

**An Audit Report on Management Controls at the
Texas Railroad Commission**

Key Points of Report

Executive Summary 1

Section 1: PLANNING AND MONITORING

**Formal Planning and Program Evaluation at All Levels
of the Commission Would Improve Accomplishment
of Goals** 5

Four of the Five Functional Divisions Do Not Have a Formal
Planning Cycle or Operational Plans 5

Documented Plans Are Needed to Establish Better Controls Over Administrative
Support Functions 11

The Current Budgeting System Does Not Provide Sufficient
Information to Management 16

Section 2: ADMINISTRATIVE PROCESSES

Strengthen Controls Over Administrative Processes 18

Controls Over the Time-Keeping System Are Weak 18

Divisions Do Not Have Documented Policies or Procedures to
Guide Operations 20

Controls Over Receipt of Revenues and Fee Collection Need
Improvement 23

The Commission Has Begun to Evaluate Management of Oil
and Gas Records 26

Section 3: CONTRACT ADMINISTRATION

**Improve the Payment Process for Well Plugging
Vouchers and Develop Performance Standards for
Contractors** 28

The Commission Is Not Paying a Majority of Well Plugging
Vouchers for State Funded Pluggings Within the 30-Day Time
Period Required by State Law 28

Performance Standards Are Not Considered in Contract
Administration 30

Table of Contents, concluded

Analysis of Historical Well Plugging Costs Is Not a Reliable Predictor for Actual Costs	32
---	----

Section 4: TRAINING

Develop a Training Plan, Budget, and Formal Process to Evaluate Employees' Training Needs	34
--	----

Section 5: ORGANIZATION STRUCTURE/MISSION

Use Reorganization as an Opportunity to Delegate Authority for Decision-Making	35
---	----

Section 6: PERFORMANCE MEASURES

Certification of Performance Measures Is Above Average ..	37
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Appendices

1 - Project Information	
1.1 - Objective, Scope, and Methodology	43
1.2 - Audit Scope by Commission Strategy	46
2 - Background Information	
2.1 - Texas Railroad Commission Profile	47
2.2 - Financial Information	49
3 - Prior Organizational Chart	50
4 - Organizational Chart as of October 1995	51
5 - Supplemental Information	
5.1 - Reference List	52
5.2 - Certification Criteria	54

Key Points Of Report

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Overall Conclusion

While the Texas Railroad Commission has adequate control systems in place, more formal planning, program evaluation, and data analysis are needed to ensure the efficient use of regulatory efforts. Some administrative processes are inefficient and would benefit from streamlining review procedures and delegating responsibility. Consideration of performance standards in both the awarding of well plugging contracts and in the contracts themselves would provide the Commission with an evaluation and enforcement tool.

Key Facts And Findings

- The Commission's strategic planning process does not include well-developed operational planning or evaluation at the division level. The programs track the regulatory tasks performed by staff and collect a lot of data; however, little appropriate data analysis is performed or fed into an evaluation and planning cycle.
- A number of administrative processes are inefficient and lack standardized procedures. The time-keeping system does not provide sufficient controls over computation of leave balances. Travel vouchers and well plugging payment vouchers are reviewed and approved by several levels of management before they are submitted for payment.
- Selection of well plugging contractors does not include consideration of past performance of bidders. Contracts for well plugging do not include standards, penalties, or sanctions for poor contractor performance.
- Two of the three commissioners were elected to the Commission in November 1994. Recent organizational changes include the transfer of transportation responsibilities to another state agency, the restructuring of program and administrative divisions, and the search for a number of high-level managers.

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This economy/efficiency audit was conducted in accordance with Government Code, §§ 321.0132 and .0133.

Executive Summary

While the Texas Railroad Commission has adequate management control systems in place, some administrative processes are inefficient and contain multiple levels of review and approval. Formal operational planning and better program evaluation would help to provide assurance that inspectors are able to inspect the highest risk installations on a more frequent basis. A substantial amount of data is collected on regulatory tasks; however, appropriate data analysis to ensure the most efficient use of regulatory efforts could be improved.

Performance standards are not considered when the Commission awards well plugging contracts. These contracts lack performance standards, penalties, and sanctions which would provide a valuable evaluation and enforcement tool.

We noted several control weaknesses over the vast oil and gas records, including a 15-year microfilming backlog and lack of a current inventory. The Commission recognizes the problems with these records and has begun to look for solutions.

An area of strength noted was in the certification of the Commission's performance measures. The number of performance measures certified at the Commission was above the average of state agencies audited in fiscal year 1994.

Two of the three commissioners were elected in November 1994, bringing about a change in the Commission's governance. The Commission has taken this opportunity to re-evaluate its mission and organizational structure. Both administrative functions and program areas have been recently reconfigured, and new divisions have been created. As a result of the reorganization, a number of high-level management positions are vacant. The Commission should use this change to consider delegating more authority

for decision-making to managers at the division level.

Formal Planning and Program Evaluation at All Levels of the Commission Would Improve Accomplishment of Goals

The Commission's strategic planning process does not include well-developed operational planning or evaluation at the division level. Most division planning is done informally, and some divisions have not formally documented their workload priorities. Formal operational plans would provide an additional management tool to ensure that the thousands of inspections performed each year are directed toward the higher risk installations and help the Commission meet its goals and objectives.

Although the programs track the regulatory tasks performed by staff and collect a lot of data, little appropriate data analysis is done or fed into an evaluation and planning cycle. The Oil and Gas Division identifies violations through inspections, but does not track this information over time to identify recurring problems or trends. The complaint data base is not used to analyze the frequency, location, or nature of complaints, even though complaint investigation is considered a priority by the division. The Liquefied Petroleum Gas Division (LPG) has identified installations that are critical to public safety, but it does not schedule inspections to ensure coverage of these highest risk facilities. Risk ranking and priority setting guide operational planning to help ensure that limited resources are appropriately directed.

The conversion of the automation function to a client server platform and the ongoing Geographic Information Systems (GIS) project both lack updated long-term plans.

Executive Summary

These administrative support projects would benefit from documented plans to establish guidelines and facilitate tracking of their implementation. A revenue management plan is needed to formally establish controls over revenues.

The Current Budgeting System Does Not Provide Sufficient Information to Management

When the Commission set up its budget, based on the Uniform Statewide Accounting System (USAS), it did not fully use the USAS capability to establish detail sufficient to monitor the budget by organizational structure. Therefore, the Commission's budget does not provide management with detailed budget information, by division and field office, that is needed to monitor revenues, expenditures, and budget variances. The divisions do not have district budgets, which would guide expenditures and provide management with a monitoring tool.

Strengthen Controls Over Administrative Processes

The exception-based time-keeping system lacks standardized procedures and does not ensure accurate computation of earned Fair Labor Standards Act (FLSA) overtime and state compensatory time. The Commission has 34 employees with time-keeping responsibilities; each keeps a separate system to track and record leave taken and earned.

Most divisions lack written handbooks to standardize and guide field operations. Although several handbooks have been planned, field staff rely on policy and procedure memos relating to technical and operational areas. The Commission risks inconsistent enforcement of regulations and inefficient administrative operations without

documented policies and procedures to guide operations.

The travel voucher review and approval process involves duplicated efforts at all levels of management and results in executive staff spending time on routine administrative tasks. Delegating the approval authority to the division level and streamlining the review process would hasten and improve the process.

The Alternative Fuels Research and Education Division (AFRED) has no ongoing audit or enforcement function to promote compliance with the state law assessing a delivery fee on the first purchase of odorized propane. Financial controls over receipt of revenues coming into the Commission need to be strengthened.

Improve the Payment Process For Well Plugging Vouchers and Develop Performance Standards For Contractors

The processing of well plugging payment vouchers for state-paid pluggings is inefficient and often takes longer than the 30-day limit imposed by state law. Vouchers are approved and/or reviewed by several levels of management before they are submitted for payment. The Commission is potentially liable for interest on overdue payments to contractors and vendors.

Although state guidelines allow selection of the "lowest and best" contractor in the bid awarding process, well plugging contracts are awarded to the lowest bidder. No criteria exist to define or evaluate contractor performance. Field staff document some aspects of contractor performance in their daily reports; however, contracts for well plugging do not

Executive Summary

contain performance standards, penalties, or criteria for termination. Without performance standards, contractor performance cannot be evaluated and poor performance cannot be penalized.

The Commission should place greater emphasis on staff development by creating a training plan, budget, and formal process to evaluate employees' training needs.

Summary of Management's Responses

For the first time in its history, the Railroad Commission recently conducted a top-to-bottom review of the agency and its operations. This review process was started in mid-year 1995, and has already resulted in a complete restructuring of all Commission divisions.

While the Commission has generally adequate management control systems in place, the restructuring creates the opportunity to implement more formal planning, program evaluation and data analysis to ensure efficient use of its resources in order to focus on new strategies for regulation and economic

stimulation of the energy industries, better protection of the environment, and to better serve the citizens of Texas and the entities we regulate.

The Commission concurs with most of the State Auditor's recommendations, and will work to implement those suggestions that are cost beneficial. Our responses and related implementation time-lines are included in the detail section of this report.

Summary of Audit Objective and Scope

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

The scope of the audit included consideration of the Commission's:

- strategic planning and performance monitoring
- management information systems
- contracted services
- financial control system

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Formal Planning and Program Evaluation at All Levels of the Commission Would Improve Accomplishment of Goals

Although all division directors participate in developing the Commission's strategic plan, most divisions lack operational, or action, plans. The regulatory divisions reviewed collect a lot of performance data, but they could do a better job of formal analysis and evaluation of the data they collect. Without adequate planning and evaluation processes, it is difficult to track progress toward achievement of the Commission's goals.

In conjunction with its strategic planning process, Commission managers held a retreat in July 1995 to review their mission, goals, and organizational structure. The outcome of the meeting was a revised mission statement and declaration of goals. (See the discussion of the Commission's reorganization in Section 5.)

Section 1-A:

Four of the Five Functional Divisions Do Not Have a Formal Planning Cycle or Operational Plans

The strategic planning process centers around updating the Commission's goals, objectives, and strategies for its biennial budget request. The divisions are responsible for identifying factors which impact achievement of their objectives and for proposing changes to strategies or performance measures. Updates to the strategic plan are a result of the consolidation of the divisions' efforts.

The divisions reviewed each have their own mechanisms for assessing environmental factors which impact their operations. However, most divisions do not have a formal planning process or operational plans to break strategies into specific tasks and specify responsibility for assignments, resource allocations, costs, and schedules. Most division planning is done informally at weekly meetings. Some of the divisions do not have a written list of priorities. A lot of data is collected, but not analyzed or fed into an evaluation and planning cycle. These limitations in planning and evaluation can have a negative effect on meeting the Commission's goals.

Without additional operations planning, management cannot be assured that field staff are inspecting the liquefied petroleum gas installations or oil and gas wells which management determined to be priorities. As a result, the goals of preventing pollution and ensuring a clean environment are at risk of not being fully met. This lack of operational planning was noted with regard to the oil field cleanup program in *A Performance Audit of the Oil Field Cleanup Program and Related Enforcement Efforts* (SAO Report No. 93-113, April 1993). In response to that report, the Commission approved a new well plugging priority system that considers environmental and human health factors.

Managers stated that it is more important to simply get the work done than it is to spend time planning. Managers from several divisions reported constantly being in a

“reactive mode.” They are continually being called away from their routine work to address issues that need immediate attention. Frequently, the information needed to make decisions on operations or planning issues has not been collected. Evaluation and analysis of the data that is collected is not always sufficient to provide the information needed by management. Often, staff work overtime in order to complete the workload.

Data is not analyzed to ensure coverage of stated priorities Two of the strategies of the Railroad Commission are:

- to prevent pollution from oil and gas exploration and production by monitoring and testing facilities and administering a federally approved and funded underground injection control program
- to enforce compliance by the liquefied petroleum gas/compressed natural gas (LPG/CNG) industries with Commission regulations and state law and educate the industry and the public

Inspections done by the Oil and Gas and LPG Divisions for these two strategies account for 27 percent of total agency funding.

The Commission does not have complete assurance that the liquefied petroleum gas installations and the oil and gas wells with the greatest risk to the environment and the public are being inspected within an established time frame or at all. Without the benefit of a formal operations plan and appropriate performance data analysis, the Commission cannot be fully assured that the thousands of inspections performed each year are focused on the highest risk installations.

With limited resources and a large number of installations--over 350,000 regulated oil and gas wells and approximately 28,000 LPG licensees and commercial users--it is necessary to use data collected on program performance effectively and efficiently. This program information should be more frequently monitored, analyzed, and evaluated to enable managers to adjust their plans and shift the workload, as needed, to cover the priority areas.

The Oil and Gas and Liquefied Petroleum Gas (LPG) Divisions need to improve their performance evaluation systems We identified a number of areas which would benefit from improved monitoring, analysis, and adjustment procedures. In both divisions, the numbers of inspections reported to the Legislative Budget Board (LBB) are not accurate. Problems with these performance measures included poor controls over data collection and measure definitions that were not being followed for the collection of data and the calculation of the measure.

In the Oil and Gas Division, a great deal of statistical data is reported on a monthly basis, but not fully used or analyzed to evaluate performance. For example, the number and type of pollution violations per district are reported monthly but the violations are not tracked over time or analyzed for trends. Information such as location and frequency of certain violations and the number of inspections resulting in violations in the different districts could be useful in scheduling routine inspections and allocating

resources among districts. Also, the complaint data base is not used to analyze the frequency, predominant location, or nature of complaints. This program information might be used to determine if the complaints could be handled more efficiently to allow more time for other types of oil and gas well inspections. The project to update the daily field report, or "D forms," has been in progress for some time. The changes proposed could provide more appropriate information for analysis and planning.

Fluid level tests are required on oil wells that are 25 years old and have been shut down for a year. The list of which wells fall into this category is computer generated. Early in September of each year, a list is sent out to all the operators involved, listing which wells need to be tested by June of the following year. The fluid level tests are done by the operators, and the test forms are sent directly to Austin. If there is a failure to comply, a "failure" letter generated by a computer application is sent to the operator. However, the Oil and Gas Division does not spot check the wells to ensure that the test results are accurately reported. This type of information would be useful for program evaluation and planning to enable managers to make decisions regarding enforcement of this requirement.

The LPG Division is not routinely inspecting all of the installations they have determined to be priority installations, such as schools, school buses, and health-care centers, which should be inspected on a regular basis. In order to address their objective of protecting the public safety with respect to liquefied petroleum gas and compressed natural gas (CNG), management has identified the most critical areas of public safety. But in carrying out the inspections of these installations, the division does not schedule the inspections to ensure coverage of the facilities they consider to be of greatest importance in protecting the public safety.

The LPG Division has dual accounting systems, both manual and automated, for measuring the number of field inspections, but cannot rely on the manual system or the automated system, as neither is accurate. LPG inspectors do not have a checklist to follow when inspecting LPG installations, making it difficult to ensure consistency in coverage.

Annual reports for both Oil and Gas and LPG Divisions contain summaries of statewide information, but do not routinely include information by district office; therefore, productivity comparisons for resource allocation and policy analysis are difficult to make. Division reports to management on division performance do not contain a historical viewpoint, such as trend analysis, to put the data into perspective and determine whether or not a specific goal has been met.

The Commission has less internal audit coverage than other regulatory agencies with similar full-time equivalents (FTEs) and revenues. Two other regulatory agencies, similar in FTEs and revenues but with fewer goals and strategies, had up to five internal auditors each in fiscal year 1994. Having only one internal auditor at the Commission limits the amount of operational review and feedback provided to executive management. All organizations have an ongoing need for sound, evaluative information on how programs are operating and what they are actually

accomplishing. Internal audit should provide an objective evaluation of an entity's programs and administrative operations.

The strategy of the Alternative Fuels Research and Education Division is to develop and implement a research, marketing, and public education plan for the increased use of liquefied petroleum gas (propane) as an alternative fuel. In addition to working on its part of the strategic plan for the Commission, AFRED developed an operating plan for the division. The plan included specific goals and objectives for the division as a whole and for each of its sections. The sections also developed operating plans, using the division plan as a guide. Within the marketing section, the work plan is developed as follows:

- Local propane dealers are contacted to determine their marketing priorities for the coming year.
- The marketing staff meet as a group to develop individual work plans consistent with those priorities. The individual plans are combined to develop the overall marketing work plan.
- The draft work plan is reviewed for approval by both the director of AFRED, the AFRED Advisory Committee, and the commissioners.
- On a quarterly basis, the marketing staff submit a report of what they have accomplished on their individual work plans. These reports are combined into a quarterly report to the director on marketing's work plan progress. The staff then identify goals and objectives that need to be modified or require additional resources.
- In regular meetings with propane dealers and in marketing presentations, the marketing district staff report back to the dealers on the goals they identified as priorities for their geographic area to let them know what AFRED has done in partnership with the dealers to address those priorities.

Some managers have a planning

process. The Alternative Fuel Research and Education Division (AFRED) has an operations plan for the division and its sections. Regular evaluation of plans provides the necessary information to make adjustments to the plan. The Pipeline Safety Section of the Gas Utilities Division has begun their operations planning process by developing a risk assessment in order to prioritize its workload. This risk assessment should enable the Pipeline Safety Section to enforce compliance by pipeline operators with federal and state laws and regulations.

Planning for the Commission should not end with the submission of the strategic plan.

The performance measures included in an organization's strategic plan (outcomes, outputs, and efficiencies) determine how its success will be measured. But these measures do not specify how this performance is to be accomplished, what programs need to be

linked to carry out the plan, nor the process for evaluation. These elements should be included in action plans produced by the operational planning done at the program level of the organization.

Action plans are detailed methods specifying how a strategy is implemented. Task specification includes staff assignments, material resource allocation, and schedules for completion. Action plans break strategies into manageable parts for coordinated implementation of goals and objectives. They also specify detailed cost and expenditure information.¹ These plans translate strategic plans to the operational level. This additional information helps management evaluate plan reasonableness and monitor implementation.

Evaluation is a critical part of the operations planning process. It includes reviewing the work accomplished, the status of the remaining workload, and internal/external factors affecting the work of the Commission. Some of the tools which should be incorporated in an evaluation process include:

¹ *Instructions for Preparing and Submitting Agency Strategic Plans for the 1995-1999 Period*, December 1993, p. 34.

- comparisons between performance measure targets and actual performance
- comparisons between budgeted and actual unit costs
- trend analysis over short- and long-term periods
- analysis of the data gathered
- continual planning in order to translate the information into action

Without ongoing planning and evaluation processes in place at the division level as well as the agency level, an agency loses track of its goals and objectives and may be unable to appropriately carry out its mandate. When there is an increase in the workload and a decrease in the resources available to accomplish the work, it is even more important to plan, risk rank, set priorities, and put an evaluation process in place in order to accomplish the most essential work with limited resources.

The Pipeline Safety Section of the Gas Utilities Division developed a risk-based evaluation system that prioritizes evaluations at the system level for its inspections of pipelines for the next five years. It has taken three years to develop this risk-assessment. The prioritization schedule is now being tested to determine whether the priorities established are appropriate. The goal is to ensure pipeline safety. As the enforcement agency for both state and federal pipeline safety programs, this section oversees pipeline activities to ensure compliance with state and federal regulations in order to promote public safety and awareness.

Monitoring and adjustment processes will assist the achievement of Commission goals. An effective and efficient use of agency information is needed to provide the appropriate data for monitoring, evaluation, and planning of the workload in order to organize the plan of inspections to cover the priority areas.

Monitoring is more than simply tracking data on the performance measures. It includes ongoing monitoring of progress toward achievement of all strategic plans -- goals, objectives, and strategies. It also includes a review of the system of internal controls to determine that it is functioning as intended. Adequate coverage by the internal audit section is a valuable tool in the monitoring process. Proper feedback provides results of the monitoring to the people performing and managing the operations.

Adjustment is the process of improving procedures based on the results of feedback from the monitoring function to make the changes necessary to achieve the benchmarks. It includes aligning performance measures with strategic plans when there are changes in the entity's mission or structure or when measures are determined not to be useful or effective. It can include revising programs or allocations between programs to accomplish the intended results. The adjustment process also includes a review of the strategic planning items--mission, goals, and budgets--to determine whether the decisions made during planning are still appropriate.

Recommendations:

Planning - The Commission should expand division level planning throughout the organization. The strategic planning process should be completed by developing formal, documented action plans. Implement formal operations planning in all divisions and districts of the Commission to provide a link between these action plans and the Commission's strategic plan.

As part of the planning process:

- Perform an internal/external assessment specific to the division.
- Risk rank the work, set priorities, and develop action steps to address those priorities.
- Develop meaningful internal performance measures.
- Allow support divisions to know needs in advance to more efficiently allocate their workload and reduce overtime.
- Continue to plan jointly and collaborate with other agencies or divisions for the benefit of the Commission's customers.

The divisions should continue to work with the Legislative Budget Board in determining efficient and effective performance measures to provide the Legislative Budget Board and the Legislature with the specific, relevant information they need to make decisions.

Program Evaluation- Better use of information would enable division managers to evaluate current operating policy and maintain alignment with the Commission's goals, objectives, and strategies. Improve program evaluation by employing some basic information management principles, such as:

- Identify the information that is needed at all levels of the organization.
- Gather the information from the appropriate sources.
- Classify information to accurately reflect what has occurred.
- Analyze the information.
- Deliver the information in a complete, concise, accurate, and timely fashion.
- Revise the original plans accordingly.

Automation should be used whenever possible for the collection of data, analysis, and reporting. Manual collection and use of data, when used in the absence of automation, should be routine and continuous, with the proper controls in place.

Management should emphasize the efficient use of information with consideration to the ways in which it can be used to support and evaluate agency programs.

Current reporting systems should be reviewed for accuracy and usefulness and updated appropriately. Dual systems should be eliminated as much as possible.

Consider increasing the size of the internal audit staff.

Management's Response:

Planning - *The Commission agrees that it should continue to reevaluate and expand division-level planning throughout the organization. The overall coordination of this effort will be the responsibility of the new Chief Administrative Officer, with support from the Information Resource Manager, and all Division Directors. 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. While many of the divisions, especially those dealing with Federal programs, have detailed planning and program evaluation processes in place, these programs will be standardized throughout the Commission to provide coordination of all action plans and the strategic plan. It should be noted that several of the divisions with Federal programs, including the Surface Mining Reclamation Division, receive performance evaluations annually by the appropriate Federal agency.

The Commission also agrees with the State Auditor's recommendation to continue to work with the LBB in determining efficient and effective performance measures to provide the LBB and the Legislature with the specific, relevant information they need to make decisions. Recently, the Commission's Chief Financial Officer hosted a meeting for the LBB and the Governor's Office of Budget and Planning to provide them with an overview of the Commission's operations and activities.

Program Evaluation - *As the Commission completes its organizational restructuring, the information systems will be evaluated for alignment with the Commission's goals, objectives, and strategies; whenever possible, considering cost/benefit and funding constraints, automation will be increased. Most existing Commission information systems will be reviewed for efficiency and duplication by the end of the FY 1996-97 biennium.*

The Commission is considering expanding the existing internal audit staff by the end of calendar year 1996.

Section 1-B:

Documented Plans Are Needed to Establish Better Controls Over Administrative Support Functions

The Commission's administrative support functions need more documented plans to establish written guidelines and track long-term projects. The Automated Data Processing (ADP) Division will convert its automated systems to a client server platform over the next few years. A long-term project, computerized mapping, continues its effort to provide better information to internal and external users. However, neither automation project has a formal overall plan to monitor and guide project status.

The project to convert to a client server platform would benefit from an overall project plan The Commission has begun the process of moving to a computing architecture vastly different from the one on which it currently processes Commission business by converting its automation function from a mainframe to a client server platform. The Commission is taking a prudent, phased approach to implementing this technology and has realistically projected a three- to five-year time frame for completion of this change.

While ADP management has expressed its intention to develop an overall project plan, one did not exist at the time of our review. Completion of an overall project plan

would provide an implementation guide as well as a monitoring tool for the conversion. Our review of current planning documents found that several areas, which would enhance the new project plan, were not being formally or sufficiently addressed. These areas include:

- capitalization, during the change, on opportunities to revise or enhance current Commission business processes
- the effect, in terms of time and costs, of maintaining current computer programs while also rewriting the applications for the new architecture
- documentation of the impact of *not* seeing the project through to full completion
- potential project delays and costs associated with the learning curve inherent in implementation of the new architecture
- consideration of other resources to minimize the effects of any project funding contingencies

By not addressing the above issues by this point in the project, the Commission risks encountering unexpected circumstances during implementation. Consideration of these issues should be included in an overall project plan, which further ensures that executive management is fully aware of project risks. Given the current backlog of computer programming projects, it is important to address the ongoing need for routine but required modifications to current automated systems (for example, in implementing Commission rule changes). Without review of current business processes, the Commission misses an opportunity to improve its administrative operations.

Recommendations:

The Commission should complete a formal project management plan for the computer architecture change. The plan should include detailed project steps, time lines, project milestones, and a critical path to project completion. The plan should be updated periodically to reflect project changes, serve as a tool for management to monitor project status, and guide staff in completing project tasks.

Consideration should be given to the project issues listed above and addressed in the project plan or other project documents.

Management's Response:

The Commission concurs with the recommendation to complete a formal project management plan for the computer architecture change. Portions of these plans have been in development. The Computer Services Division intends to complete these formal plans and place as much of the Auditor's recommended content into the plan as possible. The Computer Services Division intends to have these formal project management plans developed by the end of FY 1996.

To help ensure the success of the GIS project, an updated, overall project plan is needed. The Commission continues to make progress implementing Geographic Information Systems (GIS) technology to address mapping needs. For example, new computing technology is currently being used to make automated maps more accessible to field office users. Furthermore, information such as highways, bodies of water, and terrain elevations will soon be added to automated maps, improving their usefulness. This project is integrated with a statewide strategic GIS planning effort.

The Commission has a long-range GIS strategic plan, which served as a guide for the project from fiscal years 1990 through 1994, and an appropriate plan for the U.S. Department of Energy portion of the project. However, without an updated overall GIS project plan, the Commission cannot be adequately assured that the project's end-results will be achieved in a timely manner, that the proper amount of resources are devoted to the project, and that accountability points are established to evaluate project progress.

Our visits to several district offices revealed end-user concerns about the GIS maps. Many field staff found the maps cumbersome to use and lacking sufficient detail. As the layers of information are added to the GIS, the usefulness of the maps should improve. However, the benefits of the project, especially for Commission field staff, would be enhanced if the end users were directly queried by project management about their mapping needs.

Recommendations:

The Commission should create an updated, long-range project plan for its GIS project. The plan should include detailed project steps, a time line for the overall project, project milestones with dates, and a critical path to project completion.

End users of GIS maps, division field staff, should be queried to determine their mapping needs and suggest improvements in the maps which have not been uncovered in meetings with divisional and district management. End users of GIS should also be kept informed of GIS developments.

Management's Response:

The Commission also concurs with the recommendation to create an updated, long range project plan for its GIS project, including detailed project steps, time lines, milestones and a critical path to project completion. The Computer Services Division intends to develop these plans and will use as many of the recommendations as possible in order to complete this project in the most economical manner. These plans are scheduled for completion by the end of FY 1996.

A revenue management plan would formally establish controls over revenues.

The Commission has no formal revenue management plan. Formal plans lower the risk that procedures will not accomplish the goal or will not be performed as intended. Revenue management plans, which document standard procedures, help ensure that all revenues due to the Commission are collected in a timely manner, in accordance with its regulatory function. Training of staff is enhanced when procedures are clearly documented.

Revenue management plans should:

- be formal, written, and supported by top management
- include the nature, scope, and location of revenue management in the organizational structure
- determine the amounts, due dates, and method of payment
- communicate portions of the plan needed by payers
- identify the policies, procedures, and controls needed, including adequate separation of duties
- include a monitoring process to provide feedback
- treat all payers consistently

Recommendation:

Develop a formal revenue management plan.

Management's Response:

The Railroad Commission will work with the State Auditor's Office to find out what agencies have implemented good revenue management plans. We will benchmark with these agencies, and alternatives will be evaluated. A plan will be developed in a work group to be named in January, 1996.

The Commission needs a steering committee to enable automation users and executive management to set goals and project priorities. Whereas the division directors discuss computing needs in several different forums, no process exists to formally involve automation users in automation strategic planning for the Commission. Currently, ADP management meets every six months with the division directors to set priorities for their computing needs. Division directors discuss issues that concern them, including automation needs, at their regular bi-weekly meetings. The Personal Computer Committee (PCC), a collective meeting of all division directors, meets monthly to address personal computer and local area network strategic issues; however, critical program applications on the mainframe are not discussed. While these meetings help plan the use of data processing resources, they do not fully substitute for the essential roles fulfilled by a management information steering committee. A steering committee should oversee all critical automated projects and

provide executive management with an adequate mechanism by which to conduct ADP strategic planning and set project priorities.

Recommendation:

The Commission should expand the role of the PCC to serve as a formal management information steering committee for all automation issues. The committee should be responsible for setting or approving long-term ADP goals, overseeing budgets, setting priorities for key projects, and resolving any conflicts among the divisions.

Management's Response:

The Commission concurs with the Auditor's recommendation to expand the role of the PCC to serve as a formal management information steering committee for all automation issues. This recommendation, pending approval of the Commissioners, can be easily implemented since the existing infrastructure of the PCC can be readily converted to a total automation review and oversight type of process. The Commission's planned conversion to a client-server approach to doing business would eventually have led to the evolution of the PCC into a total automation oversight group. 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.

Automated Data Processing has chosen a suitable systems development methodology. The Commission has adopted and begun using an appropriate system development methodology, *How to Manage an Information Technology Project*, published by the Texas Department of Information Resources. The methodology identifies and defines the key steps for:

- needs analysis
- system analysis and design
- system testing
- implementation
- conducting a post-implementation review

The system development process also includes:

- use of separate programming test and production environments
- performance of project post-implementation reviews

- appropriate programming and documentation standards
- appropriate controls over system software changes

Section 1-C:

The Current Budgeting System Does Not Provide Sufficient Information to Management

Although the Commission has a budgeting process, management is unable to effectively monitor spending or use the budget to make management decisions. The Commission's budget, based on the Uniform Statewide Accounting System (USAS), is set up in its appropriation budget format, which reports budget information by goals, objectives, and strategies. This strategy format is appropriate for reporting to external users such as the Legislative Budget Board and the Legislature. However, this budget's structure does not coincide with the Commission's organizational structure or fulfill its internal budgeting needs.

When the Commission adopted USAS as an internal user, it did not fully use the USAS capability to establish the appropriate level of detail required to monitor the budget by the Commission's organizational structure. The Commission relies on expenditure reports from USAS to furnish budget information. However, since the Request for Legislative Appropriations (RLA) strategies are not organized by division, USAS reports do not provide management with the detailed budget information, by division and field office, that is needed to monitor revenues, expenditures, and budget variances.

Division managers complained that the monthly Financial Status Report does not provide them with necessary information such as the amount of funding available. Most division managers rely on spreadsheets containing budget information which has been manually compiled by the division's budget director from USAS reports.

The Financial Status Report is prepared monthly for the commissioners by budget staff in each division and Administrative Services Division staff. Structured by appropriation strategy, the report consists of the four basic RLA budget categories--salaries and wages, other personnel costs, operating expenditures, and capital expenditures. Since division budget staff are unable to obtain a USAS report which gives expenditure amounts for the four basic categories or a listing of specific items which have been encumbered, they manually prepare their section of the combined report, using data from USAS and Commission requisition reports. To compute the expenditures for the four basic groups, staff must manually add the various object code amounts from a USAS report. In addition, to make budget predictions, staff must estimate the encumbrance totals, using the Commission's monthly requisition reports to supplement USAS encumbrance reports which lack necessary detail.

The divisions do not all use the same software to prepare division budget reports. The monthly aggregation for the Financial Status Report requires a change in the format of most division reports and data re-entry before consolidation into a single report. Since there are no written procedures dictating the steps to be followed by the administrative personnel who prepare their division's segment of the Financial Status Report, variations in the construction of the four categories are possible.

The budgeting system cannot provide spending detail by district office. Divisions do not have district office budgets, and the Commission does not use the USAS system to provide detail indicating expenditures by district. Without district office budgets, division directors cannot monitor and compare field office spending patterns or hold district managers accountable for efficient use of resources. Moreover,

district directors do not have the benefit of a budget to guide their requests for staff or capital equipment. Most purchase decisions are made by upper management in Austin. Division directors have limited authority for purchase approval. District directors in the field offices have recently received credit cards allowing them to make single purchases up to \$250 and total monthly purchases up to \$5,000.

A budget is a planning tool which should allow management to monitor, evaluate, and adjust its revenues, expenditures, and budget variances. The Commission needs an internal budgeting system which will provide management with the information necessary to make informed decisions, especially in a time of funding constraints. The Comptroller's USAS system has the capability, through an agency budget for internal USAS users, to provide more detailed budget information than the Commission currently receives. The recent reorganization provides the Commission with an opportunity to create an internal budget based on the new organizational structure.

Recommendation:

The Commission should first define its budget needs and the level of detail necessary to plan, monitor, and evaluate its expenditures and revenues. The Commission should meet with a Comptroller's Office USAS representative to determine if the Commission's current USAS structure can be modified to meet the defined needs. If USAS cannot meet these needs, the Commission should consider using the prior accounting system contained in the mainframe's archive files. Other alternatives include obtaining a commercial product or an internal accounting system from another state agency whose system can meet the Commission's internal budgeting and reporting needs.

Management's Response:

We concur that our current usage of the Uniform Statewide Accounting System does not fully meet the budget information needs of the Railroad Commission by division or field offices. Our Finance and Accounting staff has begun meeting with the division directors to clearly define budget needs and level of detail to include consideration for budget information needs of field offices. They have also met with the Comptroller's USAS Agency Representative to see what modifications may be made to the system to meet the needs as defined. Simultaneous with this action, bench-marking meetings with other state agencies have been conducted. Alternative solutions are being developed with a recommendation to be presented to the Commissioners in January, 1996.

Section 2: ADMINISTRATIVE PROCESSES

Strengthen Controls Over Administrative Processes

A number of administrative processes are inefficient. The time-keeping system lacks standardized procedures and does not provide sufficient controls over computation of

leave balances. The processing of travel vouchers and purchase vouchers for well plugging services includes duplicated review at various levels of the Commission. (See Section 3.) No documented procedures exist for processing cash receipts. The Commission has authorized a study to address management of its vast oil and gas records.

Section 2-A:

Controls Over the Time-Keeping System Are Weak

The Commission's exception-based time-keeping system does not provide sufficient controls to ensure accurate computation of earned Fair Labor Standards Act (FLSA) overtime and state compensatory time. Procedures for tracking leave, FLSA, and state compensatory time balances are not standardized throughout the Commission, and the time-keeping system is inefficiently coordinated. At the time of our review, 34 employees had time-keeping responsibilities.

The 34 employees are located within each division and in field offices. These timekeepers maintain their own recording systems, either automated or manual. The systems track sick leave, annual leave, state compensatory time, FLSA overtime earned and taken, and the resulting balances. To update the various systems, timekeepers regularly (often weekly) collect leave approval forms from the staff or are notified by managers, either through memos or verbally, about leave time earned or taken.

The records in the numerous systems do not transfer directly into the Commission's personnel data base. At the end of every month, the 34 timekeepers manually transfer their month-end totals to the Personnel Division's worksheets and send the worksheets and accumulated leave approval forms to the Personnel timekeeper. The Personnel timekeeper reviews the worksheets and sends them to Automatic Data Processing (ADP) to be entered into the Commission's time-keeping leave data base.

Most divisions use an exception-based time-keeping system. An exception-based system does not provide timely information about paid leave, FLSA, or state compensatory time taken. (Paid leave hours taken within a scheduled work week impact the amount of FLSA, if any, versus state compensatory time, earned, where recorded hours are in excess of the standard work week.) The exception-based time-keeping system, unlike a weekly time sheet, does not record the amounts of time that staff spend on various job tasks. The Commission loses a valuable planning and decision-making tool by not collecting information showing the time used by staff to perform various functions or projects. Commission management would be able to make more informed decisions about resource allocation if it had this information.

FLSA balances are only updated in the personnel data base every other month. The ADP-generated leave status report, provided on a quarterly basis for each employee, does not include FLSA overtime balances for FLSA non-exempt employees. The Commission encourages staff to use their FLSA overtime within 90 days after it is earned; therefore, Commission staff must rely on the 34 division timekeepers to

provide them with monthly earned time balances, including FLSA overtime, from the numerous systems.

Maintaining numerous, duplicate leave systems, and manually transferring totals every month, is time-consuming and inefficient. Interviews with 18 of the 34 timekeepers revealed an annualized cost of over \$43,000 for their time-keeping duties, based on the approximate number of hours spent each month.

Timekeepers need more training. We found that a number of timekeepers did not understand how to correctly calculate FLSA overtime, especially when the work week included leave taken and excess hours worked. Timekeepers are provided with training on computing overtime for exempt and non-exempt FLSA employees; however, some timekeepers relied on verbal or written communication from supervisors to determine whether excess hours should be recorded as FLSA overtime or state compensatory time. The risk of errors in computing such balances is increased when responsibility for time-keeping is delegated or transferred to employees who have not received any FLSA or time-keeping training. Although the Personnel timekeeper reviews the numerous leave forms, she is not able to determine whether the time earned, either FLSA overtime or state compensatory time, has been accurately calculated. The Personnel timekeeper must rely on the 34 other timekeepers to accurately determine if excess hours recorded are FLSA overtime or state compensatory time.

Recommendations:

The Commission should consider streamlining and standardizing the time-keeping process, based on a cost/benefit analysis of maintaining the numerous individual manual and automated systems in addition to the personnel data base.

Consider requiring all employees to fill out a weekly time sheet, a standardized method for documenting the work week. Time sheets provide information about total hours worked, leave, FLSA time, and state compensatory time earned and taken and project or task codes to identify activities for each employee. Time sheets expedite calculation of balances by eliminating the need to reconstruct the work week before determining if excess hours recorded are FLSA overtime or state compensatory time for FLSA non-exempt employees. Time sheets also provide management with valuable information for resource planning and allocation.

Provide all employees with a monthly leave status report which includes FLSA leave balances, where applicable.

Provide reinforcement of time-keeping training to all employees assigned time-keeping responsibilities and ensure that employees who are temporarily assigned those duties receive training. Training should include explanations of all applicable federal and state regulations and the risks of noncompliance. Regulations include the Fair Labor Standards Act of 1938, 29 U.S.C., § 201, and the General Appropriations Act 1995, IX-39, subsection 7, and Chapter 552, Government Code.

Management's Response:

The Commission agrees with the recommendation that the current time-keeping process should be streamlined and standardized. The Commission also agrees that all employees should be provided with a timely leave status report, which includes FLSA leave balances, where applicable. The recommendation to provide time-keeping training to all time keepers will be implemented. The scheduled implementation of these projects is substantially dependent on the pending conversion of the existing payroll system to the USPS system.

For over two years the Commission has been delaying the implementation of a new time keeping system due to the state-wide mandatory conversion to the USPS system by all State agencies; we now understand that the USPS implementation has again been delayed until FY 1997. The Commission will continue to evaluate cost effective methods to automate the time keeping system prior to the USPS conversion. If we can reasonably expect to develop an automated system to interface with USPS, we will do so before USPS is activated.

The Commission concurs with the recommendation that all employees should complete a time sheet, however, some divisions within the Commission are not well suited to implementing weekly reports. We will continue to study the possibility of recording actual time, and will set a goal of reaching a decision before the end of FY 1996.

Section 2-B:

Divisions Do Not Have Documented Policies or Procedures to Guide Operations

Policies and procedures are primarily developed at the division level, and the process for communicating them is informal. Division managers rely heavily on institutional knowledge and on-the-job training, rather than written policies and procedures or handbooks, to instruct field staff. (See Section 4 for discussion of training.) Without documented policies and procedures manuals to guide and standardize job tasks, the Commission risks inconsistent enforcement of regulations as well as inefficient administrative operations.

Most divisions lack written handbooks for field operations. Although managers in the Oil and Gas Division have been working on a field operations handbook for ten years, the project has never been completed. Division managers in the Austin office send memos containing policy or procedural directives to field managers in the district offices. However, the memos are not numbered, may cover several subjects, and do not state whether they are replacing a previous policy or procedure.

LPG inspectors in the field receive policy and procedure memos from the Austin office for both technical and operational areas. A standard operating procedures guide has been planned for over three years but is not yet complete. The Gas Utilities Audit section has documented critical functions, but a policy and procedures manual remains

a management goal. Rail Safety has completed a policies and procedures manual, but it has not been distributed to staff.

Processing of travel vouchers is inefficient. There are no documented Commission-wide procedures for processing travel vouchers. Although the Administrative Services Division only requires a division director's or office manager's approval before a travel voucher is accepted for processing, our audit found that travel vouchers are reviewed, audited, and approved by various levels within each division, with the commissioners' aides providing the final review and approval. Many divisions maintain their own files for travel vouchers, which include voucher copies, receipts, approval memos signed by the commissioners, and logs tracking the time the voucher takes to be processed.

A large number of travel vouchers are for training which has already been preapproved by the division director and commissioners' aides. However, before they are paid, travel vouchers will be reviewed, tabulated, or logged by the:

- administrative assistant and director or the employee's supervisor in the district office
- employee's section manager
- division administrator or training coordinator
- division assistant director or director
- administrative assistant, cashier, and director of Administrative Services Division
- administrative assistant to the commissioners
- commissioners' aides

Having an approval and review process at so many organizational levels results in:

- employees not being reimbursed in a timely manner
- Commission resources spent on duplicative procedures
- executive staff spending time on routine administrative tasks

Good management practices dictate elimination of unnecessary and duplicated administrative steps. Whereas review and approval steps are a form of internal control, having several managers perform the same procedures is not an efficient use of their time.

Policies and procedures are integral to an organization's planning process and are essential tools for managerial direction and control of the operating environment. Documented policies and procedures provide guidelines to:

- maintain consistent operations
- conform with applicable legislation, regulations, plans, and technical, professional, or ethical standards
- promote achievement of the organization's mission, goals, and objectives
- specify protocols for the execution of recurring tasks
- solve problems and make decisions in certain circumstances

Standardization of procedures governing recurrent processes is generally a pre-condition for improving operations. Standardization provides management with

guidelines to track and gather baseline data on performance, a starting point for analyzing operations to improve quality and efficiency.

Recommendations:

Policies and procedures should be developed in each division for the various regulatory programs and for administrative functions. These policies and procedures must be documented and effectively communicated to staff to ensure that decisions will be consistent with and contribute to the Commission's goals and objectives. Management should routinely monitor to ensure that policies are consistently implemented.

The Commission should consider delegating more authority for administrative procedures to management at the division level. In addition, consider designating a process owner for administrative processes. Process owners are responsible for ensuring that those charged with carrying out each phase of an administrative process or procedure have the necessary time, resources, and training to successfully complete the objectives. A process owner should have sufficient credibility and authority within the Commission to remove barriers or obstacles, especially when processes cross functional or divisional boundaries.

The Commission should consider streamlining travel voucher processing based on a cost/benefit analysis of maintaining the various levels of review, audit, and approval performed within each division. In its analysis, management should consider:

- a review to eliminate duplicate systems
- documenting the process for travel voucher review and approval
- providing reinforcement training to staff on compliance with the Travel Allowance Guide issued by the Comptroller of Public Accounts

The Commission should designate a travel voucher process owner, such as the chief financial officer, to coordinate the assessment of the process, oversee improvements, and be responsible for final approval of vouchers before payment to the employees.

Management's Response:

The Commission agrees that policies and procedures should be developed in each division for the various regulatory programs and for administrative functions. The possibility of creating an agency-wide policies and procedures manual will be explored to determine the extent to which such a system could be effective; this assessment should be completed by the end of FY 1996.

Some divisions already have policies and procedure systems in place for the technical areas. Surface Mining relies primarily on the Commission's Policy Manual as its principal policy guidance document. As necessary, the Division has issued policy memorandum to address specific issues as they arise. The SMRD has recently begun a "Directive Notice" system that will document and track all regulatory and

administrative policy decisions made within the Division. The directive system will be an integral part of the program planning and evaluation document that is also being prepared. An "Advisory Notice" system has also been recently initiated within SMRD. The advisory system is meant to communicate policy, process, or regulatory interpretation that will directly have an impact on the regulated industry.

The Oil and Gas Division plans to improve and finalize the existing field operations handbook for distribution by early April of 1996. The Division will also review and update the policy and procedures notebook by the end of FY 1996.

In July, 1995, the Commissioners held a planning conference with all Division Directors; that planning meeting resulted in the redirection and rethinking of the Railroad Commission. One result of the reorganization was the creation of a Chief Administrative Officer position. The new CAO will be an active participant in the decision making process, and responsible for many of the daily activities of the agency.

We concur with the recommendation and are working on procedures to streamline travel voucher processing. The Commissioners will consider a proposal to streamline final review of vouchers in early January. The Chief Financial Officer is effectively handling the duties of a "travel voucher process owner".

Section 2-C:

Controls Over Receipt of Revenues and Fee Collection Need Improvement

The Commission does not have good controls over the collection of liquefied petroleum gas (propane) delivery fee revenues. In fiscal year 1994, total liquefied petroleum gas delivery fees collected were \$2,186,554. We also noted poor financial controls over receipt of revenues coming into the Commission.

AFRED has no ongoing audit or enforcement function to promote compliance with the state law assessing a delivery fee on the first purchase of odorized propane. An audit of propane companies conducted by Commission auditors in the fall of 1994 identified over \$29,000 in fees owed to the State. However, enforcement efforts have been suspended pending clarification of the Commission's authority to collect fees from a certain class of loading rack facility operators. AFRED has identified the individuals and companies who should pay the fee and grants exemptions to operators on propane delivered out of State. However, without enforcement audits, the division cannot be assured that operators are submitting the correct amount required by state law or that exempted propane was in fact delivered outside the State.

The fee is assessed on the first sales of odorized propane only. The fee is due when the propane is delivered by a loading rack operator into a cargo container, as defined by Commission rule (a bobtail or transport truck, but not a rail car). Section 113.244 (c) of the Texas Natural Resources Code states that deliveries of liquefied petroleum gas destined for export outside the State of Texas are exempt from the delivery fee.

Good revenue management dictates that procedures be developed to ensure that all fees due the Commission are collected.

Recommendation:

The Commission should direct more audit or enforcement efforts toward collection of liquefied petroleum gas delivery fees. The distribution of audit or enforcement resources should be based on risk, with random spot checks to promote voluntary compliance on the part of those responsible for collecting and remitting the fees.

Management's Response:

The Commission concurs with the Auditor's recommendation to direct more audit or enforcement efforts toward collection of liquefied petroleum gas delivery fees, and agrees that allocation of enforcement resources should be based on risk. The Commission initiated an enforcement plan in FY 1994 with audits based on risk and included random spot checks. However, this effort was suspended and no additional audits will be performed until the current litigation (Star-Tex v. RRC) over delivery fees is resolved. Currently, there are approximately 30 enforcement cases pending the outcome of the case. The Alternative Fuels Research and Education Division intends to re-institute audit and enforcement actions once the Star-Tex case is resolved; most activities should commence within several months following Commission approval of the proposed policies, procedures and plans for disposing of pending cases and conducting additional enforcement audits.

Financial controls over receipt of revenues coming into the Commission are poor. An internal audit report in August 1994 noted weak controls over revenues. In fiscal year 1995, approximately \$30.5 million, or 83 percent of the Commission's \$36.6 million in revenue, was received and processed through its mailroom and cashier.

The internal control weaknesses we noted include:

- Receipt logs are not reconciled to deposits to verify that all money received has been deposited.
- Cash receipt duties are not properly segregated in the Transportation/Gas Utilities Division. The employee responsible for collecting and initially recording walk-in receipts is also responsible for posting the receipts to the division's records and sub-ledgers. (This weakness was noted in a Commission internal audit report dated August 1994.)
- No security service or guard is used to deliver the receipts to the Treasury. The cashier and another employee drive the state vehicle to the Treasury to deposit the funds.
- Deposits are not always made within the three-day statutory time limit. Commission policy is to hold receipts if the appropriate general ledger account, to which the payment should be posted, is unclear. If the matter has not been resolved after three days, the item is deposited and posted to the suspense

account. Each division is responsible for clearing items out of suspense, with notification to the Accounting Section.

Revenues coming into the Commission include fees from:

- gas utilities administration tax
- oil and gas well drilling permits
- LPG delivery fees
- transportation fees (program transferred as of September 1, 1995)

Poor financial controls over receipts increase the risk that errors or irregularities will not be prevented or detected in time to take corrective action. Currently, all cash, checks, and other negotiable instruments must go through the Commission's mail system, a process which takes at least one full day and at times more than three days. This delay in processing receipts into the State Treasury costs the State an amount equal to the interest that would have been earned had the deposit gone straight to the Treasury.

Recommendations:

Based on our review, we concur with the recommendations highlighted in the internal auditor's report of August 1994 and recommend that they be implemented.

The Commission should determine the cost/benefit of implementing Treasury lock-box procedures for collection of selected program fees. Under this system, payments go directly to the Treasury, with remittance notification to the Commission. Benefits include rapid processing of cash receipts, increased revenue to the State, and improved internal controls. A phased approach to adding additional program fees to the new process would be appropriate.

Management's Response:

The Finance and Accounting Division is in the process of revising cash receipts procedures manuals to include the recommendations that were highlighted in the Internal Auditor's Report. All procedures will be reviewed to ensure that there is a separation of duties, and that deposits are made in a timely manner. This will be completed by the end of March.

The Commission agrees with the Auditor's recommendation to study the cost/benefit of implementing the Treasury lock-box procedures.

Section 2-D:

The Commission Has Begun to Evaluate Management of Oil and Gas Records

The Commission estimates that it possesses over 119 million documents in its oil and gas archives, with an economic value exceeding \$1 billion. The Oil and Gas Central Records Section occupies approximately 18,000 square feet of office space at the Commission. However, these records have never been subject to a complete inventory, so management cannot know the true extent or value of the Commission's oil and gas records.

Without a current inventory and retention schedule, the Commission is not in compliance with state records retention laws. Chapter 441, Subchapter C, Texas Government Code, requires each state agency to submit a complete records retention schedule to the State and Local Records Management Division of the Texas State Library for certification. (A retention schedule is a timetable that identifies the length of time a record series must be retained in active and inactive storage before final disposition.)

Our review noted several control weaknesses:

- The Commission has a 15-year backlog in microfilming its oil and gas records. Records for the years 1980-1995 have not yet been microfilmed, remain in paper format only, and are stored in approximately 6,400 square feet of space at the Commission.
- Commission management has not developed a disaster recovery plan for the central records area. A microfilming backlog increases the risk that loss or theft of unique records will not be prevented or detected, or in the case of fire, that destroyed records cannot be replaced.
- Access to the microfilm copies is provided in the public area, with no monitoring or security check upon departure.

Management cannot ascertain the cost/benefit of maintaining the records.

Although management has estimated the benefits of the retained records to the industry, little data exists to accurately quantify these benefits or support the valuation. Also, management has not fully assessed the costs associated with managing the large volume of data because detailed budget information does not exist for the Central Records Section. The Commission does not track access to the records to determine who the major users are and what types of records are the most valuable to the users. This information would help the Commission determine both the cost of retention and the benefit of certain records. Without more quantified data on the numbers and types of records that are important to users, both internal and external to the Commission, records management decisions become difficult.

A Radian Corporation study will address many important issues.

The Commission has recognized the problems with the oil and gas records and has begun to look for solutions. The upcoming study by Radian Corporation will include preparation of a cost/benefit analysis, identification of stakeholders, valuation of records, and development of alternative solutions for information access and management. The study should provide Commission management with a blueprint for protecting its record assets and making them more easily accessible to the public.

The Gas Research Institute (GRI) recently hired Radian Corporation to review the various management issues surrounding the Commission's oil and gas records. Radian Corporation has already completed its preliminary assessment. The mission of GRI is to "discover, develop, and deploy technologies and information that measurably enhance the value of gas energy service for the industry and its customers."

Recommendations:

- The Commission should continue its efforts to become current on converting its paper records to micro-format.
- Access controls to the central records should be strengthened to require that all records remain on the premises.
- Management should continue to develop a records retention plan and a disaster recovery plan.
- The upcoming Radian study proposes to identify the stakeholders and prioritize the records by importance. Management should ensure that the Radian study addresses all oil and gas records, as outlined in their Scope of Work Phase II, "Needs Assessment, Value Evaluation, and Prioritization."

Management's Response:

Upon receipt of the Radian feasibility study, and after the appointment of the new Records Administrator for the Commission, 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. Only one type of record is allowed to leave the premises. Roll film copies can be checked out by local consultants (within immediate call-back range) for use at their facility. These copies must be returned the same day. The original of this film is protected and maintained at an off-site facility.

Section 3: CONTRACT ADMINISTRATION

Improve the Payment Process For Well Plugging Vouchers and Develop Performance Standards For Contractors

The processing of well plugging payment vouchers takes longer than the 30-day limit imposed by state law. State paid well plugging contracts are awarded to the lowest bidder; no consideration is given to any performance standards when awarding contracts. Contracts for the pluggings lack performance standards, penalties, and sanctions. Although the Commission has developed a model to estimate well plugging costs, our review found that the model needs refinement.

Section 3-A:

The Commission Is Not Paying a Majority of Well Plugging Vouchers For State-Funded Pluggings Within the 30-Day Time Period Required by State Law

The processing of well plugging vouchers for payment is inefficient. The well plugging voucher payment process includes unnecessary steps and duplicated review procedures at various levels of the Commission. In addition, the policies and procedures over this process are not formally documented. The well plugging payment vouchers, including the invoices and supporting bid documents, are reviewed and/or approved by:

- the district offices
- Oil Field Cleanup Section of the Oil and Gas Division
- accounts payable, Commission secretary, and director of Administrative Services
- commissioners' office staff

A statistical sample of well plugging payment vouchers from a recent three-month period was tested to determine if contractors and vendors were paid within 30 days of submitting an invoice for goods or services. Our testing revealed that 42 of the 48 vouchers tested (87 percent) were paid after the required 30-day time frame. The average number of days to completely process a well plugging invoice was 51 days. Not only is the Commission potentially liable for interest on overdue payments, but contractors have withdrawn from projects when their payments were delayed beyond 30 days.

Purchase vouchers are created in the district offices, where invoices from the contractors and vendors are first received. Invoices are initially reviewed in the district offices and remain there an average of nine days before the well plugging voucher packet is sent to the Oil Field Cleanup Section in Austin. Vouchers were retained an average of 28 days in the Oil Field Cleanup Section and 14 days in Administrative Services.

The Commission is potentially liable for interest on the overdue payments to contractors and vendors. State law requires that "a payment begins to accrue interest on the date the payment is overdue [and] . . . bears interest at the rate of one percent each month." Contractors and vendors need payment in a timely manner so that they can pay for supplies and labor. By not paying within the required 30-day period, the Commission risks contractors withdrawing from well plugging projects before completion. Early withdrawal would result in project delays and increased costs to the Commission if it must find another contractor to complete the work.

An efficient payment process is a good management practice that should include delegating authority over the process to the lowest possible organizational level. Documented procedures help standardize daily operations and ensure consistent performance of recurring tasks.

Recommendation:

The Commission should ensure that well plugging vouchers are paid within the required 30-day time period by modifying or simplifying the current approval process. Decision-making, review, and approval authority should be delegated to a lower level in the organization. In analyzing the current system, consider the following guidelines to eliminate unnecessary administrative steps:

- Question the value of every document log and approval step. Maintain only those that are essential for the process to function.
- Question every review step. Develop ways for the person performing the initial work to ensure its accuracy and completeness before releasing it.
- Question the necessity for all written correspondence and forms in the process.

Management's Response:

The Commission agrees that invoices should be paid within the 30-day time frame required by state law. The Oil and Gas Division has recently added two positions in the Well Plugging Section to strengthen and improve the overall level of performance and data analysis. They will provide backup for timely voucher processing as well as perform other job functions that have been added to this group. The Well Plugging Section has already set a goal of a five (5) day turnaround time for processing invoices in the district offices and a five (5) day turnaround time for Austin management review. Current written procedures will be revised within the next forty-five (45) days to reflect the new goals.

Regarding the review procedures, we feel justified in utilizing a comprehensive review procedure due to the complexity of the plugging process. The review at the district office is necessary as they are responsible for on-site supervision and must verify contractor performance, equipment utilized, time charges, etc. The invoice review in Austin resulted in additional savings to the Commission of \$285,835 during FY 93, 94, and 95. This amount does not include savings from corrections made at the district office.

The Commission will consider a plan to streamline final review of plugging vouchers in early January. In addition, the Financial and Accounting Division will work closely with the Oil and Gas Division to identify duplication between divisions, reduce processing and approval time in both areas, and streamline the well plugging payment procedures. A work group will be formed to develop and implement necessary changes. With new goals and other minor adjustments to the procedure, we will consistently meet the thirty-day requirement.

Section 3-B:

Performance Standards Are Not Considered in Contract Administration

Although state guidelines permit selection of the "lowest and best" contractor in the bid awarding process, the Commission awards well plugging contracts based solely on the lowest bid from the Commission's approved pluggers list. Criteria for evaluating

contractor performance, which could be part of the selection process, do not exist. Factors such as expertise of contractors, reliability of equipment, timeliness, or other performance and outcome standards are not weighed in the bid evaluation process. Past performance on well plugging projects is not considered in bid evaluation. (On request, contractors whose equipment is approved by oil and gas field inspectors and who meet the Commission's financial assurance requirements are put on the approved pluggers list.)

Contracts between the Commission and the well plugging contractor do not contain performance standards, penalties, or criteria for termination. By not defining performance and outcome standards in its contracts, the Commission may be paying more for well plugging projects than it would if these factors were stated. Contractor performance problems, such as equipment breakdowns and tardiness, cost the Commission in project delays and wasted time for field staff. A review of one voucher packet revealed a total of 8.5 hours of downtime due to equipment failures in the 20 days the contractor was on site. The well plugging crew arrived late for work on 10 of the 20 days, which caused the state worker monitoring the project to waste valuable work hours waiting for the crew to arrive. No punitive action was taken against this contractor.

State-funded well pluggings are monitored by Commission field staff who complete daily reports of the contractors' activities. These reports often contain details about the timeliness and performance of the contractors. However, the comments are neither collected nor analyzed to provide meaningful performance information to evaluate contractors.

Without performance standards and sanctions for contractors, Commission managers lose a valuable monitoring, evaluation, and enforcement tool. Performance standards provide guidelines for feedback to contractors on their performance. Sanctions and termination criteria allow management to fine or remove a contractor from a project or the approved bidder list if the contractor's performance falls below established guidelines.

Bid awards should be made to the responsible and responsive bidder, not just the lowest bidder. *Responsibility* refers to the bidder's ability to perform the work called for in the solicitation and can be evaluated by the following criteria:

- Does the bidder have the ability, capacity, skill, and financial resources to provide the service?
- Can the bidder undertake the responsibilities outlined in the contract and provide the service within the time specified?
- Does the bidder possess the experience and efficiency the contract requires?
- What was the quality of performance in previous contracts or of services previously delivered?

An example of objective selection criteria can be found in the Commission's Surface Mining Division's reclamation bid document. The bid document requires contractors to disclose previous experience and references, financial data for the previous two years, equipment specifically available for work, and resumes of key personnel.

Recommendations:

The Commission should establish objective criteria for evaluating the “best” well plugging contractor. These criteria could include the configuration of equipment, expertise of the contractor and crew, previous work experience and references, and financial data. In addition, management should establish performance standards that can be evaluated and recorded by the field staff who witness the well pluggings. Collection and analysis of contractors’ experience with the Commission, as well as other performance criteria and price considerations, form a broader basis for contractor selection.

Commission contracts with the well plugging contractors should contain performance standards, sanctions, and criteria for termination.

Management’s Response:

The Commission agrees with the Auditor's finding that well plugging contracts have been awarded based solely on the lowest bid received from the approved pluggers list. Within the next 60 days, the well plugging staff will develop "objective criteria" for evaluating contractor performance. These criteria will be used as a basis for collecting data regarding 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.

Section 3-C:

Analysis of Historical Well Plugging Costs Is Not a Reliable Predictor For Actual Costs

Our analysis of the well plugging cost data base revealed that the cost estimates prepared by Commission staff do not reliably predict actual cost. Significant overestimates and underestimates of actual plugging costs are common. The statistical correlation between predicted cost and actual cost of well pluggings, although improving over time, is weak. Even when the data is stratified by district, well type, and year, the correlation improves only marginally. Oil field cleanup staff use a predictive model, based on historical averages, to estimate the cost of plugging a well. This estimate must be approved by the commissioners before bids for the project are accepted.

The predictive model is flawed and could use refinement. Well plugging cost estimates are currently based primarily on historical average costs; however, average wells generating average costs appear to be the exception rather than the rule. Since 1983, only 5.5 percent of wells plugged had actual plugging costs within five percent of the original estimate. The actual cost for one out of three wells plugged missed the

estimate by more than a 50 percent difference. The actual cost was more than twice the estimate in 2.5 percent of the well pluggings.

Many unknown factors contribute to the actual cost of plugging a well. Experience has shown that one cannot predict what problems will complicate plugging an abandoned well. Common causes of higher than expected plugging costs include debris in the well, which must be removed with special equipment, and perforated or collapsed tubing.

The current model is not a good indicator of actual cost. Commissioners and management rely on the cost estimating model to monitor project costs and contractors and generate data and reports. Commission policy requires that approvals for all state-funded pluggings must be submitted to the commissioners prior to bid letting and plugging, except in certain emergencies. An approved plugging order represents the amount of state funds authorized by the Commission. The estimate is used to encumber well plugging funds; costs exceeding the estimates are reported to the commissioners with explanations.

The Commission devotes a lot of effort to estimating and monitoring well plugging costs. The activities surrounding the preparation of the cost estimate reports are time-consuming, require manual transcription of data, and involve efforts of district office staff as well as Oil Field Cleanup managers in Austin. Refinement of the estimating model would justify the time spent on the process and improve the quality of information given to management.

If the cost estimate is overstated, as is the case in 75 percent of wells plugged, and the bidders are aware of the approved estimated cost, the bids may tend to be higher than they otherwise would have been. It should be noted that nothing came to our attention to indicate that bidders were systematically requesting well plugging estimates before the bid was let. However, good business practice dictates that solicitations for bids should not be preceded in a public record by an approved cost estimate, where the cost represents what the Commission is willing to pay for the service. This is especially true if the cost estimate is based on an unreliable predictive model, as is the case with well plugging estimates.

Recommendations:

The Commission should use the median plugging costs, instead of averages, to estimate well plugging costs. High-cost problem wells distort average costs and increase the probability that estimates are overstated. This may explain why approximately 75 percent of well plugging estimates were higher than the actual costs. Statistical regression analysis and other modeling tools can also provide more accurate results.

The Commission should delegate authority to the division level to authorize all well pluggings estimated to cost less than \$10,000. Based on historical data, 93 percent of well pluggings could be approved at the division level based on this criterion. Any well plugging project that falls outside the scope of a "normal" plugging, such as off-

shore wells or other special circumstances, should go to the commissioners for approval.

Management's Response:

The Commission plans to adopt the Auditor's recommendation to use median plugging costs instead of average costs in estimating plugging costs. The Well Plugging Section has already requested that the computer system be modified to support this change. The time frame for implementation of this recommendation is forty-five (45) days.

The Commission's constant goal is to minimize the difference between the estimated cost and the actual cost. When state funds are requested, the goal is to approve and encumber an amount of money that best represents the actual cost to plug the well. On an average basis, the Commission has done that, especially after implementing its current cost estimate tables, which were implemented in 1992. The difference between the estimated cost and actual cost per well on an average basis over the last four years is \$448 (based on 5,647 wells plugged).

Develop a Training Plan, Budget, and Formal Process to Evaluate Employees' Training Needs

The Commission has no training plan, budget, or formal process to identify employees' training needs. Training requirements and opportunities for staff are often dependent on external sources. (The exception are the lawyers on staff, who are given an annual allowance to complete their continuing education requirements.) While training identification is not formally included in the employee performance evaluation process, some supervisors and managers use this opportunity to discuss training.

On-the-job-training, which is often informal, is the primary means of instructing new employees. Since most divisions lack documented policies and procedures manuals to guide operations, the Commission risks inconsistent training on and implementation of the regulations it must enforce.

Some divisions rely on federal guidelines to inform them about required job-related training. Federal funds pay for a lot of the training that occurs in many divisions, such as Oil and Gas, Rail Safety, and Surface Mining. However, only a limited number of employees receive federal assistance for training courses; the remaining staff must wait for training opportunities. The limited training opportunities make field staff more dependent on the experience and knowledge of their supervisors for on-the-job-training and guidance. When experienced managers leave the divisions, as has happened in the past year, the undocumented but highly valuable institutional knowledge is lost.

The Commission has an automated Universal Training System to record employees' training. However, not all training is recorded on this system; most of the training recorded is computer related. If all training, computer-related, technical, and professional, were kept on this system, then managers could use the system as a planning and tracking tool.

The purpose of a well-defined training program is to optimize employee productivity and enhance professional development in order to assist the organization in accomplishing its goals and objectives. The process of training and developing employees contributes to an organization's efficiency and effectiveness.

Recommendations:

Commission managers should establish a training plan and budget for all divisions. Additionally, the Commission should include an assessment of training needs and goal-setting in the annual performance evaluation process.

All training should be recorded in the Universal Training System.

Management's Response:

Many Divisions (Surface Mining, Oil & Gas, Legal, etc.) currently plan and pay for employee training out of a minimal amount set aside for travel expense. The Commission will instruct the Director of Personnel to assess the Auditor's recommendations and to report his recommendations back to the Commissioners within 90 days.

Section 5: ORGANIZATIONAL STRUCTURE/MISSION

Use Reorganization as an Opportunity to Delegate Authority for Decision-Making

Two of the three commissioners were elected to the Commission in November 1994. The commissioners have seen this change as an opportunity to review the Commission's organizational structure and mission. Currently, authority for many administrative processes is not delegated to division managers. The recent reorganization of the Commission provides a chance to reassess delegation of authority and responsibility for administrative processes and decision-making.

Administrative decisions currently go to the commissioners or their aides for final approval, passing through several layers of management. Because no written guidelines exist stating what decisions can be made by the division directors, many decisions are pushed up to the commissioners' level. These decisions include final approval of purchase vouchers, office equipment, training requests, and travel vouchers, among others. Obtaining agreement from all three commissioners can be problematic because two commissioners cannot meet without violating Open Meeting laws. Although the position has been vacant for over two years, the Commission plans to hire a chief administrative officer to assume responsibility for day-to-day operations. By delegating administrative authority, the commissioners and their staffs will have more time to deal with the larger issues concerning the agency's mission and goals.

An important element in establishing an organization's structure is defining roles and reporting relationships. Authority and responsibility for carrying out tasks must be assigned. Decision-making should be delegated to the lowest point at which an employee is capable of making the decision. The responsibility to make decisions must include the authority over the resources required to perform the tasks and discharge the duties.

The Commission revised its mission statement. Commission managers spent two days in July 1995 on a retreat conducted by an outside facilitator. As a first step to reviewing the Commission's organizational structure, the managers were asked to candidly discuss current problems and suggest changes that would improve the Commission. Goal setting, team building, and review of the Commission's mission statement were also part of the agenda. A revised mission statement and "Pride" campaign were two products of the meeting.

The new mission statement addresses the intent and beneficiaries of the Commission's operations. The "Pride" expressions are similar to a statement of values. The "Pride"

campaign is aimed internally at the Commission's staff, to foster pride and team spirit in its work, and externally, as a message for industry, the Legislature, and the Commission's constituency groups.

The Commission has reorganized both program and administrative functions.

As a result of trucking deregulation and transfer of transportation responsibilities to another state agency, the Commission lost a major division at the end of fiscal year 1995. Effective October 1, 1995, a number of changes were made in both program and administrative support areas. The legal staff, which had been distributed throughout the agency, was consolidated into a single legal division. A Gas Services Division was created from the Gas Utilities and Liquefied Petroleum Gas areas. A new division for energy policy and research was formed. Control of the Commission's print shop was transferred to the Texas Education Agency, a move the Commission estimates will save \$800,000 in the current biennium.

A number of key management positions are vacant as a result of the reorganization and recent retirements. As of October 1, 1995, the following positions were open:

- chief administrative officer
- chief financial officer (similar to director of Administrative Services)
- general counsel
- director of Oil and Gas Division
- director of Gas Services Division
- director of Information Services Division (former ADP Division)

Other vacant management positions include seven assistant director positions and two deputy assistant director positions.

The Commission lost considerable institutional knowledge recently when a number of long-time employees retired. Three managers in the Oil and Gas Division, with combined experience of over 79 years with the Commission, retired at the end of fiscal year 1995. Automated Data Processing lost two key staff with over 50 years combined experience; also, a supervisor with almost 30 years in the Commission's Personnel Division retired.

Recommendations:

The Commission should delegate authority and responsibility for daily operations to the chief administrator.

Division directors should be given authority for approving training and travel requests as well as purchases within a certain amount. This delegation of authority does not prevent occasional review for compliance by the commissioners or internal audit.

Management's Response:

The Commission agrees that delegation of administrative decisions and actions, within certain limits, may be given to the Division Directors. The Commission will consider a plan in early January to delegate final review of most vouchers to the Chief Financial Officer and CAO. In addition, the Commission will study the possibility of delegating authority for approving training and travel requests as well as purchases within a certain amount. Additional delegation will be considered after a new Chief Administrative Officer is hired and has had an opportunity to study the current system of spending authorization and decision-making authority.

Section 6: PERFORMANCE MEASURES

Certification of Performance Measures Is Above Average

The number of performance measures that were able to be certified at the Railroad Commission is above the average of the agencies audited for fiscal year 1994. In *An Audit Report on Performance Measures at 25 State Agencies* (SAO Report No. 94-136, August 1994), the State Auditor reported that 13 of the 18 performance measures reported by the Railroad Commission to the LBB were certified as accurate. Of the five remaining, three were determined to be “Factors Prevented Certification,” one was “Inaccurate” and one was “Not Applicable.” These five were reviewed again during this audit to determine whether more useful information was now available. One of the measures, *Number of Oil and Gas Facility Inspections Performed*, is an output measure and was tested for fiscal year 1994 and the first three quarters of fiscal year 1995. A sixth measure, *Number of LPG/CNG Safety Inspections Conducted*, was reviewed as part of the program evaluation process of this audit and is also included in the results matrix on page 39.

Certification results were reported in one of five categories:

- Certified
- Certified with Qualifications
- Factors Prevented Certification
- Inaccurate
- Not Applicable

(See Appendix 5.2 for certification criteria.)

Of the six measures tested, we certified one, found three to be inaccurate (one for both fiscal years 1994 and 1995), and two with factors preventing certification. This brings the Commission total to:

- 14 of the original 18, or 78 percent, *Certified*
- 2, or 11 percent, *Inaccurate*
- 2, or 11 percent, *Factors Prevented Certification*

See Figure 1 on page 38.

In the earlier report of 25 state agencies, 54.8 percent of the 292 performance measures examined at 25 agencies for fiscal years 1993 and 1994 were considered reliable (certified and certified with qualification) for use by decisionmakers. (See Figure 2.) This figure was consistent with the results reported earlier in fiscal year 1994 when 231 measures at 13 agencies were examined, and 55.4 percent were found to be reliable.

The Railroad Commission has more certified performance measures than the average of all state agencies tested for fiscal years 1993 and 1994. However, there were errors in the performance measures regarding the numbers of inspections in both the Oil and Gas Division and the LPG Division as a result of a misinterpretation of the measure definition or weak controls in the collection of the data.

Recommendations:

To improve the collection, calculation, and reporting of performance measures:

- Review the measures that had factors preventing certification to determine whether a better measure of Commission performance is available.
- Routinely monitor all measures to be sure that staff reporting the measure understand what is required and that the necessary controls are in place to obtain and report the appropriate data.
- Adjust the performance measure definitions when they are no longer in alignment with the Commission's goals, objectives and strategies.

Figure 1

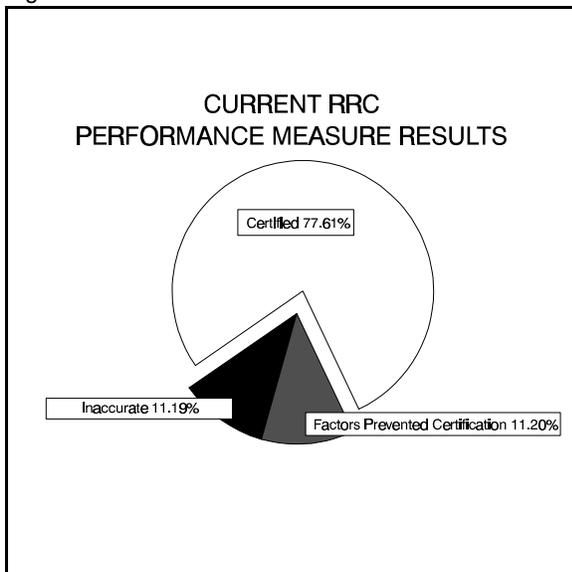
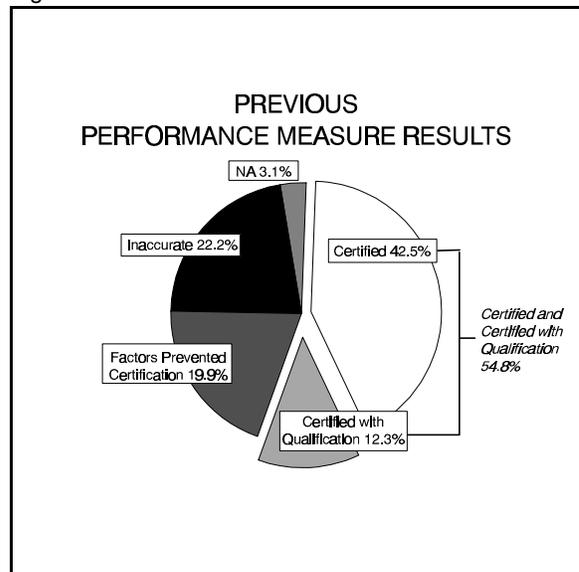


Figure 2



Results of Performance Measures Review

Related Objective or Strategy ¹	Description of Measure ¹	How Classified	Results Reported ²	Certification Results*					Comments
				C	CQ	FPC	I	N/A	
A.1.1	Number of Inspections Performed	Output	FY 94 105,614 FY 95 74,872 (3rd quarter)				*		The measure definition was not followed. For FY 94, the sample error was 5.58% and for FY 95, it was 6.21%. The allowable error rate is 5%. The measure definition has been changed for FY 96 to agree with the information reported for FY 94 and FY 95. There were also control weaknesses in the collection and retention of the data.
B.1	Percentage Decrease in Oil Production Annually	Outcome	6.22	*					

Sources:

- ¹ General Appropriations Act, 73rd Legislature, R.S. (1993).
- ² Outcomes are reported for FY 1994.
All numbers are from ABEST II - Automated Budget and Evaluation System of Texas.

*Key for Certification Results	
C	- Certified
CQ	- Certified with Qualifications
FPC	- Factors Prevented certification
I	- Inaccurate
N/A	- Not Applicable

Results of Performance Measures Review

Related Objective or Strategy ¹	Description of Measure ¹	How Classified	Results Reported ²	Certification Results*					Comments
				C	CQ	FPC	I	N/A	
B.1	Percentage Decrease in Gas Production Annually	Outcome	1.38				*		The calculation of the measure was accurate, except that the percentage reported for gas production was reported as a decrease when it was actually an increase in production.
E.1	Percentage Increase Each Year in Motor-Fuel Use of LP Gas in Texas	Outcome	9.5			*			Information used in the calculation of this measure comes from the Comptroller's Office. Recent attempts to obtain an accurate and consistent count from the Comptroller's office have been unsuccessful as there is a new database, which is still being adjusted to remove all of the inactive files.

Sources:

- ¹ General Appropriations Act, 73rd Legislature, R.S. (1993).
- ² Outcomes are reported for FY 1994.
All numbers are from ABEST II - Automated Budget and Evaluation System of Texas.

*Key for Certification Results	
C	- Certified
CQ	- Certified with Qualifications
FPC	- Factors Prevented certification
I	- Inaccurate
N/A	- Not Applicable

Texas State Auditor's Office, 10/95

Results of Performance Measures Review

Related Objective or Strategy ¹	Description of Measure ¹	How Classified	Results Reported ²	Certification Results*					Comments
				C	CQ	FPC	I	N/A	
G.1	Percentage Decrease in Accidents Attributable to Violation of State Law or Regulations or Other Contributing Factors Involving LPG/CNG That Resulted in Fatalities or Injuries	Outcome	3.4			*			There is no control over the number of accidents reported by the propane dealers. There are so many propane installations, the dealers may not even hear about the accidents in order to report them.
G.1	Number of LPG/CNG Safety Inspections Conducted	Output	17,776				*		The sample error was -6.41%, which exceeds the allowable error of + or - 5%. The measure definition was not followed.

Sources:

- ¹ General Appropriations Act, 73rd Legislature, R.S. (1993).
- ² Outcomes are reported for FY 1994.
All numbers are from ABEST II - Automated Budget and Evaluation System of Texas.

*Key for Certification Results	
C	- Certified
CQ	- Certified with Qualifications
FPC	- Factors Prevented certification
I	- Inaccurate
N/A	- Not Applicable

Management's Response:

The Commission agrees with the Auditor's recommendation that: there should be a review of all measures that had factors preventing certification to determine if a better measure is available; there should be routine monitoring of all measures for assurance that staff understand what is required and that the necessary controls are in place to gather and report the correct data; and, performance measures definitions will be adjusted when they are no longer in alignment with the Commission's goals, objectives and strategies. The review of measures that had factors preventing certification will be started in February, 1996, and will be completed in September, 1996.

The Oil and Gas Division noted that the measure "Number of Inspections Performed" data was collected following the intent of the measure definition, which is associated with the strategy for regular oil and gas inspections, and was not intended to cover inspections associated with state-funded pluggings. There has never been any misrepresentation made of which work performed was being reported. District offices will be contacted regarding improving their means of data storage and retrieval.

Objective, Scope and Methodology

Objective

Our objective was to review and evaluate the existing management control systems which enable the Railroad Commission to accomplish its mission, goals, and strategies. We evaluated the control systems in place as of July 1995. We also followed-up on the State Auditor's report titled *A Performance Audit of the Oil Field Cleanup Program and Related Enforcement Efforts* (SAO Report No. 93-113, April 1993).

Management controls are the policies, procedures, and processes used to carry out an organization's objectives. They should provide reasonable assurance that:

- Goals are met.
- Assets are safeguarded and efficiently used.
- Reliable data is reported.
- Laws and regulations are complied with.

Management controls, no matter how well designed and operated, can only provide reasonable assurance that objectives will be achieved. Breakdowns can occur because of human failure, circumvention of control by collusion, and the ability of management to override control systems.

Scope

The scope of this audit included consideration of the Commission's overall management control systems: policy management, information management, resource management, and performance management.

For the Commission's policy management system, the review included:

- plans for the strategic planning cycle
- processes used to create, monitor, and adjust the Commission's plans
- documents for strategic, operating, and work plans
- assessment of risk and prioritization of the workload
- processes used in the development and adjustment of the budget
- processes used to determine and implement changes to the organizational structure
- establishment of the Commission's policies and procedures

For the Commission's information management system, the review included:

- processes for identifying, collecting, classifying, evaluating, maintaining, updating, and retaining information
- existing management reports
- timeliness and accuracy of information

For the Commission's performance management system, the review included:

- processes used to identify, track, report on, and use performance measures
- processes used to evaluate programs and to ensure quality products and services

For the Commission's resource management system, the review included:

- processes used to select, allocate, and monitor the performance of the Commission's employees
- information on employee training and performance reviews
- revenue collection and identification processes
- processes for contracted well plugging services
- efforts to replace the Commission's current computer system
- progress on the ongoing Geographic Information System project
- controls over the general computer environment and computer applications

Methodology

The audit methodology consisted first of gaining an understanding of how each control system was supposed to work. Tests were then performed to determine if the control systems were operating as described. Finally, the results were evaluated against established criteria to determine system adequacy and identify opportunities for improvement.

Evidence was gathered primarily through documentation review, financial analyses, interviews, and observations of policies and procedures. Systems were tested by comparison of the intended and actual processes, trend analysis, ratio analysis, and selection and testing of random samples.

The following criteria were used to evaluate the control systems:

- Statutory requirements
- General and specific criteria developed by the State Auditor's Office Inventory of Accountability Systems Project
- State Auditor's Office Project Manual System: The Methodology
- State Auditor's Office Project Manual System: The HUB
- Other standards and criteria developed through secondary research sources both prior to and during fieldwork (See Reference List in Appendix 5.1)

Other Information

Fieldwork was conducted from July 1995 through September 1995. The audit was conducted in accordance with applicable professional standards, including:

- Generally Accepted Government Auditing Standards
- Generally Accepted Auditing Standards

There were no significant instances of noncompliance with these standards.

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

- Babette Laibovitz, MPA (Project Manager)
- Susan Allen, CPA
- Margene Beckham, MBA
- Dean Anthony Duan, CISA
- Ester Jayme
- Kim McDonald
- Chris Munn, CPA
- Deborah Powers, CPA
- William Smith, CIA
- Bernie C. Gilmore, CPA (Audit Manager)
- Deborah Kerr, Ph.D. (Audit Director)

Appendix 1.2:

Audit Scope by Commission Strategy

The following table provides a cross reference from the audit issues discussed in the report (see column titled “ coverage in report”) to Commission Operating Divisions and each goal and strategy in the General Appropriations Act.

Strategy/Commission Goal	Commission Division	Coverage in Report
Goal A: Regulation and Protection		
A.1.1 Pollution Prevention	Oil and Gas Division	Sections 1-A, 2-B, 6
A.1.2 Abandoned Well Clean Up	Oil and Gas Division	Sections 3-A, 3-B, 3-C
A.2.1 Surface Mining Regulation	Surface Mining and Reclamation Division	No significant audit findings
Goal B: Ensure Energy Supplies		
B.1.1 Oil and Gas Enforcement	Oil and Gas Division, Gas Utilities Audit (Part of Transportation/Gas Utilities Division)	Sections 1-A, 2-B, 3-A, 3-B, 3-C, 6
B.1.2 Energy Information	Oil and Gas Division, Automated Data Processing Division	Sections 1-B, 2-D, 6
Goal C: Transportation Regulation		
C.1.1 Safety and Rehabilitation	Rail Safety and Planning (Part of Transportation/Gas Utilities Division)	No significant audit findings
Goal D: Fair Gas Utility Rate		
D.1.1 Gas Utility Compliance	Gas Utilities Audit (Part of Transportation/Gas Utilities Division)	No significant audit findings
Goal E: Use of Alternative Fuels		
E.1.1 LP Gas Development	Alternative Fuels Research and Education Division	Sections 1-A, 6
Goal F: Ensure Pipeline Safety		
F.1.1 Pipeline Safety	Pipeline Safety (Part of Transportation/Gas Utilities Division)	Section 1-A
Goal G: Regulate Gases and Quarries		
G.1.1 LPG/CNG/LNG Regulation	Liquefied Petroleum Gas Division, Alternative Fuels Research and Education Division	Sections 1-A, 2-C, 6
G.2.1 Pit Safety Certification	Surface Mining and Reclamation Division	No significant audit findings

Note: Divisions listed represent organizational structure at time of audit fieldwork, prior to October 1, 1995.

Texas Railroad Commission Profile

Mission

The mission of the Railroad Commission is to serve Texas by:

- stewardship of natural resources and the environment
- concern for personal and community safety
- support of enhanced development and economic vitality for the benefit of Texans

Background

The Railroad Commission of Texas has been delegated the following major legislative responsibilities:

- Oil and Gas Inspection and Regulation
- Oil Field Clean-up
- Natural Gas Utilities Inspection and Regulation
- Surface Mining and Reclamation Regulation
- Rail Safety
- Liquefied Petroleum Gas Code Enforcement
- Alternative Fuels Research and Education

In prior years, trucking regulation was a primary responsibility of the Commission. Much of this responsibility has been eliminated by federal deregulation. The remaining transportation function, with the exception of rail safety, was transferred to the Texas Department of Transportation on September 1, 1995.

Operations

Rules necessary to carry out the responsibilities of the agency are adopted by the three-member Commission. The commissioners are elected by the people to overlapping six-year terms; the Commission elects its chair. The Commission meets as necessary to render decisions concerning matters within its jurisdiction. The Commission also establishes general agency policies and appoints the division directors.

The Railroad Commission is organized into one legal division, four administrative support divisions, and five divisions by program area. The regulatory divisions correspond to the industries under the Railroad Commission's jurisdiction: oil and natural gas, natural gas pipelines and utilities, liquefied petroleum gas and compressed natural gas, railroads, and surface mining and reclamation. In 1991, the Legislature created the fifth program division, Alternative Fuels Research and Education Division, to educate the public and conduct research on liquefied petroleum gas and other environmentally beneficial fuels.

In October 1995, revisions of the organizational structure were implemented. (See Appendix 4.)

Financial Information

Figure 3

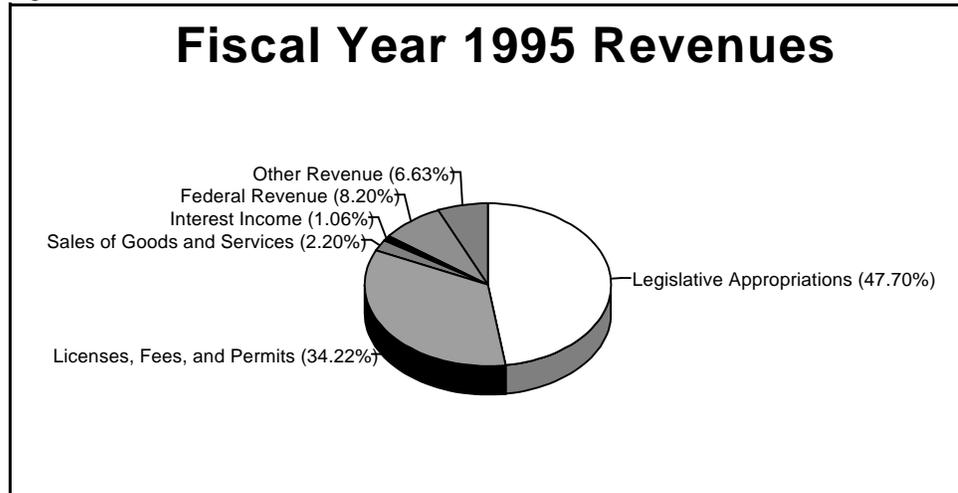
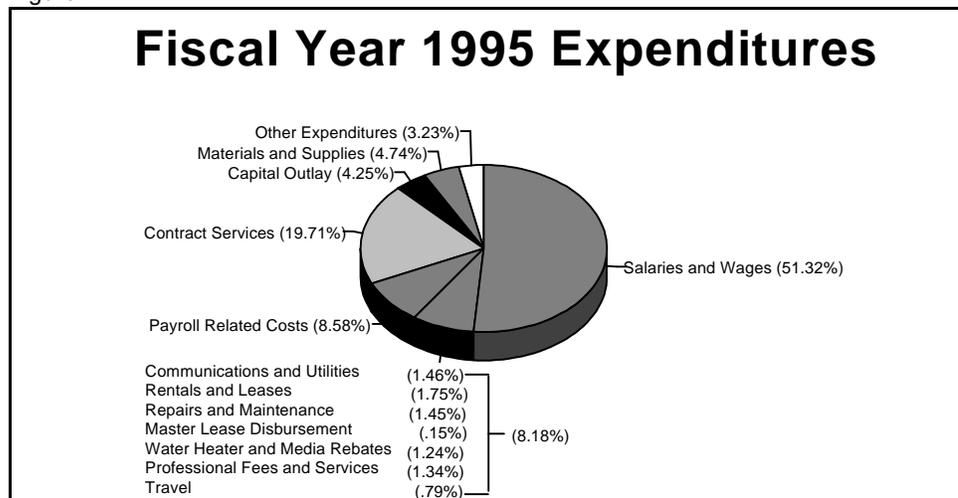
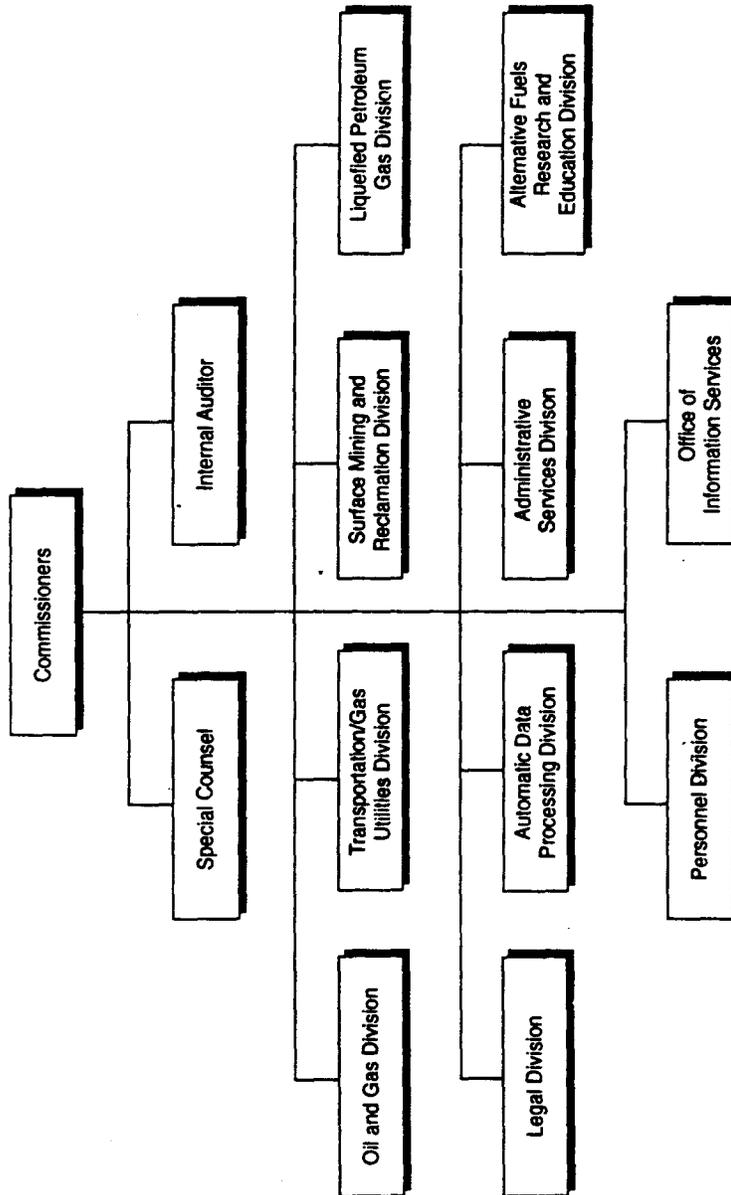


Figure 4



The Texas Railroad Commission had revenues totaling \$53,115,746 in fiscal year 1995. The largest source of revenues was the \$25,333,946, or 47.7 percent, from Legislative Appropriations. Licenses, Fees, and Permits were the second largest revenue producer with \$18,173,571, or 34.2 percent. Expenditures totaled \$53,229,663 in fiscal year 1995. Salaries and Wages accounted for \$27,316,152, or 51.3 percent of total expenditures. Payroll Related Costs represented another \$5,278,550, or 9.9 percent of expenditures.

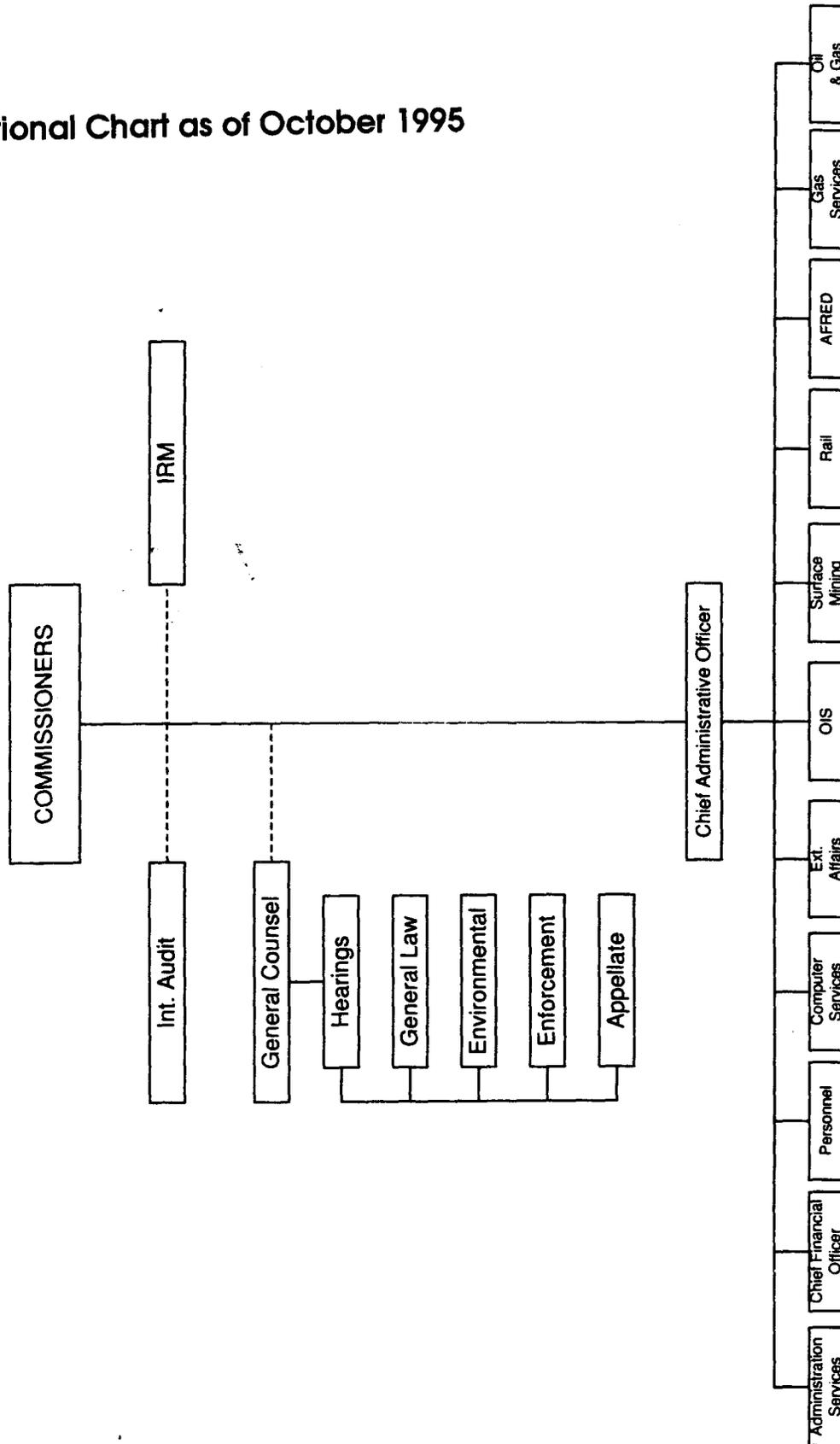
Appendix 3:
Prior Organizational Chart



Source: Railroad Commission of Texas, January 1994.

Appendix 4:

Organizational Chart as of October 1995



Reference List

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Certification Criteria

Below are the categories related to the certification of performance measures and their corresponding criteria.

Certified	<p>For a measure to be “Certified,” all criteria listed must be met:</p> <ul style="list-style-type: none"> • Original source documents were accessed manually or on-line on computer. • All items tested were materially correct within sampling constraints. • Calculations were performed correctly by agency and in conformance with calculations definitions. • Number as calculated was the number appearing on the ABEST II report.
Certified with Qualifications	<p>If any of the following conditions were met, the results reported could still be considered reliable and were “Certified with Qualifications”:</p> <ul style="list-style-type: none"> • Sufficient controls were in place to increase the reliability of the input. • Key components of the measure were provided by third-party sources generally recognized as independently accurate. • Prior audit work was conducted by the agency or other entities. <p>If a result met all the criteria for “Certified,” but had the following exceptions, it could still be considered reliable and was “Certified with Qualifications”:</p> <ul style="list-style-type: none"> • Non-material math errors occurred in calculations. • Typographical error existed in reporting to ABEST II, but documentation supported the correct number.
Factors Prevented Certification	<p>If conditions were not sufficient to “Certify with Qualifications,” the performance measures were categorized as “Factors Prevented Certification.” Measures designated as “Factors Prevented Certification” have one or more of the following characteristics:</p> <ul style="list-style-type: none"> • Controls over input data were not documented. • Large MIS systems had not been reviewed, and/or control work had not been systematically performed by the agency. • Controls over collection and data entry are not evaluated. • Relevant prior audit work has not been conducted by the agency or other entities. <p>The following condition automatically gave a measure the designation “Factors Prevented Certification”:</p> <ul style="list-style-type: none"> • Source of input data was unreliable.
Inaccurate	<p>Inaccuracies occurred when the number reported to ABEST II was not correct. Any of the following problems causes a measure to be inaccurate:</p> <ul style="list-style-type: none"> • Source documents did not substantiate the numbers reported. • Calculation of information was not consistent with the measure definition. • A methodological change occurred during the fiscal year when the measure was calculated. • The number reported could not be recreated.
Not Applicable	<p>Either of the following conditions indicates that certification is not applicable for a particular measure:</p> <ul style="list-style-type: none"> • Some measures in the sample were misclassified and should have been classified as “Explanatory” measures. Explanatory measures were not certified because they measure external factors over which the agency no control. • The measure required comparison to a previous year and had no year available for comparison if this was the first year (base year) of reporting.