

August 20, 1997

Members of the Legislative Audit Committee:


The Railroad Commission of Texas (Commission) has made progress in addressing recommendations contained in *An Audit Report on Management Controls at the Texas Railroad Commission* (SAO Report No. 96-032, February 1996). During our follow-up review, we identified other actions management should consider to further improve specific processes or to more fully address the recommendations in the above report.

Our review of prior-audit findings were only for those issues we felt had the greatest impact on the overall efficiency and effectiveness of the Commission in regulating natural resources, ensuring community safety, and promoting economic development. The most significant, but not all, audit issues have been addressed, as discussed in the attached table.

The attached table summarizes the current status of our recommendations for the most significant audit issues. It also includes the Commissioners' responses to our audit follow-up and additional recommendations.

We thank the Commission for its assistance and cooperation. If you have any questions, please call Bernie Gilmore at 479-4785.

Sincerely,

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

Lawrence F. Alwin, CPA
State Auditor

kob/rmn

Attachment

cc: Mr. Charles R. Matthews, Chairman
Mr. Barry Williamson, Commissioner
Ms. Carole Keeton Rylander, Commissioner
Mr. Mike Regan, CPA, Chief Financial Officer

SAO Report No. 97-083

Railroad Commission of Texas
 Status of Selected Prior-Audit Recommendations

Previous Recommendations	Management's Responses to Previous Recommendations	Status	Follow-Up Audit Results and New Recommendations	Management's Responses to Follow-Up Audit Results and New Recommendations
<p>Planning and Evaluation Formal planning and evaluation at all levels of the Railroad Commission of Texas (Commission) would improve accomplishment of goals.</p>				
<p>Complete the strategic planning process by developing formal, documented action plans throughout the agency. One of the Commission divisions was cited for its accomplishments in this area.</p>	<p><i>The implementation of formal operations planning in all divisions and districts of the Commission will be developed in conjunction with the FY 1998-99 Strategic Operating Budget and the next five-year Agency Strategic Plan.</i></p>	<p>In Progress</p>	<p>We looked at four divisions at the Railroad Commission which represent 80 percent of the Commission budget. The largest division, Oil and Gas, has documented its planning in a series of quarterly reports, with specific goals and objectives targeted. The other three divisions are in the process of more formal planning.</p> <p>The Strategic Operating Budget referred to in the Commission's response will be the subject of an August 1997 meeting, and planning for the next five-year Agency Strategic Plan will begin in the Fall of 1997.</p>	<p><i>The Commission concurs.</i></p> <p><i>The Commission concurs.</i></p>

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Planning and Evaluation (continued)				
			Commission-wide initiatives in planning include quarterly meetings with the Commissioners, an Information Management Strategies Team to assist with the planning and implementation of the Commission's conversion of oil and gas databases to newer technology and applications, and a new internal budget/ accounting system.	<i>The Commission concurs.</i>
Continue to work with the Legislative Budget Board in determining efficient and effective performance measures.	<i>The Commission agrees with the State Auditor's recommendation.</i>	Resolved	The Commission has met with the Legislative Budget Board to update and improve its performance measures.	<i>The Commission concurs.</i>

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Planning and Evaluation (continued)				
<p>Improve program evaluation by employing basic information management principles.</p>	<p><i>Information systems will be evaluated for alignment with the Commission's goals, objectives, and strategies. Most existing Commission information systems will be reviewed for efficiency and duplication by the end of FY 1996-97 biennium.</i></p>	<p>In Progress</p>	<p>The Commission is making a substantial effort to coordinate and leverage its federally-funded information initiatives to benefit other systems and its conversion to new technology.</p> <p>The Radian Study, published in February 1996, is one example of a Commission-wide initiative to assess information needs both within and outside the Commission.</p> <p>At the division level, the Commission is at varying stages of applying basic information management principles, between identifying needed information and delivering the information in a complete, concise, accurate, and timely fashion.</p>	<p><i>The Commission concurs.</i></p> <p><i>The Commission concurs.</i></p> <p><i>The Commission concurs.</i></p>

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Planning and Evaluation (continued)				
			Data evaluation in two inspection programs were specifically mentioned in our finding: oil and gas and liquid-petroleum-gas inspections. A system of tracking and evaluating oil and gas inspection data has been implemented, and a system to ensure 100 percent coverage of high-risk liquid-petroleum-gas installations has been implemented.	<i>The Commission concurs. There are new improvements to the current process which will be completed by 10/01/97 (new Oracle-based DO system will replace the current Rbase system).</i>
Complete a formal project management plan for the computer architecture change.	<i>The Computer Services Division intends to complete these formal project management plans by the end of FY 1996.</i>	In Progress	The Information Technology Services Division has been reorganized and there has been a high turnover of top-level personnel, with up to a 50 percent vacancy rate in key areas. Staffing issues, therefore, have taken precedence over project planning. The Division plans to submit a formal project management plan to the Commissioners (August 1997) and to the Department of Information Resources (September 1997).	<i>The Commission concurs.</i>

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Planning and Evaluation (continued)				
			A formal project-management plan is even more critical to the project now because the Year 2000 project (with an absolute deadline of December 1999) depends, in part, on certain tasks being accomplished as part of the computer architecture change.	<i>The Commission concurs.</i>

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Planning and Evaluation (continued)				
			<p><u>Recommendation:</u> We recommend that the Commission closely monitor the planning and implementation of the computer architecture change to ensure timely and successful completion of this and the Year 2000 project. The management plan should have clearly defined and measurable deliverables. Due to limited funding and a highly competitive job market, project management should also place particular emphasis on risk-management. We also recommend that progress be reported to the Commissioners in terms of accomplishments, issues, and exceptions to the management plan.</p>	<p><i>The Commission concurs.</i></p>

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Planning and Evaluation (continued)				
<p>Create an updated, long-range project plan for the GIS (mapping) project.</p> <p>Survey user needs and keep them informed of GIS development.</p>	<p><i>These plans are scheduled for completion by the end of FY 1996.</i></p>	Resolved	<p>The long-range project plan for GIS has been updated.</p> <p>The users were surveyed, and user recommendations for GIS development were discussed at a meeting of field office personnel.</p>	<p><i>The Commission concurs.</i></p> <p><i>Additional progress toward meeting these needs has been made. One of the major tactical objectives being recommended for the Oil and Gas Division will be to make GIS information readily available via Commission computer network. This is anticipated to be completed during the second half of FY 98.</i></p>
<p>The Commission should expand the role of the PCC (Personal Computer Committee) to serve as a formal management information steering committee for all automation issues.</p>	<p><i>The Commissioners should make the decision on which committee to use by the middle of FY 1996, and committee activation by the end of FY 1996.</i></p>	In Progress	<p>A steering committee was approved by the Commissioners in June 1997.</p>	<p><i>The Commission concurs.</i></p>

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Planning and Evaluation (concluded)				
Define Commission budget needs and obtain a system to meet internal budgeting and reporting needs.	<i>Commission staff has met with the Comptroller's Office, bench-marking meetings with other state agencies have been conducted, and alternative solutions are being developed with a recommendation to be presented to the Commissioners in January 1996.</i>	Resolved	A new internal budget/accounting system was implemented in October 1996. It provides for section-level and field-office-level monitoring of the budget.	<i>The Commission concurs.</i>
Consider increasing the size of the internal audit staff	<i>The Commission is considering expanding the existing internal audit staff by the end of calendar year 1996.</i>	Not Resolved	There has been no formal consideration of increasing the size of the internal audit staff.	<i>During the management planning meeting on August 18-19, 1997, the Commissioners and all division directors will consider Internal Audit's proposal to add an internal audit staff position.</i>

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Administrative Processes				
Controls over administrative processes should be strengthened.				
<p>Implement recommendations made in an internal audit report of August 1994 concerning controls over receipt of revenue. Approximately \$30.5 million or 83 percent of Commission revenue is received and processed through its mailroom and cashier.</p>	<p><i>The Finance and Accounting Division is in the process of revising cash receipts procedure manuals to include the recommendations that were highlighted in the Internal Auditor's Report. All procedures will be reviewed to ensure there is a separation of duties, and that deposits are made in a timely manner.</i></p>	In Progress	<p>The Finance and Administration Division has implemented and documented new controls over receipt of revenue in the mailroom, but no other controls have been implemented. The cash-receipts system is a large, 30-year-old system that is still being documented in order to reassess the entire process.</p>	<p><i>The Commission concurs. In respect to an updated procedures manual for Cash Receipts, that effort should be completed by the end of November 1997. We are also going to be looking at software being used by other agencies later this year. Should those systems prove to be cost effective for our area of application, a change could be made prior to fiscal year 1998. All recommended controls over receipt of revenue should be in place by February 1998.</i></p>
<p>Determine the cost/benefit of implementing Treasury lock-box procedures for collection of selected program fees</p>	<p><i>The Commission agrees with the recommendation.</i></p>	Resolved	<p>The Finance and Administration Division looked into the issue, but decided lock-boxes were not feasible.</p> <p><u>Recommendation:</u> We recommend that the Commission revisit the issue due to lack of fully documented controls over cash receipts.</p>	<p><i>The Commission concurs, and will revisit the issue in early 1998.</i></p>

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Administrative Processes (continued)				
<p>Continue to evaluate management of the oil and gas records.</p> <p>Continue efforts to become current on converting its paper records to micro-format.</p> <p>Ensure that the Radian study addresses all oil and gas records, as outlined in its Scope of Work.</p> <p>Strengthen access controls to require that all records remain on the premises.</p> <p>Continue to develop a records retention plan and a disaster recovery plan.</p>	<p><i>Upon receipt of the Radian feasibility study, and after the appointment of the new Records Administrator, the Oil and Gas Division will complete the updating of its records retention plan. This plan will lay the groundwork for finalizing the disaster recovery plan and provide the added level of security needed to more completely safeguard these documents.</i></p>	<p>In Progress</p>	<p>The Gas Research Institute (GRI) hired Radian Corporation to review the various management issues concerning the oil and gas records. Radian outlined the value of the records to industry and the economy and estimated the cost of converting the records to electronic format to be \$9.9 million.</p> <p>Following a one-year moratorium on filming records due to the Radian study, which was published in February 1996, filming has resumed. Microfilming at the current rate, however, will not eliminate the 15-year backlog. Ways in which to finance the conversion of records through advanced technology (scanning) is under study by the Commission.</p> <p>The Radian report addressed all oil and gas records as outlined in its Scope of Work.</p>	<p><i>The Commission concurs.</i></p> <p><i>These documents are being processed and filed on a daily basis. All records are available to customers. The backlog is in converting these readily accessible documents to micro-format.</i></p> <p><i>The Commission concurs.</i></p>

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Administrative Processes (continued)				
			<p>The only change in access controls has been to place record users in an open area.</p> <p>The Commission plans to have a records retention plan by October 1997, and to finalize a disaster relief plan by March 1998.</p>	<p><i>Resources available (space, staff, and financial) were all contributing factors in changing our level of control over documents. The common open area concept was implemented to improve visibility, make the most efficient use of staff and space, and reduce potential for theft of documents.</i></p> <p><i>The agency will recertify the Commission Records Retention Plan in October 1997. The Oil and Gas Division will recommend specific division record series to be added to the agency schedule during the next year.</i></p>

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Administrative Processes (continued)				
			<p><u>Recommendation:</u> We recommend that the Commission consider requiring users to store their personal items in a locker when accessing Commission documents. This is standard procedure where valuable and irreplaceable historical documents are involved.</p>	<p><i>The Oil and Gas Division has a few lockers available for customers. Space reductions and need to redirect available staff to perform other critical job duties has reduced our ability to monitor access to these lockers. Instead, the common area was implemented, which improved visibility and limited potential for loss to occur. We will continue to monitor and recommend other methods to safeguard records.</i></p>
<p>Establish objective criteria for evaluating well-plugging contractors and establish performance standards to be used by field staff for evaluating well pluggings.</p>	<p><i>The well-plugging staff will develop "objective criteria" for evaluating contractor performance. By September 1, 1996, the performance standards and criteria should be ready for incorporation into the process of evaluating and awarding plugging contracts.</i></p>	Resolved	<p>The well-plugging staff has developed criteria for contractor performance, and the standards and criteria have been incorporated into the evaluation and awarding of contracts since December 1996.</p>	<p><i>The Commission concurs.</i></p>
<p>Include performance standards, sanctions, and criteria for termination in well-plugging contracts.</p>		In Progress	<p>New contracts that include performance standards, sanctions, and criteria for termination will be completed by September 1997.</p>	<p><i>The Commission concurs. New contract forms/approaches were completed August 1, 1997, and are being used.¹</i></p>

¹Our fieldwork ended prior to August 1; therefore, this has not been verified.

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Administrative Processes (concluded)				
Use median plugging costs instead of averages to estimate well-plugging costs.	<i>The Commission plans to adopt this recommendation and has already requested modification of the computer system to support the change.</i>	Resolved	The Commission has been using median costs to estimate well-plugging costs since September 1996.	<i>The Commission concurs.</i>