

# LEGISLATIVE AUDIT DIVISION

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## MEMORANDUM

**TO:** Legislative Audit Committee Members  
**FROM:** Lisa Blanford, Performance Audit Manager  
**CC:** Linda Nelson, Chair, Board of Oil and Gas Conservation  
Tom Richmond, Administrator, Oil and Gas Conservation Division  
John Tubbs, Director, Department of Natural Resources and Conservation  
**DATE:** June 2013  
**RE:** Performance Audit Follow-Up (13SP-04): Board of Oil and Gas Conservation  
Regulatory Program (orig. 11P-04)  
**ATTACHMENTS:** Original Performance Audit Summary

### Introduction

In November 2011, we presented our performance audit titled "*Board of Oil and Gas Conservation Regulatory Program.*" The audit report focused on the division's inspection and enforcement activities and management of its electronic data. The audit included seven recommendations. In 2013, we conducted follow-up work to assess implementation of the audit recommendations. This memorandum summarizes the results of our follow-up work.

### **Overview**

Initial audit work determined the Oil and Gas Conservation Division, under the supervision of the Board of Oil and Gas Conservation, should develop a more formalized approach for the regulatory functions it performs including inspection and enforcement activities. Additionally, the division needed to improve management of the Oil and Gas Information System, a database containing well information. We made seven recommendations that focused on strengthening inspection and enforcement efforts and data management. Our review determined one recommendation is implemented and six recommendations are being implemented.

### Background

The Board of Oil and Gas Conservation (board) and its staff in the Oil and Gas Conservation Division (division) regulate oil and natural gas development in Montana. Their work helps protect the petroleum resource, property owners, the environment, taxpayers, and oil and gas operators. The governor appoints the seven members of the board. The board and division are administratively attached to the Department of Natural Resources and Conservation (DNRC).

The board is the policy-setting and rulemaking entity. Administrative functions are the responsibility of the division. Division staff issue permits; classify wells; issue and carry out board orders; conduct field inspections; initiate enforcement activities; require performance bonds for site restoration; and maintain a repository of administrative, technical, and geologic information about these wells. The board regulates 17,600 active oil and gas wells located in the state.

### **Follow-Up Audit Results**

The following sections summarize the progress toward implementation of the report recommendations. During our follow-up, we reviewed service contracts, board and staff meeting minutes, summary notes, and presentation materials. We also interviewed division management in Billings and spoke with a representative from Montana Tech of the University of Montana (Montana Tech), Petroleum Engineering Department.

#### **RECOMMENDATION #1**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation, develop a formal risk-based inspection approach that establishes inspection priorities.**

#### **Implementation Status – Being Implemented**

The recommendations related to strengthening inspection processes are being addressed through development of a comprehensive field inspection manual for use by supervisory and inspection staff in performing functions associated with the inspection program. The manual will provide tools for determining inspection priorities, formalize the assessment of risk, and establish the appropriate inspection schedule and policies for the various types of inspections. The board contracted with the Petroleum Engineering Department at Montana Tech to assist with these efforts. Montana Tech has also been tasked with developing a customized training program for inspection staff. Training will focus on using the field manual, application of risk-based inspections and inspection priorities, constancy in application of policy, new inspector preparation, and developing technical skills needed to perform various types of inspections. The field inspection manual will be completed in July 2013. Inspector training relative to the field inspection manual, inspection priorities, application of related procedures, and documentation protocols will occur this year. Additional training components are not yet scheduled and the division anticipates contracting with Montana Tech to develop and provide this.

#### **RECOMMENDATION #2**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation:**

- A. Develop formal policies and procedures pertaining to the inspection program.**
- B. Ensure these policies and procedures are applied consistently by staff.**

#### **Implementation Status – Being Implemented**

As previously discussed, the board contracted with the Petroleum Engineering Department at Montana Tech to assist with developing formal policies and procedures for the inspection program. Staff from Montana Tech is working with division management and staff to develop a comprehensive field inspection manual. The field inspection manual will be completed in July 2013. Training will be used to ensure constancy by staff in applying policies and procedures. Training will occur once the inspection manual is completed. Additional future training will be provided as part of the division's on-going effort to develop and provide a comprehensive training program for staff.

#### **RECOMMENDATION #3**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation, standardize how inspections and compliance activities are documented and tracked.**

#### **Implementation Status – Being Implemented**

The effort being undertaken to develop and utilize a field inspection manual is also being used to assist in developing standardized approaches to documentation, including inspections, related monitoring, and compliance and enforcement actions. Forms are being reexamined and updated to better meet division needs. Inspection and compliance documentation has been discussed during staff meetings and training will be used to enhance staff understanding and constancy. Current focus is on standardizing inspection

and compliance documentation and data entry currently performed by administrative staff. However, the division's eventual goal is to use an electronic recording and tracking system for inspections and compliance. This would enable staff to electronically record inspection and compliance activities while in the field and automatically upload this data into the division's database.

**RECOMMENDATION #4**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation, strengthen enforcement activities by:**

- A. Ensuring compliance with existing administrative rule timelines.**
- B. Identifying if additional corrective action timelines are needed.**
- C. Establishing formal guidelines for corrective action activities.**

**Implementation Status – Being Implemented**

Implementation of the recommendation related to strengthening enforcement activities is being addressed on several fronts. A portion is included in the development of the field inspection manual, which will address inconsistencies in application of timelines and will establish guidelines for enforcement and corrective actions by inspectors. Training activities will supplement this effort by helping to ensure consistent application of policy. Division management is also considering training on legal requirements for properly documenting violations and enforcement actions and regulatory actions undertaken by federal agencies with respect to oil and gas wells. In addition, the board was authorized funding for a Compliance Officer/Enforcement Coordinator. This position will assist the Chief Field Inspector and the board by improving consistency in application of compliance procedures for violations identified by the inspection program as well as nonfield inspection related violations. This position will be filled in fiscal year 2014. Senior staff also reviewed existing administrative rules and concluded new rule making to establish additional corrective action timelines is not needed at this time. Further review will take place as implementation of the field inspection manual requires.

**RECOMMENDATION #5**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation, comply with state information technology policy to ensure a segregation of duties over management of the Oil and Gas Information System.**

**Implementation Status – Implemented**

Due to the limitations of a small staff, the division implemented this recommendation by having the division administrator review and approve data management activities and database changes and additions. This action provides for management level oversight and monitoring in place of segregation of duties.

**RECOMMENDATION #6**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation, comply with statute and state information technology policy by:**

- A. Developing, documenting, and maintaining an Oil and Gas Information System security plan.**
- B. Enforcing, through automated methods, the state information technology password policy for the Oil and Gas Information System.**

**Implementation Status – Being Implemented**

The division is working on implementing recommendations related to strengthening its data management processes. State password policies have been implemented by automating the system to force password changes according to state policy. In addition, DNRC information technology (IT) staff now has network administrator rights to the Oil and Gas Information System (OGIS) while network rights for division staff

have been restricted. The division is working on recommendations for implementing security plans with assistance from State Information Technology Services Division, DNRC IT staff, and a contracted provider. There are three primary issues to be resolved: OGIS system documentation, updates of some Geographic Information System (GIS) related components of OGIS, and whether to update the server currently used to house OGIS or use servers located elsewhere. The contractor is currently developing system documentation for OGIS with completion expected by June 30, 2013. Once system documentation is completed, DNRC staff will perform updates to the GIS components of OGIS. Lastly, the board, division management, and DNRC have not made a final decision on moving the OGIS database and web services from stand-alone equipment in Billings to servers housed by DNRC or State Information Technology Services Division, with cost being a primary consideration. Depending on where the database will be housed, either DNRC's or the State's security plan would apply to OGIS. If stand-alone equipment in Billings is used, an individualized security plan must be developed.

#### **RECOMMENDATION #7**

**We recommend the division, under the supervision of the Board of Oil and Gas Conservation, comply with state information technology policy by developing, documenting, testing, and maintaining an Oil and Gas Information System disaster recovery plan.**

#### **Implementation Status – Being Implemented**

As previously discussed, the division is using a multi-faceted approach to strengthening its data management with assistance from State Information Technology Services Division, DNRC IT staff, and a contracted provider. The division's efforts for disaster recovery planning include developing system documentation and updating some GIS-related system components as noted above. A final key decision to be made that impacts disaster recovery planning is where the OGIS database and web services will be housed. Depending on where OGIS is housed, either DNRC's or the State's disaster recovery plan would apply. If stand-alone equipment in Billings is used, an individualized disaster recovery plan would be developed. The board, division management, and DNRC have not made a final decision on server location.