the other hand, FLSA exempt employees have not been charging their prework to the Commission.

The Commission stated that total actual 1994 Grid costs were \$227,298 and that total projected 1995 Grid costs would be \$381,536, for a grand total of \$608,834. This figure generally includes only direct costs and, as such, is substantially below the \$1.39 million noted above. If the statewide average 45.5 percent for fringe benefits is

considered, the total indirect cost of staff time to prepare for and attend Grid seminars becomes \$2,032,543. Finally, if the Commission's direct costs of \$608,834 are added to the \$2.03 million total indirect cost just noted, the total becomes \$2,641,377.

Among other factors that would drive actual total costs higher still are:

- costs of travel, meals, and lodging for training participants
- allocated salaries and fringes of staff providing administrative and logistic support
- costs of staff time spent in QUEST meetings and team projects
- opportunity costs of productivity lost by staff in doing prework, attending training and meetings, implementing team suggestions, etc.
- inclusion of similar data for other components of QUEST plans, projects, and training

Copies of this report have been distributed to the following:

Legislative Audit Committee

Honorable James E. "Pete" Laney, Speaker of the House, Chair
Honorable Bob Bullock, Lieutenant Governor, Vice Chair
Senator John Montford, Chair, Senate Finance Committee
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Sunset Advisory Commission

Texas Natural Resource Conservation Commission

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Mr. Dan Pearson, Executive Director
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