



An Audit Report on  
**Financial Management at the Railroad  
 Commission**

SAO Report No. 19-045  
 July 2019

## Overall Conclusion

The Railroad Commission (Commission) generally ensured that the regulatory-related fees that it collected from oil and gas operators, including administrative penalties that were deposited into its Oil and Gas Regulation and Cleanup Fund (Fund), were supported and accurately recorded in the Uniform Statewide Accounting System. Additionally, the Commission ensured that refunds from the Fund were properly authorized and that refund amounts were accurate and reasonable. However, the Commission should improve its controls over certain revenue processing activities to ensure compliance with Commission requirements.

The Commission also should strengthen access controls over selected information systems; however, it has adequate controls over its change management process and for detecting and correcting data processing errors for those information systems.

Table 1 presents a summary of the findings in this report and the related issue ratings. (See Appendix 2 for more information about the issue rating classifications and descriptions.)

### Background Information

The Railroad Commission (Commission) regulates the exploration, production, and transportation of oil and natural gas in Texas.

Texas Natural Resources Code, Chapter 81, established the Oil and Gas Regulation and Cleanup Program Fund (Fund) that is funded, in part, by regulatory-related fees and administrative penalties that the Commission collects from oil and gas operators.

The Fund can be used for activities related to the regulation of oil and gas development. That includes oil and gas monitoring and inspections, oil and gas remediation, and oil and gas well plugging; the study and evaluation of electronic access to geologic data and surface casing depths necessary to protect usable groundwater; the administration of pipeline safety and regulatory programs; public information and services related to those activities; and administrative costs and state benefits for personnel involved in those activities.

From September 1, 2017, through January 31, 2019, the Commission collected revenues totaling \$139.1 million.

Sources: Texas Natural Resources Code, Chapter 81, and the Commission.

Table 1

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1-A	The Commission Should Strengthen Its Controls Over the Cash Receipt Process to Ensure That It Correctly Processes and Accurately Records Revenues Collected	Medium
1-B	The Commission Generally Ensured That Pipeline Permit and Mileage Fees Collected Were Accurate and Supported; However, It Should Ensure That Pipeline Data Used to Determine the Fees Due Is Accurate	Medium
1-C	The Commission Ensured That Administrative Penalties It Collected Were Accurately Recorded and Supported, and that Appropriate Action Was Taken on Past Due Penalties	Low

This audit was conducted in accordance with Texas Government Code, Sections 321.0131 and 321.0132.

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

Summary of Chapters/Subchapters and Related Issue Ratings		
Chapter/ Subchapter	Title	Issue Rating <sup>a</sup>
1-D	The Commission Ensured That Refunds Were Properly Authorized and the Amounts Refunded Were Accurate and Reasonable	Low
2	The Commission Ensured That General Revenue Dedicated to Well-Plugging Activities Were Spent as Intended; However, It Should Strengthen Controls Over Its Approval Process for Vendor Payments	Medium
3-A	The Commission Should Strengthen Access Controls Over Its Information Systems	Medium
3-B	The Commission Managed Program Changes to Its Information Technology Systems in Accordance With Its Policies and Procedures	Low
3-C	The Commission Adequately Monitored, Identified, and Corrected Data Processing Errors for Selected Information Systems	Low

<sup>a</sup> A chapter/subchapter is rated **Priority** if the issues identified present risks or effects that if not addressed could critically affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **High** if the issues identified present risks or effects that if not addressed could substantially affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern and reduce risks to the audited entity.

A chapter/subchapter is rated **Medium** if the issues identified present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern and reduce risks to a more desirable level.

A chapter/subchapter is rated **Low** if the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

Auditors communicated other, less significant issues separately in writing to Commission management.

## ***Summary of Management's Response***

At the end of certain chapters in this report, auditors made recommendations to address the issues identified during this audit. The Commission disagreed with several recommendations in this report. The Commission's detailed management responses are presented immediately following the recommendations in each chapter. After review and consideration of the Commission's management responses, the State Auditor's Office stands by its recommendations based on the evidence presented and compiled during this audit.

## ***Audit Objective and Scope***

The objective of this audit was to determine whether the Commission has processes and related controls to help ensure that it administers financial transactions in accordance with applicable requirements.

The scope of this audit covered the Commission's financial activities related to selected revenues, expenditures, and applicable information systems for fiscal year 2018 (September 1, 2017, through August 31, 2018) and the first five months of fiscal year 2019 (September 1, 2018, through January 1, 2019).

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# Detailed Results

Chapter 1

## ***The Commission Should Strengthen Its Controls Over Cash Receipts for Oil and Gas Related Fees and Administrative Penalties***

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The Railroad Commission's (Commission) cash receipt processes for the regulatory-related fees and administrative penalties that it collects and deposits in its Oil and Gas Regulation and Cleanup Fund (Fund) generally ensured that revenues collected were supported and accurately recorded in the Uniform Statewide Accounting System (USAS) and the Commission's Centralized Accounting and Payroll/Personnel System (CAPPS) (see text box for additional information about the Fund). From September 2017 through January 2019, the Commission deposited revenues of approximately \$139.1 million into the Fund. The Commission also ensured that revenues refunded were properly authorized and that refunded amounts were accurate and reasonable.

### **Oil and Gas Regulation and Cleanup Fund**

The Oil and Gas Regulation and Cleanup Fund (Fund) is a General Revenue Dedicated Fund established by the Texas Natural Resources Code, Chapter 81. The Commission uses the Fund to regulate the oil and gas industry in Texas. The fund is comprised of multiple revenue streams that include various fees that the Commission collects, such as licensing fees for fuel transports, container manufacturers, and service stations; filing fees for operators of wells or pipelines under the jurisdiction of the Commission; fees for Commission safety training; and rules certifications.

Sources: Texas Natural Resources Code, Chapter 81; and Title 16, Texas Administrative Code, Chapters 3-5, 8, 9, and 11-14.

However, the Commission should strengthen its controls over certain revenue related activities to ensure compliance with agency requirements. Specifically, auditors identified the following control weaknesses in the Commission's cash receipt process:

- The Commission did not retain adequate support to show that it accurately processed revenues and recorded them in its accounting systems, including documentation showing it performed monthly reconciliations between USAS and its internal financial system (CAPPS).
- For pipeline-related regulatory fees, the Commission's data was not consistently reliable.

## **The Commission Should Strengthen Its Controls Over the Cash Receipt Process to Ensure That It Correctly Processes and Accurately Records Revenues Collected**

**Chapter 1-A**  
**Rating:**  
Medium <sup>1</sup>

While the Commission's cash receipt process generally ensured that it accurately recorded in USAS and CAPPs the regulatory fees and administrative penalties collected, opportunities exist for the Commission to improve its controls over its cash receipt process, monthly reconciliation of deposited revenues, and the clearing of its suspense fund.

### **The Commission should strengthen certain controls over its cash receipt process.**

Auditors tested a sample of 47 revenue related transactions that the Commission processed from September 1, 2017, through January 31, 2019, (which included 41 cash receipt related transactions that totaled \$194,145 and 6 revenue transaction credits that totaled \$697,385), and identified the following control weaknesses:

- **The transactions tested were not consistently supported.** For 10 (21 percent) of the 47 transactions tested, which totaled \$80,745, the Commission did not have adequate support to show that the correct fee was paid.
- **Certain transactions tested lacked support to show that they were reviewed and approved before being entered into the Commission's financial management systems.** For all 34 applicable transactions tested, which totaled \$68,920, the Commission could not provide support to show that its revenue staff reviewed and approved the journal entries in CAPPs to track cash receipts, as required by management.
- **The support for certain transactions tested were not stamped upon receipt.** For 9 (28 percent) of the 32 applicable transactions tested, which totaled \$5,013, the Commission did not stamp an internal tracking number on the documentation that supported the fees it collected by mail. The Commission uses the internal tracking number to track and match documentation for its financial and regulatory records.

The weaknesses in the Commission's cash receipt process increase the risk that the Commission's management decisions could rely on inaccurate information about the revenues collected.

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<sup>1</sup> The risk related to the issues discussed in Chapter 1-A is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

**The Commission did not maintain support to show that it performed monthly reconciliations of the revenues recorded in its financial management systems as required by the Office of the Comptroller of Public Accounts (Comptroller's Office).**

The Commission could not provide adequate support to show that it performed monthly reconciliations of the revenues recorded in USAS and CAPPs for fiscal year 2018. The Commission was able to provide support to show that it performed a year-end reconciliation of its revenues as of August 31, 2018. Auditors tested a sample of 9 reconciling items from the Commission's year-end reconciliation as of August 31, 2018, and determined that the Commission had corrected the reconciling items it identified.

However, the Commission did not have documentation showing that it performed monthly reconciliations during fiscal year 2018. The Commission was able to provide only emails sent during fiscal year 2018 that discussed monthly reconciling items, which it asserted were identified during monthly reconciliations it completed during the fiscal year. The Comptroller's Office requires state agencies to maintain accounts of all applicable appropriations, and to balance those appropriations on a monthly basis. This process requires that each agency reconcile its internal accounting system to USAS. Failure to perform the reconciliations as required may lead to undetected errors in USAS that could affect the accuracy of the Commission's annual financial report.

**The Commission did not maintain adequate support to show that transactions processed to clear its suspense fund were appropriate and accurate.**

Auditors tested 11 records, which consisted of multiple transactions, the Commission processed to clear the suspense fund during fiscal year 2018 (see text box for more information about the suspense fund). Of those 11 records, the Commission could not provide support to show that 2 (18 percent) records totaling \$467,135 were accurately recorded in USAS and CAPPs. The Comptroller's Office's Accounting Policy Statement No. 29 specifies that agencies must reconcile agency program and accounting records to the transaction detail provided by the Comptroller's Office, USAS, and payment processors to verify that:

- Transactions are accurately recorded in agency accounting and program records.
- Fees due to agencies are properly accounted for and recorded.

#### Suspense Fund

Texas Government Code, Section 403.035, establishes a suspense fund in the State Treasury. Revenues deposited into the suspense fund include money and securities deposited with the Comptroller's Office pending a determination of whether the deposits are for a state purpose.

State agencies must use the suspense fund when depositing funds for which the final disposition had not been determined at the time of the receipt of funds.

Source: The Comptroller's Office.

## Recommendations

The Commission should develop, document, and implement processes to:

- Retain the support documentation it receives and uses to process cash receipt transactions, including transactions processed to clear its suspense fund.
- Document and retain the review and approval of journal entries that were entered into its financial management systems.
- Ensure that it documents and retains monthly reconciliations of its revenues.

## Management's Response

- ***Retain the support documentation it receives and uses to process cash receipt transactions, including transactions processed to clear its suspense fund.***

*The Commission partially agrees with these recommendations. Certain supporting documents were considered transitory and were kept for six months, thus not available at the time of the audit. The Commission will retain documentation to support cash receipt transactions going forward. The Commission verified that the 10 transactions referenced in the report are processed correctly. For example, most of these transactions are for surcharges which are 150% of the associated fees. Financial assurance deposits are also verified to be the correct amount by the Organization Report department.*

*Person Responsible for Implementation: Accounting Director.*

*Completion Date: At this time, we have implemented procedural changes to ensure the transaction documentation retention.*

- ***Document and retain the review and approval of journal entries that were entered into its financial management systems.***

*The Commission partially agrees with these recommendations because review and approvals of CAPPs journal posting are maintained in the State of Texas Centralized Accounting and Payroll/Personnel System (CAPPs). CAPPs has audit trails for revenue journal approval and posting. Additionally, before transactions are sent to the Comptroller's Office for uploading in CAPPs, Commission's Revenue Department staff reviews the RMS report and the flat file daily to ensure transactions are accurate and complete. CAPPs also has*

*edit checks in place to ensure journals with incorrect or incomplete transactions cannot be posted in CAPPs.*

*Person Responsible for Implementation: Revenue Manager.*

*Completion Date: The necessary procedural changes will be implemented by September 1, 2019.*

- ***Ensure that it documents and retains monthly reconciliations of its revenues.***

*The Commission agrees with this recommendation and will retain documentation to demonstrate monthly reconciliation is performed. The Commission did perform monthly reconciliation of revenue during FY 2018. As indicated in the audit report, the Commission identified and corrected reconciling items for FY 2018. Because monthly reconciliation working papers are considered transitory and was used on an accumulative basis, each monthly reconciliation was not maintained separately. The Commission will maintain these monthly working papers going forward.*

*Person Responsible for Implementation: Financial Reporting Manager.*

*Completion Date: At this time, we have implemented procedural changes to ensure monthly reconciliation documentation is retained.*

### **Auditor Follow-up Comment**

The Commission asserts that automated edit check in CAPPs help ensure the accuracy of cash receipt transactions. However, edit checks generally ensure that certain fields are populated and/or formatted correctly, not that the information is accurate. The Commission asserted it had a manual review process to verify the revenue data entered was accurate before being uploaded into CAPPs. However, that process was not documented and the Commission could not provide any documentation showing that it had reviewed the data tested to verify the accuracy of the cash receipt information.

## The Commission Generally Ensured That Pipeline Permit and Mileage Fees Collected Were Accurate and Supported; However, It Should Ensure That Pipeline Data Used to Determine the Fees Due Is Accurate

Chapter 1-B  
Rating:  
Medium <sup>2</sup>

The Commission collected newly established pipeline mileage fees, permit processing fees, and applicable late fees that totaled \$3.0 million from June 29, 2018, through January 31, 2019, from pipeline operators (see text box for more information on the pipeline-related fees). Auditors tested the accuracy of a sample of pipeline mileage fees and permit processing fees, which totaled \$699,446, that the Commission collected and recorded in USAS for 53 operators during that time period and determined that the Commission:

- Accurately calculated the pipeline mileage fees tested.
- Collected the correct permit processing fee amount.
- Accurately recorded the collected fees tested in USAS.

However, the Commission did not consistently ensure the accuracy of the data it used to track the active status of operator pipeline permits and the associated pipeline mileage.

Specifically, auditors identified inaccuracies in the data related to 2 of the 53 operators tested. For example, the errors included listing an unpaid permit processing fee as paid and listing an inactive operator as active. The Commission also waived a permit processing fee for a third operator; however, it did not have a policy to provide guidance on waiving fees, including required approvals and documentation requirements.

### Pipeline Safety and Regulatory Fees

House Bill 1818 (85th Legislature, Regular Session) amended the Texas Natural Resources Code to grant the Commission the authority to establish new pipeline safety and regulatory fees for permits issued for pipelines that are under the jurisdiction of the Commission.

On June 5, 2018, the Commission established an annual mileage fee and a permit processing fee for new permits and annual permit renewals in its administrative rules. It also established the process through which pipeline operators will pay both fees. The Commission began collecting those pipeline-related fees effective:

- June 29, 2018, for pipeline mileage fees, which involved approximately 90,985 pipeline miles as of June 2018.
- October 1, 2018, for permit processing fees.

As of January 31, 2019, the Commission had 1,184 permits issued to 437 pipeline operators.

Sources: House Bill 1818 (85th Legislature); Title 16, Texas Administrative Code, Section 3.70; and the Commission.

<sup>2</sup> The risk related to the issues discussed in Chapter 1-B is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

## Recommendations

The Commission should:

- Establish processes to verify the accuracy and completeness of the data that it maintains on pipeline operators prior to collecting applicable pipeline related fees from those operators.
- Develop, document, and implement a process for waiving pipeline permit processing fees, including required approvals and documentation requirements.

## Management's Response

- ***Establish processes to verify the accuracy and completeness of the data that it maintains on pipeline operators prior to collecting applicable pipeline related fees from those operators.***

*The Commission disagrees with the recommendation. The SAO's recommendation is already a built-in function of the Pipeline Online Permitting System (POPS). Operators input new permit data into and complete the process with a payment in POPS (through Texas.gov). Enforcement of the accuracy and completeness of the data is necessarily done in the field by our inspection staff.*

*As for the inaccuracies in the data related to Permits Nos. 08817 and 9423, we believe that the SAO was misinformed. The Commission did not charge a renewal fee for permits where the renewal was submitted before October 1, 2018. These permits were rejected prior to October 1, 2018, and then successfully corrected and resubmitted after October 1, 2018.*

- ***Develop, document, and implement a process for waiving pipeline permit processing fees, including required approvals and documentation requirements.***

*The Commission disagrees with the recommendation. The Commission has never waived a pipeline permit processing fee. As noted above, all fees are paid through POPS and Texas.gov. The Commission therefore cannot waive these fees.*

## Auditor Follow-up Comment

The Commission contends that its inspection staff helps to ensure the accuracy and completeness of pipeline permit data. However, auditors identified—and the Commission’s pipeline staff confirmed—inaccuracies in certain pipeline permit data tested. Those inaccuracies show that the Commission’s existing process for entering and reviewing pipeline permit data needs to be strengthened.

Additionally, the Commission asserts that auditors were misinformed about why it did not collect processing fees for two permits (Permits Nos. 08817 and #9423). However, the Commission acknowledges that:

- (1) It rejected the initial permit applications for both permits prior to October 1, 2018.
- (2) The permit applications were corrected and resubmitted **after** October 1, 2018.

Title 16, Texas Administrative Code, Section 3.70 (j), states that beginning October 1, 2018, each pipeline operator shall pay a \$500 permit processing fee for each new permit application and permit renewal. While the Commission contends that a processing fee was not charged for the resubmitted applications because the initial applications were submitted prior to October 1, 2018, the Texas Administrative Code does not include any exceptions to the processing fees for applications received after October 1, 2018. In addition, for one of the permits, the initial application was submitted on October 21, 2016—27 months prior to resubmitting the application on January 2, 2019.

While the Commission contends that it cannot waive processing fees, the Commission did not collect processing fees for the two permits discussed. Because of this, auditors re-emphasize the recommendation that it document the circumstances, including the approvals and documentation required, under which the Commission may determine it would be unreasonable to collect a processing fee.

## The Commission Ensured That Administrative Penalties It Collected Were Accurately Recorded and Supported, and that Appropriate Action Was Taken on Past Due Penalties

Chapter 1-C  
Rating:  
Low <sup>3</sup>

For the administrative penalties it assessed, the Commission (1) ensured that the penalties were collected when required or (2) took appropriate action on past due penalties (see text box for more information about the administrative penalties). From September 1, 2017, through January 31, 2019, the Commission collected and deposited into the Fund administrative penalties of approximately \$17.7 million from operators. Auditors tested 33 administrative penalties assessed that totaled \$311,712 and determined as of January 31, 2019:

- The Commission received payments for 19 (58 percent) administrative penalties that totaled \$52,328. Those payments were supported and accurately recorded in USAS.
- The Commission took action to address the 14 (42 percent) administrative penalties that totaled \$259,384 for which it did not receive payment. The actions included referring a past due amount to the Office of the Attorney General when required.

### Administrative Penalties

The Texas Natural Resources Code provides the Commission with statutory authority to assess administrative penalties for violations related to safety or the prevention or control of pollution. In determining the amount of the penalty, the Commission considers relevant factors including the seriousness of the violation and the operator's history of compliance. Title 16, Texas Administrative Code, Section 3.107, provides the Commission with guidelines for the assessment of penalties for various types of violations. Sources: The Texas Natural Resources Code; Title 16, Texas Administrative Code, Section 3.107; and the Commission.

<sup>3</sup> The risk related to the issues discussed in Chapter 1-C is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

**Chapter 1-D  
Rating:  
Low <sup>4</sup>**

**Refunds from the  
Commission**

The Commission may process refunds for instances such as adjusting financial records for canceled checks, overpayment of fees by operators, and the return of cash deposits that operators are statutorily required to pay to the Commission when obtaining an operating permit.

Source: The Commission.

Chapter 1-D

**The Commission Ensured That Refunds Were Properly Authorized and the Amounts Refunded Were Accurate and Reasonable**

The Commission refunded approximately \$10.6 million from the Fund for the period of September 1, 2017, through January 31, 2019 (see text box for more information about refunds that the Commission processed). The Commission ensured that appropriate management authorized the refunds it processed. It also ensured that the amounts refunded were appropriate and accurately recorded in USAS. Specifically, auditors tested a sample of 60 refunds that totaled \$906,920 and determined the following:

- For 59 (98 percent) of the 60 refunds tested, totaling approximately \$906,020, the refunds were appropriately supported and accurately recorded. For 1 refund tested, totaling \$900, the Commission was unable to locate the electronic file that it received from the Office of the Comptroller of Public Accounts that supported the amount and the fee type for the refund recorded in its financial management systems.
- For all 39 applicable refunds tested totaling \$895,632 that the Commission initiated,<sup>5</sup> the refunds were properly authorized by Commission staff.

<sup>4</sup> The risk related to the issues discussed in Chapter 1-D is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

<sup>5</sup> In some instances, the Comptroller's Office can initiate a refund. The Comptroller's Office initiates refunds that result from (1) checks with insufficient funds, stop payment requests, and closed checking accounts and (2) online refunds for credit card transactions.

## ***The Commission Ensured That General Revenue Dedicated to Well-Plugging Activities Were Spent as Intended; However, It Should Strengthen Controls Over Its Approval Process for Vendor Payments***

**Chapter 2  
Rating:  
Medium <sup>6</sup>**

Auditors tested a sample of 22 vendor payments, totaling \$388,700, from Economic Stabilization Fund appropriations that were for well-plugging services, and determined that those payments were accurately recorded in USAS and obtained certain required approvals prior to release of payment. The General Appropriations Act (85th Legislature) appropriated a total of \$38.2 million from the Economic Stabilization Fund to the Commission for its well-plugging activities for the 2018-2019 biennium (see text box for more information on the Economic Stabilization Fund). From January 1, 2017, through January 31, 2019, the Commission spent a total of \$13.9 million from the Economic Stabilization Fund on well-plugging activities.<sup>7</sup>

### **The Economic Stabilization Fund**

The Economic Stabilization Fund is a special fund established in the state treasury. The Economic Stabilization Fund was created by an amendment to the Texas Constitution in November 1988. The Comptroller's Office deposits a percentage of oil and gas production taxes into the Fund each fiscal year.

Source: Texas Constitution, Article III, Section 49-g.

While the Commission ensured that the Economic Stabilization Funds it spent were used for well-plugging activities as intended, it should strengthen controls over its vendor payment approval process. Specifically, of the 22 vendor payments tested:

- For 8 (36 percent) payments, totaling \$128,826, the Commission did not have documentation, in the form of a signature on the payment voucher, showing that a second member of its accounts payable staff reviewed vouchers prior to payment as required by Commission management. The Commission asserted that a second member of its accounts payable staff must approve payment vouchers to show that the accuracy and completeness of the voucher was verified, because the Commission did not have an automated approval process installed in CAPPs.
- For 6 (27 percent) payments, totaling \$110,893, the Commission did not ensure that the associated purchase order had received all required approvals prior to purchase. This included 1 payment of \$233 on an emergency purchase order for \$5,233, which the Commission did not have documentation showing that executive management approved the

<sup>6</sup> The risk related to the issues discussed in Chapter 2 is rated as Medium because they present risks or effects that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

<sup>7</sup> Of the \$13.9 million spent, the Commission transferred approximately \$5.9 million in well plugging expenses out of the Economic Stabilization Fund to other funds for payment during the 2018-2019 biennium.

emergency purchase order as required by the Commission's policies and procedures and that the amount paid was accurate.

### **Recommendations**

The Commission should:

- Ensure that its accounts payable staff perform the required reviews for all purchase vouchers and documents those reviews in accordance with its policies prior to processing vendor payments.
- Verify that it obtains and documents all approvals for purchase orders, including emergency purchase orders, prior to making the purchase.

### **Management's Response**

*The Commission agrees with these recommendations. For the eight payments referenced in the audit report, the Commission verified that these payments are appropriate and correct. Vouchers have check marks to signify they have been reviewed. The Commission also verified the payment of \$233 was appropriate and correct. Staff have been reminded to also sign the vouchers upon review and verify supporting documents are retained for emergency purchases.*

*Person Responsible for Implementation: Accounting Director*

*Completion Date: The procedures are in place. We have trained new staff on the procedures and the proper method to document that we are complying with policy.*

## ***While the Commission Should Strengthen Access Controls Over Its Information Systems, It Has Adequate Controls Over Change Management and Detecting and Correcting Data Processing Errors***

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The Commission should strengthen its processes for managing user access to its information systems. Its controls over change management and detecting and correcting data processing errors, however, were operating effectively.

**Chapter 3-A  
Rating:  
Medium<sup>8</sup>**

Chapter 3-A

### **The Commission Should Strengthen Access Controls Over Its Information Systems**

The Commission did not have adequate controls to ensure that active user accounts were appropriate and necessary as required by the Department of Information Resources' *Security Control Standards Catalog* (see text box for more information about the security controls standards).

In addition, while the Commission had written policies and procedures for managing user access to its information systems, they did not include procedures for either (1) conducting periodic user access reviews or (2) managing unsuccessful logon attempts.

**The Commission did not ensure the appropriateness of active user accounts to selected information systems.**

Auditors identified active user accounts that had inappropriate access to the Commission's information systems. Those active user accounts had inappropriate access for one or more of the following reasons:

- The user account was assigned to either a former employee or former contract worker. For certain user accounts, the Commission was unable to determine the status of the user to whom the account was assigned.
- The user account was a duplicate account of an existing user account.

#### **Security Control Standards**

To prevent unauthorized access to information systems, the Department of Information Resources' *Security Control Standards Catalog* requires state agencies to establish controls such as the following as part of its account management processes:

- Create, enable, modify, disable, and remove information system accounts in accordance with state agency defined procedures or conditions.
- Monitor the use of information system accounts.
- Notify account managers:
  - ♦ When accounts are no longer required;
  - ♦ When users are terminated or transferred; and
  - ♦ When individual information system usage or need-to-know changes.

Source: The Department of Information Resources' *Security Control Standards Catalog*.

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<sup>8</sup> The risk related to the issues discussed in Chapter 3-A is rated as Medium because they present risks or results that if not addressed could moderately affect the audited entity's ability to effectively administer program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.

- The user account was assigned to an employee who no longer had a business need for the account.
- The user account was given access rights that exceeded the business needs of the user.

The Department of Information Resources' *Security Control Standards Catalog* requires state agencies to establish certain controls over account management to mitigate the risk of unauthorized access to information systems. To minimize security risks, auditors communicated additional details about the user access weaknesses identified separately to the Commission in writing.

**The Commission's policies and procedures over user access did not include requirements specified by the Department of Information Resources.**

The Commission's written policies and procedures for managing user accounts addressed most of the requirements of the Department of Information Resources' *Security Control Standards Catalog*. However, those procedures did not include:

- Detailed procedures for conducting required periodic user access reviews.
- Requirements for unsuccessful logon attempts to address the risk of unauthorized access.
- Requirements to enforce the separation of duties for a user account.

The Security Control Standards Catalog requires state agencies to address those requirements in their policies and procedures to help ensure the appropriateness of user accounts.

## **Recommendations**

The Commission should:

- Develop, document, and implement processes to:
  - ♦ Periodically perform user access reviews.
  - ♦ Ensure that user access reviews verify the following information for each active user account:
    - Employment status of the person assigned to the user account.

- The person assigned to the user account does not have more than one account to the applicable information system.
- Business need for the user account.
- ♦ Disable active user accounts in a timely manner when (1) an employee or contract worker separates from the Commission or (2) a user access review determines that a user account is no longer valid or needed.
- Revise its policies and procedures for user access to address all of the *Security Control Standards Catalog* requirements.

### Management’s Response

*The Commission agrees with the recommendations. The Commission has developed, documented and implemented processes to periodically perform user access reviews. The review process and completed validation reviews include verifying the employment status of the person assigned to the user account, user account does not have more than one account to the applicable information system and business need for the user account. The Commission has also revised its Security Guidelines and Procedures.*

*Person responsible for the implementation: Information Security Officer*

*Completion Date: Complete.*

Chapter 3-B

### The Commission Managed Program Changes to Its Information Technology Systems in Accordance With Its Policies and Procedures

**Chapter 3-B  
Rating:  
Low<sup>9</sup>**

All program change requests tested complied with the Commission’s requirements. Specifically, auditors tested a sample of 32 (21 percent) of 154 program change requests that the Commission implemented from September 1, 2017, through January 31, 2019, for selected information systems. All 32 program changes tested were:

- Reviewed and approved by the appropriate information technology management and staff as required.

<sup>9</sup> The risk related to the issues discussed in Chapter 3-B is rated as Low because the audit identified strengths that support the audited entity’s ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity’s ability to effectively administer the program(s)/function(s) audited.

- Tested in a test environment before being moved to the production environment.
- Adequately documented, including a description of the program change and the applicable approvals.
- Implemented by employees different from the employees who developed the program change.

Additionally, the Commission's policies and procedures described adequate controls over the change management process and aligned with the requirements in the *Security Control Standards Catalog*.

Chapter 3-C

### **The Commission Adequately Monitored, Identified, and Corrected Data Processing Errors for Selected Information Systems**

**Chapter 3-C  
Rating:  
Low<sup>10</sup>**

The Commission had adequate controls for identifying and correcting data processing errors for the data it processed in selected information systems. An example of a data processing error is the use of an invalid revenue processing code. Auditors tested all six data processing errors recorded in the Commission's information technology operations log from September 1, 2017, through January 31, 2019. The Commission had supporting documentation showing that for all six data processing errors tested (1) it identified and corrected the errors and (2) that subsequent data processing jobs ran successfully.

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<sup>10</sup> The risk related to the issues discussed in Chapter 3-C is rated as Low because the audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited or the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.

# Appendices

Appendix 1

## **Objective, Scope, and Methodology**

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### **Objective**

The objective of this audit was to determine whether the Railroad Commission (Commission) has processes and related controls to help ensure that the Commission administers financial transactions in accordance with applicable requirements.

### **Scope**

The scope of this audit covered the Commission's financial activities related to revenues, expenditures, and applicable information systems for fiscal year 2018 (September 1, 2017, through August 31, 2018) and the first five months of fiscal year 2019 (September 1, 2018, through January 1, 2019).

### **Methodology**

The audit methodology included conducting interviews with Commission management and staff; collecting information and documentation on cash receipts expenditures, reconciliations between financial-related systems, oil and gas operator permits and mileage fees, and assessed administrative penalty amounts; performing selected tests and procedures on the information obtained; and analyzing and evaluating the results of those tests. In addition, the methodology included performing a limited review of the Commission's general and application controls for user access, change management, and data processing over selected information systems that the Commission used to manage financial and program data.

### **Data Reliability and Completeness**

Auditors used revenue and expenditures data from the Uniform Statewide Accounting System (USAS) to determine the total amount of revenue-related transactions deposited and refunded from the Oil and Gas Regulation and Cleanup Fund and expenditures paid from the Economic Stabilization Fund. Auditors determined that the data was sufficiently reliable and complete for the purposes of this audit.

Auditors used revenue-related data from the Commission's Centralized Accounting and Payroll/Personnel System (CAPPS) to help verify the accuracy of revenue-related transactions. Auditors determined that the data was sufficiently reliable and complete for the purposes of this audit.

Auditors used the Commission’s data from selected information systems to test revenue-related transactions including refund and pipeline permits and mileage data. Auditors determined that revenue-related data was of undetermined reliability for the purposes of this audit. However, it was the most complete information available and auditors used it for the purposes of this audit. Auditors determined that pipeline permit and mileage data was sufficiently reliable for the purposes of this audit.

Auditors used data from selected information systems to perform a limited review of certain general controls over user access and data processing error identification and correction. To determine whether that data was reliable, valid, and complete, auditors (1) observed the Commission extract the data sets, (2) reviewed the data query language, (3) performed a high-level review of data fields and contents for appropriateness, and (4) compared that information to other support when applicable. Auditors determined that the data provided was sufficiently reliable and complete for the purposes of this audit.

Auditors used data on the Commission’s change management process that the Commission manually compiled. To determine the reliability of that data, auditors (1) obtained from the Commission a list of change tickets closed during the scope of the audit, (2) reviewed the data fields and contents for appropriateness, and (3) obtained clarifications from the Commission on the data provided. Auditors determined that the data was of undetermined reliability but was the most complete information available; auditors used it for the purposes of this audit.

#### **Sampling Methodology**

Auditors selected nonstatistical samples through random selection of (1) cash receipts, (2) refunds, (3) expenditures, (4) oil and gas operators, and (5) pipeline permits testing. Auditors also selected a nonstatistical sample through random selection of assessed administrative penalties identified in the Commission’s meeting records. In addition, auditors selected a risk-based sample of additional risk-based transactions and change management tickets for testing. The nonstatistical and risk-based samples were not generally representative of the population; therefore, it would not be appropriate to project those test results to the population.

Information collected and reviewed included the following:

- Commission policies and procedures.
- Commission revenue, expenditure, and refund transaction data from financial-related systems.

- Commission deposit logs, program documentation, purchase requisitions, purchase orders, invoices, memorandums, and other supporting documentations for applicable transactions tested.
- Commission revenue reconciliations and other supporting documentation.
- Commission pipeline permit and mileage data and related documentation.
- Commission meeting minutes.
- Commission master agreed orders, master default orders, penalty dockets, and other supporting documentation.
- Commission revenue and expenditure data from USAS.
- Commission permit-related data from selected Commission information systems.
- Commission user manuals for applicable information systems.
- User access data, password parameters, change management tickets, operational logs, and other supporting documentation related to general controls over the Commission's financial-related information systems.
- Prior State Auditor's Office work on USAS.

Procedures and tests conducted included the following:

- Interviewed the Commission's management and staff.
- Performed walkthroughs of cash receipt process.
- Tested the accuracy of cash receipts recorded in USAS and the Commission's financial-related information systems.
- Tested the authorization, accuracy, and appropriateness of refunds.
- Tested the performance of monthly revenue reconciliations, including whether the Commission resolved identified variances.
- Tested the appropriateness of expenditures for well-plugging activities.
- Tested the accuracy of pipeline permit processing fees and mileage fees collected.

- Tested the collection and monitoring of assessed administration penalties.
- Reviewed supporting documentation related to general controls and application controls over selected information systems.

Criteria used included the following:

- Texas Government Code, Chapters 404 and 2251.
- Texas Natural Resources Code, Chapter 81.
- The General Appropriations Act (85th Legislature).
- Title 1, Texas Administrative Code, Chapter 202.
- Title 16, Texas Administrative Code, Chapters 3, 4, 5, 8, 9, 11, 12, 13, 14, and 18.
- Title 34, Texas Administrative Code, Chapter 5.
- Department of Information Resources' *Security Control Standards Catalog*, Version 1.3.
- Office of the Comptroller of Public Accounts publications:
  - ♦ *USAS User's Manual*.
  - ♦ *Manual of Accounts*.
  - ♦ *Fiscal Policies and Procedures*.
  - ♦ *Procurement and Contract Management Guide*, Version 1.1.
- The Commission's policies and procedures.

## Project Information

Audit fieldwork was conducted from December 2018 through May 2019. We conducted this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

- Willie J. Hicks, MBA, CIA, CGAP (Project Manager)
- Quang Tran, CFE (Assistant Project Manager)
- Jerel Deacon
- Kristin A. Franklin
- Joseph Kozak, CPA, CISA
- Scott Labbe, CPA
- William J. Morris, CPA
- Daniel Spencer, MSA, CFE
- Jacqueline M. Thompson, CFE
- Richard Wyrick
- Brenda Zamarripa, CGAP
- George D. Eure, CPA (Quality Control Reviewer)
- James Timberlake, CIA, CFE (Audit Manager)

## Issue Rating Classifications and Descriptions

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Auditors used professional judgement and rated the audit findings identified in this report. Those issue ratings are summarized in the report chapters/sub-chapters. The issue ratings were determined based on the degree of risk or effect of the findings in relation to the audit objective(s).

In determining the ratings of audit findings, auditors considered factors such as financial impact; potential failure to meet program/function objectives; noncompliance with state statute(s), rules, regulations, and other requirements or criteria; and the inadequacy of the design and/or operating effectiveness of internal controls. In addition, evidence of potential fraud, waste, or abuse; significant control environment issues; and little to no corrective action for issues previously identified could increase the ratings for audit findings. Auditors also identified and considered other factors when appropriate.

Table 2 provides a description of the issue ratings presented in this report.

Table 2

Summary of Issue Ratings	
Issue Rating	Description of Rating
Low	The audit identified strengths that support the audited entity's ability to administer the program(s)/function(s) audited <u>or</u> the issues identified do not present significant risks or effects that would negatively affect the audited entity's ability to effectively administer the program(s)/function(s) audited.
Medium	Issues identified present risks or effects that if not addressed could <u>moderately affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Action is needed to address the noted concern(s) and reduce risks to a more desirable level.
High	Issues identified present risks or effects that if not addressed could <u>substantially affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Prompt action is essential to address the noted concern(s) and reduce risks to the audited entity.
Priority	Issues identified present risks or effects that if not addressed could <u>critically affect</u> the audited entity's ability to effectively administer the program(s)/function(s) audited. Immediate action is required to address the noted concern(s) and reduce risks to the audited entity.