



Legislative Requirement:

An Efficiency Audit of the Railroad Commission

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

October 15, 2026

Members of the Legislative Audit Committee:

The State Auditor's Office contracted with McConnell Jones to conduct an efficiency audit of the Railroad Commission (Commission), as required by Texas Government Code, Section 327.002. Texas Government Code, Section 327.003, allows the State Auditor's Office to contract with an external auditor to conduct these audits.

McConnell Jones identified two main areas with inefficiencies. These are:

- **Technology Modernization.** The Commission is in the process of modernizing major information systems; however, current legacy systems and partially adopted platforms continue to create inefficiencies, including incomplete application submissions, limited reporting capability, manual correspondence processes, and reliance on supplemental tools or workbooks to obtain operational information.
- **Oil and Gas.** Information technology limitations and operator submissions of incomplete or inaccurate information cause inefficiencies within the Oil and Gas Division. This includes rework from incomplete submissions and excessive correspondence requirements, limited management visibility, reliance on supplemental workbooks, inspector and well plugger GPS connectivity limitations, manual distribution of violation letters, and manual data entry from paper submissions.

McConnell Jones did not identify any duplication, overlap, or conflict with other state agencies or misalignment between the Commission's rules in the Texas Administrative Code and its statutory authority and mission.

The Commission provided an implementation plan, which is presented starting on page 9 of the attached report. Overall, the Commission agreed to implement McConnell Jones's recommendations.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
State Auditor

Attachment

cc: The Honorable Greg Abbott, Governor
Members of the Railroad Commission
Mr. Wei Wang, Executive Director

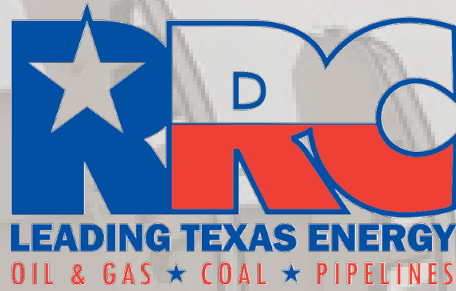


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Railroad Commission of Texas Efficiency Audit

October 2026

Prepared by



McConnell Jones

Legislative Requirement: To address the requirements in Texas Government Code, Section 327.004, following areas: financial resources, personal and real property assets, technology, and staffing.

The Railroad Commission of Texas (RRC or Commission) is in the process of moving from a mainframe computer system to software that is being developed for their specific needs. As part of this transition, the Commission has opportunities to improve efficiencies by:

- Establishing a cross-divisional requirements and user acceptance testing process for each software development project to ensure that respective business needs are being met and the software functions as intended.
- Modifying the RRC Online and RRC Lone Star systems to require certain fields to be mandatory and consider incorporating automated solutions into the system for scanning attachments to ensure that the information aligns with the required fields.
- Correcting the performance measure query within their web-based tracking tool for oil and gas field inspections to ensure accuracy and limit workarounds.
- Modifying Texas Administrative Code 16.1.3.1 to allow communications and violation letters to be sent through electronic methods.

This audit was conducted in accordance with Texas Government Code, Sections 327.002 and 327.004.

SUMMARY OF KEY OBSERVATIONS



Technology Modernization and Legacy-System Constraints

The agency experience various inefficiencies due to legacy information systems limitations, including available reporting.

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Oil and Gas Inefficiencies Caused by Information Systems

The Oil and Gas Division used two different information systems for daily operations. Both systems have limitations that cause inefficiencies in transaction processing and reporting .

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Performance Measure Inefficiencies

One inspection-related performance measure is manually calculated outside of the information system due to query errors.

PAGE 7



Oil and Gas Letter Processing Inefficiencies

Communication and violation letters are printed and sent through mail instead of using electronic delivery.

PAGE 7

Auditors did not identify any duplication, overlap, or conflict with other state agencies or misalignment between the Commission's rules in the Texas Administrative Code and its statutory authority and mission.

Background

The Railroad Commission (Commission) is a state agency that regulates oil and natural gas activities including oil and gas wells, pipelines, gas utilities, critical gas infrastructure and coal/uranium surface mining.

Figure 1 summarizes the Commission's core operating functions and responsibilities. **The efficiency observations discussed in this report are a result of a comprehensive review of these operations and the supporting administrative functions.**

Figure 1

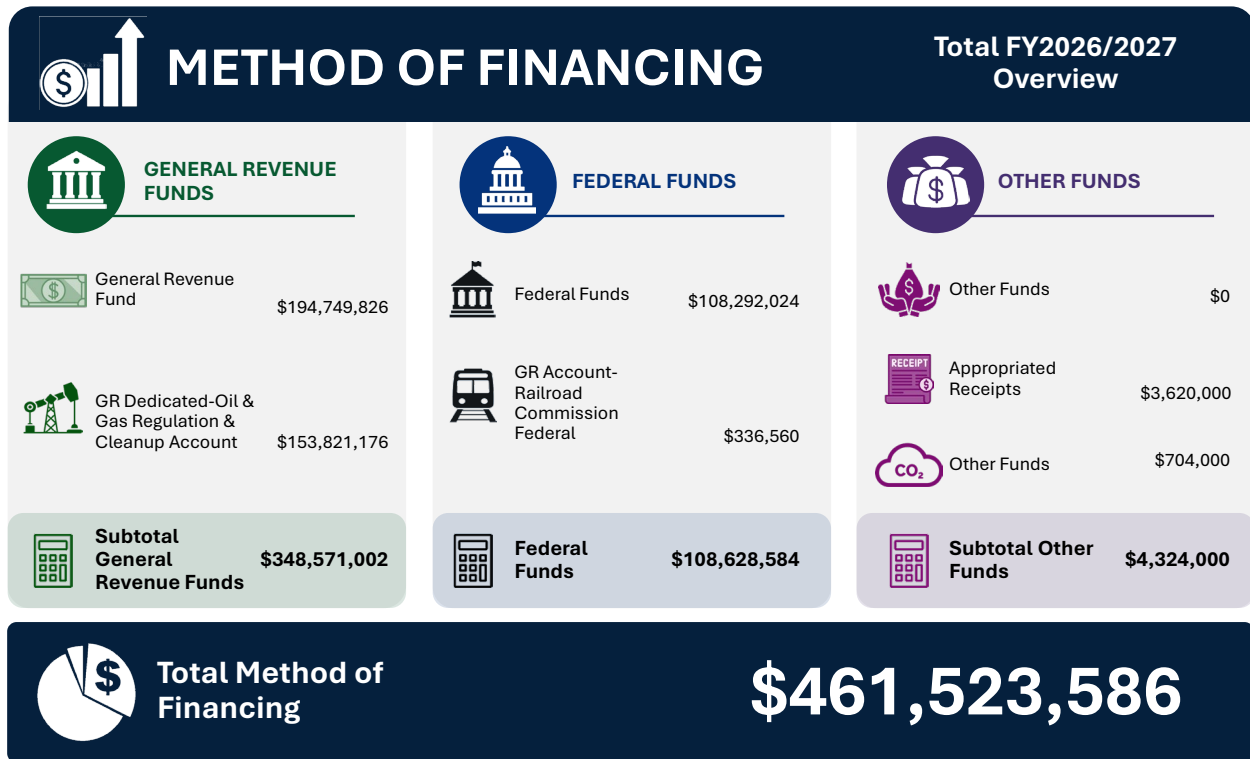


Commission Funding

The Commission is funded through a combination of sources including the state's General Appropriations Act (GAA), federal grants, and industry-paid regulatory fees that are deposited into the state's treasury and maintained in a dedicated fund (5155 Oil and Gas Regulation and Cleanup Account). The Commission was appropriated \$153.82M from the dedicated Oil and Gas Regulations & Cleanup account for the FY26/27 biennium.

The Commission's total appropriations for the FY26/27 biennium, including federal funds, is \$461.5 million and the Commission is authorized for 1,145.6 full-time equivalent employees. **Figure 2** summarizes the Commission's FY26/27 appropriations and financing.

Figure 2



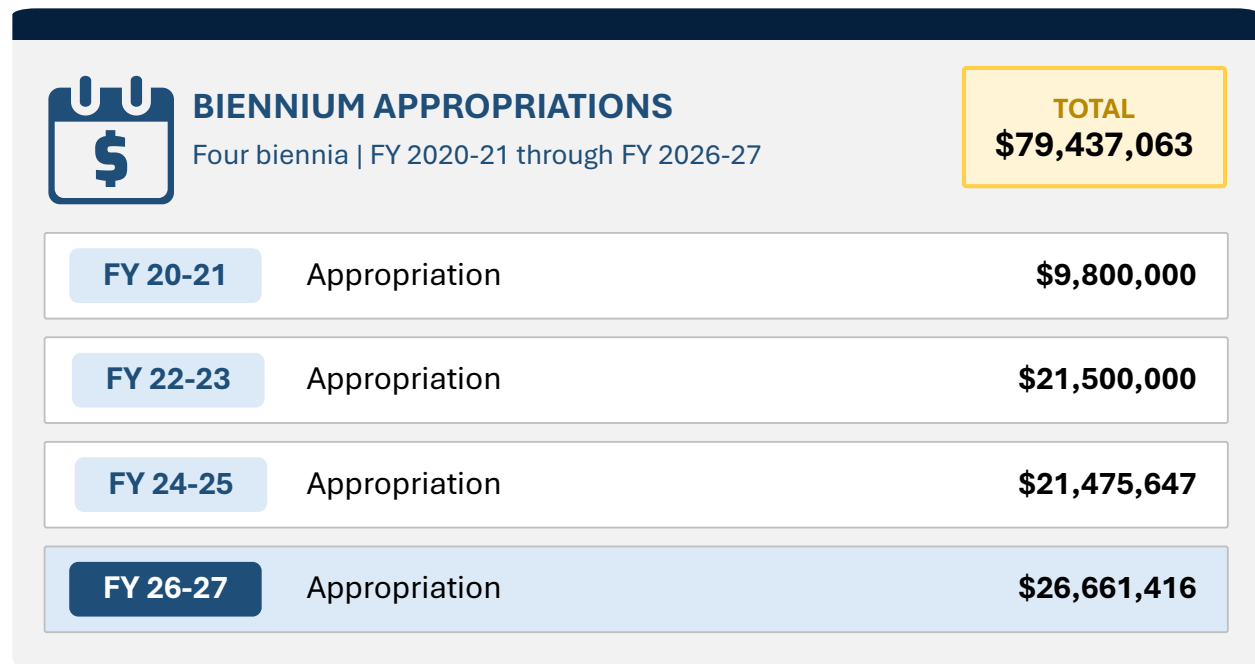
Detailed Results

Information Technology

Technology modernization and legacy-system constraints. The Commission is in the process of modernizing major information systems; however, current legacy systems and partially adopted platforms continue to create inefficiencies, including incomplete application submissions, limited reporting capability, manual correspondence processes, and reliance on supplemental tools or workbooks to obtain operational information.

The Commission is transitioning from a mainframe system to modernized, custom-built software solutions. This multi-year initiative, referred to internally as MIRPS (Major Information Resource Projects), began with a \$9.8 million special line-item appropriation from the Legislature for the FY20/21 biennium. Total appropriations for the initiative have since increased to \$79.4 million through the FY26/27 biennium. **Figure 3** summarizes information technology appropriations by biennium.

Figure 3



MIRPS involves outside contractors and internal information technology staff who collectively plan, execute, and monitor a comprehensive project plan. During this transition period, legacy systems continue to create inherent inefficiencies because of system limitations and manual workarounds. Downstream impacts from the information technology systems we identified are included within the respective operations area of this detailed results section.

Throughout the MIRPS software development process, the Commission has typically involved only representatives from the division for which the system is being developed and not representatives from other divisions that may use or be affected by the system. As a result, the software may not fully address Commission-wide business needs or function as intended across divisions.



Oil and Gas

The Oil and Gas Division is geographically structured into 10 districts across the state for inspection efficiencies. Information technology limitations and operator submissions of incomplete or inaccurate information cause inefficiencies within the Oil and Gas Division.

The Oil and Gas Division is primarily responsible for issuing permits, conducting well inspections, plugging orphaned wells, and identifying operating/reporting violations. It carries an annual budget of \$120.5M and is organized geographically into 10 districts across Texas with 504 FTE's, including 174 inspectors that complete an average total of 350,000 inspections annually. Each district is led by a district director and assistant director, supported by a lead plugger, engineers and

administrative staff. Instructions and inspection tasks flow through district offices and associated text/message systems.

Inefficiencies Caused by Information Technology

RRC Online and RRC Lone Star are the two primary systems used to support drilling permitting and oil well or pipeline operator licensing activities, respectively. Both systems were internally developed as part of the mainframe transformation project (MIRPS). However, system limitations reduce the Oil and Gas Division's ability to process submissions efficiently, monitor workload accurately, and use technology to prevent avoidable rework. Management indicated that approximately 30 percent of oil well and pipeline businesses that hold Commission issued licenses and permits, which are operators, use RRC Lone Star, requiring licensing staff to manually enter information from paper documentation submitted by the remaining 70 percent of operators. Stronger system controls, reporting functionality, and adoption monitoring are needed for the Division to fully realize the expected efficiency gains from modernization.

Specific examples of how current system limitations impact staff efficiencies include:

- **Rework from incomplete submissions and excessive correspondence requirements:** RRC Lone Star and the RRC Online are not configured to prevent operators from submitting incomplete or incorrect information. This causes significant processing inefficiencies that require permit staff to frequently return applications / packets to operators for correction before approval. For example, the Commission received 18,539 well completion packets in 2025; 12,882 packets, or 70%, required at least one corrective message. Of the total packets received, 914, or 5 percent, required 10 or more corrective messages, and one packet required 61 messages.

RRC staff must identify deficiencies, send corrective messages, track responses, and re-review resubmitted packets instead of focusing on higher-value review and oversight activities. Furthermore, each additional correction cycle increases staff workload by adding more correspondence, follow-up tracking, and repeat review steps before the submission can be approved.
- **Limited management visibility.** RRC Online does not provide adequate reporting to measure the number of drilling permit applications reviewed or the corrective actions taken by staff resulting from operator errors. As a result, management cannot effectively assess reviewer workload or efficiency, identify bottlenecks, compare workloads, rebalance assignments, or determine whether staffing aligns with demand.
- **Reliance on supplemental workbooks:** The performance measure reporting query is intended to count the number of inspectors who submitted inspection reports from the Inspection, Compliance, and Enforcement information system; however, staff currently know the query is inaccurate. As a result, the Oil and Gas Division's staff calculate the correct average outside of the information systems using a separate workbook as workaround.

When information system reports or queries are incomplete or inaccurate, staff use separate workbooks or manual calculations to produce operational information. These workarounds duplicate effort, increase the time staff spend reconciling data, and reduce confidence that management is using consistent, system-generated information to oversee workload.

- **Inspector and Well Plugger GPS connectivity limitations:** District staff that conduct well inspections and well plugging activities in rural locations encounter connectivity issues on Commission-issued cellular iPhones. This results in inefficiencies because the staff frequently have to contact the district office to obtain verbal directions. Previously, inspectors carried a portable wireless device in the truck which provided stronger connectivity.
- **Violation Letter Processing:** The Commission sends operator communications by paper mail rather than through its information systems. District office staff manually enter violation details into a letter template, print the letter, obtain the District Director's signature, and mail it to the operator. Although the Commission has DocuSign, district offices do not use it for violation letters. Certain correspondence must be sent by certified mail under Texas Administrative Code 16.1.3.1. For correspondence not subject to that requirement, manual data entry, printing, signing, and mailing create processing inefficiencies and paper, ink, and postage costs that could be reduced through system-generated letters, digital signatures, and electronic delivery.
- **Manual data entry from paper submissions:** Oil and gas operators are not using the RRC Lone Star information system for required document submissions. The RRC Lone Star information system allows for online filing and tracking of regulatory functions. Submitting certain forms through RRC Lone Star has not been fully adopted by operators, resulting in significant data entry by permit staff when paper forms are received. Permit staff estimate that 70 percent of certain forms are submitted in paper form. Because many filings are still submitted outside RRC Lone Star, permit staff must manually enter information that could otherwise be captured directly through the system. This adds administrative workload, slows processing, and creates additional opportunities for data-entry errors that may require further staff correction.

Management asserted that, effective September 1, 2026, operators are required to submit eligible information through the RRC Lone Star portal. Paper documents that can be submitted through RRC Lone Star are no longer accepted by mail or processed manually, reducing data-entry time and improving efficiency.

Recommendations

The Commission should consider:

- Establishing a cross-divisional requirements and user acceptance testing process for each software development project. The process should include representatives from the division for which the system is being developed and from other divisions that may use or be affected by the system to confirm that Commission-wide business needs are addressed and the software functions as intended.
- modifying the RRC Online and RRC Lone Star systems to require certain fields to be mandatory. Also, consider incorporating automated solutions into the system to scan documents uploaded by the operators to look for specific items such as dates and content to ensure what was uploaded aligns with what is requested/required.
- Enhancing the reporting functionality of the RRC Online system so management can analyze permit review and approval activity from different perspectives to measure process efficiency.
- Correcting the performance measure query within their web-based tracking tool for oil and gas field inspections to ensure accuracy and limit workarounds.
- Exploring solutions to improve cellular phone connectivity for inspectors and well pluggers working in rural locations.
- Revising Texas Administrative Code 16.1.3.1 to allow violation letters to be sent through electronic methods such as the information systems used by the Commission and email to designated operator contacts. Once revised, use DocuSign to issue violation letters. In the meantime, consider issuing communications by DocuSign that are not required to be certified by Texas Administrative Code.
- Implementing the procedural change drafted by management requiring operators to complete licenses applications through the RRC Lone Star information system.

Management's Implementation Plan

1. Finding Summary:

Audit Recommendation:

Establishing a cross-divisional requirements and user acceptance testing process for each software development project. The process should include representatives from the division for which the system is being developed and from other divisions that may use or be affected by the system to confirm that Commission-wide business needs are addressed and the software functions as intended.

Management Response:

Management agrees with this recommendation and has already added cross-collaboration between departments as a part of the requirements gathering and user acceptance testing processes for any new Information Technology (IT) project moving forward. Information Technology Services Division (ITS) will add this new step into the standard operating procedure manual that is used to manage ITS projects throughout the agency.

Person responsible for implementing corrective action: IT Service Delivery Director

Timeline for Implementation: October 30th, 2026

2. Finding Summary:

Audit Recommendation:

Modifying the RRC Online and RRC Lone Star systems to require certain fields to be mandatory. Also, consider incorporating automated solutions into the system to scan documents uploaded by the operators to look for specific items such as dates and content to ensure what was uploaded aligns with what is requested/required.

Management Response:

Management agrees with this recommendation and has started the process of creating edit checks in its new IT applications. As any application is being developed, ITS and the business units will create an inventory of data fields that are mandatory when a regulatory form is filed with the agency. The Commission will identify industry accepted automated solutions available through DIR that will enable the scanning of documents and look for certain aspects of the document to ensure that any uploaded document aligns with what is mandatory and requested. This was already implemented for some IT applications such as well logs.

Person responsible for implementing corrective action: IT Service Delivery Director

Timeline for Implementation: January 31st, 2027.

3. Finding Summary:

Audit Recommendation:

Enhancing the reporting functionality of the RRC Online system so management can analyze permit review and approval activity from different perspectives to measure process efficiency.

Management Response:

Management agrees with this recommendation. IT Service Delivery department will engage with the solution provider to request a bid for this type of enhancement to the current system offering.

Person responsible for implementing corrective action: IT Service Delivery Director

Timeline for Implementation: On or before September 30th, 2027.

4. Finding Summary:

Audit Recommendation:

Correcting the performance measure query within their web-based tracking tool for oil and gas field inspections to ensure accuracy and limit workarounds.

Management Response:

Management agrees with this recommendation and is currently in the process of updating the performance measure query regarding oil and gas field inspections to ensure accuracy without the need for workarounds to achieve the same result.

Person responsible for implementing corrective action: IT Service Delivery Director

Timeline for Implementation: On or before September 30, 2027

5. Finding Summary:

Audit Recommendation:

Exploring solutions to improve cellular phone connectivity for inspectors and well pluggers working in rural locations.

Management Response:

Management agrees with this recommendation and selected a potential vendor to offer satellite solutions for inspectors working in rural locations.

Person responsible for implementing corrective action: Director of Field Operations - Oil and Gas

Timeline for Implementation: Execute contract by August 31st, 2027.

6. Finding Summary:

Audit Recommendation:

Revising Texas Administrative Code 16.1.3.1 to allow violation letters to be sent through electronic methods such as the information systems used by the Commission and email to designated operator contacts. Once revised, use DocuSign to issue violation letters. In the meantime, consider issuing communications by DocuSign that are not required to be certified by Texas Administrative Code.

Management Response:

Management agrees with the recommendation that violation letters should be sent to operators by means that provide for timely notice and response. However, the Railroad Commission acting as the state oil and gas regulatory agency in Texas must adhere to certain established federal regulations and state laws that require written notices to be sent through either certified or standard mail depending on the type of notice.

The following represent specific examples that reference instances where a notice must be sent via regular or certified mail.

Environmental Permits and Support:

Certified mail is used sparingly, and email has become the preference. Regular mail is used when an applicant does not have an email address on file for Requests of Additional Data.

Underground Injection Control/Special Injection Permits:

For our Class III, V and VI programs, we are required by federal regulation to provide mailed notice, [40 CFR §124.10](#).

RRC Class II programs require mailed notice by rule. (However, this is done by the **applicant** and not the Commission.)

Underground Injection Control/Special Injection Permits, notice of Requests for Additional Data are sent by email when the email address is available.

Notices of Violations:

Under Tex. Gov't Code § 2001.054, regarding "licenses," when a state agency seeks to revoke, suspend, annul, withdraw, or otherwise cancel a license, notice and opportunity for hearing must be via personal service, or registered or certified mail. By definition, permits and certificates fall into licensing. If the RRC is issuing notice of violations where the consequences of noncompliance are cancelling a permit, P-5, or a certificate of compliance, notice must be given via certified or registered mail, or personal service. Certified or registered mail is also specifically required for cancelling certificates of compliance at Tex. Nat. Res. Code § 91.704.

Person responsible for implementing corrective action: Director -Office of General Counsel

Timeline for Implementation: TBD as implementation will only occur through a statewide rule revision and any legislative changes.

7. Finding Summary:

Audit Recommendation:

Implementing the procedural change drafted by management requiring operators to complete license applications through the RRC Lone Star information system.

Management Response:

Management agrees with this recommendation and has already sent out a Notice to Operators to draw awareness that the Commission will only accept applications for those available in RRC Lone Star submitted via the information system.

Person responsible for implementing corrective action: Director - Oil and Gas

Timeline for Implementation: September 1st, 2026.



Appendix 1

Objective, Scope, and Methodology

Objective

The objective of this audit was to determine whether the Railroad Commission of Texas (Commission) is administering selected state resources in an efficient manner according to best practices and applicable requirements.

Scope

The scope of this audit included the Commission's strategic plan effective for fiscal year 2026; selected performance and financial data for fiscal years 2023 through 2026; staffing as of March 2026; and selected systems and processes as of April 2026. Internal control was not significant to the audit objective.

Methodology

We conducted this performance audit from January 2026 through August 2026 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. Additionally, we performed a risk assessment to identify potential inefficiency risks that should be considered during the audit.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. In addition, during the audit, matters not required to be reported in accordance with *Government Auditing Standards* were communicated to Commission management for consideration.

Addressing the Audit Objective

During the audit, we performed the following:

- Interviewed and conducted walkthroughs with Commission management and staff to gain an understanding of the Commission's functions, activities, and processes.
- Identified the relevant criteria:



- The Surface Mining Control and Reclamation Act of 1977 (SMCRA)
- Texas Natural Resources Code, Chapters 81, 85, 86, 89, 91, 111, 115, 116, 131, and 134.
- Title 16, Texas Administrative Code, Part 1, Chapters 1 through 20.
- Office of the Comptroller of Public Accounts' State of Texas Procurement and Contract Management Guide, version 4.0.
- Commission policies and procedures.

In addition, to address the requirements for efficiency audits in Texas Government Code, Section 327.004, we performed work in the following areas.

Strategic Planning. Evaluated the Commission's strategic plan; reviewed the Commission's rules to determine if they aligned with its statutory authority and mission; and compared the Commission's mission and responsibilities with those of other related state agencies.

Financial Resources. Evaluated the Commission's monitoring of its financial efficiency; reviewed submitted LAR and Operating Budget workbooks for the fiscal year 2026 and fiscal year 2027 biennium and travel reimbursement activities for fiscal year 2026; reviewed the Commission's accounts receivable and accounts payable processes for fiscal year 2026; and evaluated the Commission's procurement and asset management activities.

Operations. Evaluated available process maps, policies and procedures, and the results of interviews and walkthroughs to identify inefficiencies and potential instances of duplicated effort that could be eliminated or other opportunities for the Commission to improve operational efficiency.

Technology. Reviewed the Commission's current information technology systems; evaluated the Commission's processes for opportunities to improve efficiency through increased automation; and reviewed help desk tickets for information technology division efficiencies. We also reviewed the Continuity of Operations Plan.

Staffing. Reviewed information on the Commission's staffing, employee turnover, and other workforce information.

Data Reliability and Completeness. We reviewed financial reports for fiscal years 2024 and 2025 and performance measures reported for fiscal year 2026. We reviewed parameters used to pull the data from CAPPS to verify that the output aligned with the request. We compared and reconciled CAPPS data to the Uniform Statewide Accounting System (USAS). We analyzed key fields for reasonableness and completeness. The data was sufficiently reliable for the purpose of this audit.

