



# Department of Natural Resources Oil and Gas Permitting Audit

**Audit Period: January 2014 through December 2014**

## Results Summary:

Objective	Conclusion
Permit Application Process	Major Improvement Needed
Revenue Receipt Process	Major Improvement Needed
Reporting Requirements of Permit Holders	Improvement Needed

\* Please refer to Appendix A for classification of audit objective conclusions.



## **Executive Summary**

### **Background**

The Ohio Department of Natural Resources (ODNR) ensures a balance between wise use and protection of Ohio's natural resources for the benefit of all. This balance is achieved through the protection, promotion, and management of recreational areas and activities and the regulation of mineral and energy extraction. Within ODNR, the Division of Oil and Gas Resources Management (DOGRM), is responsible for regulating the permitting, drilling, and production of the state's oil and natural gas resources. DOGRM also works to ensure the safe disposal and recycling of oilfield waste, plugs abandoned oil and gas wells, and maintains a comprehensive database of Ohio's production wells. This authority is established under Ohio Revised Code Chapter 1509 and through Ohio Administrative Code Chapter 1501:9.

Through oversight and enforcement regulatory functions, DOGRM ensures and enforces compliancy with all applicable laws during each phase of the life of a well: well pad construction, well drilling, well completions, well production, and ultimately, the plugging and reclamation of a well. Specifically, DOGRM issues permits to drill, deepen, convert, inject, plug back, plug and abandon, reissue, and reopen oil and natural gas wells. During 2014, DOGRM issued over 2,200 permits and, to date, has issued over 650 permits in 2015.

During the audit, OIA identified opportunities for the Department of Natural Resources (DNR) to strengthen internal controls and improve business operations. OIA conforms to the International Standards for the Professional Practice of Internal Auditing. OIA would like to thank DNR staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

### **Scope and Objectives**

OIA staff was engaged to perform an assurance audit related to the controls over the agency's Oil and Gas permitting process. This work was completed December 2014 through May 2015. The detailed objectives are as follows:

- Evaluate the design and effectiveness of the controls around the permit application process
- Evaluate the design and effectiveness of the controls around the revenue receipt process.
- Evaluate the design and effectiveness of the controls around the reporting requirements of permit holders.

The scope of this audit did not include a review of the revenue deposit process which is audited by the Auditor of State.



## Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. Low risk observations were discussed with individual agency management and are not part of this report. However, the low risk observations were considered as part of the audit objective conclusions.

### **Observation 1 – Noncompliance with Collecting Permit Fees**

Ohio Revised Code Section:

1509.06 (D) requires an additional nonrefundable fee of \$250 for the request of an expedited review.

1509.06 (G) requires each application for a permit (except a plug back) to be accompanied by a nonrefundable fee of:

- \$500 for a permit in a township with a population of less than 10,000;
- \$750 for a permit in a township with a population of 10,000 to 15,000;
- \$1,000 for a permit in a township with a population of 15,000 or a municipal corporation;
- \$250 for the revision or reissuance of a permit; and
- An additional \$5,000, if the permit requires mandatory pooling.

1509.061 requires a \$250 nonrefundable fee for each application for a permit with a revised existing tract.

1509.062 (E) requires an application for a temporary active well to be accompanied by a nonrefundable fee of \$100. An application for a renewal of a temporary inactive well should be accompanied by a nonrefundable fee of \$250 for first renewal and \$500 for each subsequent renewal.

1509.071 (D) (2) (a) requires an application for a plug back to be accompanied by a fee, unless it is waived.

1509.13 (C) requires an application for a plug and abandon well to be accompanied by a fee of \$250, if oil and gas has been produced from the well.

1509.13 (D) requires an additional nonrefundable fee of \$500 for the request of an expedited review of a permit to plug and abandon a well.

Division of Oil and Gas Resources Management (DOGRM) staff indicated that overpayments are not being refunded because the Ohio Revised Code states that payments are nonrefundable. However, the Revised Code does not state that an overpayment made by a well owner in error is nonrefundable; therefore these overpayments should be refunded to the customer.



During our review of the permitting process, OIA confirmed that some permit fees collected were noncompliant with the Ohio Revised Code. Listed below are the anomalies that were noted:

- OIA selected payments for testing and several were identified as potential overpayments. These payments were reviewed further in RBDMS and were in-fact identified as actual overpayments and should be refunded to the customer. As a result of these identified overpayments, we reviewed the total population of 2,233 permit fees collected in calendar year 2014, and noted several other possible overpayments as well as possible underpayments.
- A majority of the permits with a rush fee recorded appeared to not be expedited within seven days of receipt of the application (on average, these were processed in 16 days).
- In review of the total population of “convert” well permits issued, there are multiple inconsistencies in payments collected verses permit fee descriptions (on the application, in the Risk Based Data Management System (RBDMS), and in current procedures). For example, in multiple instances, DOGRM collected \$500 for a converted urban well (population 15,000+); when the payment should have been \$1,000 per the application.

Additionally, based on discussions with Legal, DOGRM has suspended accepting payments for plug back permits due to imminent changes to the ORC; however, if the applicants submit a payment, it is accepted and deposited. This practice is inconsistent.

Not adhering to the Ohio Revised Code permit and application requirements increases the likelihood of incorrect receipts, non-compliance, customer dissatisfaction, and an impaired public reputation.

### Recommendation

DOGRM should establish formal policies and procedures for issuing refunds to well owners who overpay. The procedures should include, but not be limited to accurate descriptions and amounts for the various permit fees and action steps taken when overpayments are discovered.

After policies and procedures are documented, review the history of payments and determine the extent that overpayments exist and issue refunds accordingly.

Implement reviews to current procedures to ensure application aligns with the payment received before a permit is issued. Additionally, DOGRM should include in formal policies and procedures standard protocol when encountering underpayments. (e.g. reject applications or invoice)

Implement a consistent practice for accepting or not accepting plug back fees. Further, if legislation changes, DOGRM should communicate this to the public and reject all incoming plug back payments (or issue the customer a refund, if necessary).

Expedite fees are documented in the Revised Code as nonrefundable; however, in review of the



data, it appears DOGRM is not upholding the seven day issuance requirement (not including mail time). To increase compliance and customer satisfaction, consider evaluating the expedite process, assessing workload, and adjusting the application process to ensure DOGRM is meeting the turnaround time.

Revise current procedures and the application to include all permit types and the correct fees. In addition, ensure all permit types are available as an option in RBDMS. If necessary, update RBDMS to include all of the codes and descriptions for permits.

DOGRM should also consider implementing other monitoring activities, such as a periodic supervisory review of staff data entry to prevent and detect errors as well as mitigate the risk of fraud, waste and abuse. Consider creating, implementing, and conducting periodic reviews of fee payments to ensure that appropriate amounts are collected based on the permits issued.

**Management Response**

Addressing the OIA’s specific recommendations, the Division advises:

- It has initiated formal policies/procedures for issuing permit overpayments. Necessary repayments are initiated within 3 business days. Anticipated implementation date: 12/15/15
- It is auditing 2014 permit payments and expects to issue any necessary repayments within 12 months. Anticipated implementation date: 12/15/15
- It will continue its practice of balance billing or issuing refunds in conjunction with payments received that do not align with actual permit costs.
- It will reject plug back fees, as per legislation that becomes effective 9/29/15.
- It will update its website to clarify the statutory requirement that deficient expedited applications will not be processed as “expedited”, nor will refunds be issued (see ORC 1509.06(D)). Anticipated implementation date: 11/1/15
- Management will review staff data entry to ensure consistency between payments and permits. Anticipated implementation date: 12/15/15

Risk*	Remediation Owner	Estimated Completion Date
High	DOGRM Chief of Operations	March 2016

**Observation 2 – Access to RBDMS**

Appropriate authorization and periodic review of user access to the Risk Based Data Management System (RBDMS) by the appropriate level of management helps prevent users from overriding controls within the process. An organization should have established procedures in place to create and monitor user access to RBDMS.



The Business Process Analyst has the responsibility of assigning, editing, and deleting user roles based on the employee's job description. The Business Process Analyst can make additions or deletions to a user's access to the system upon request from the employee or the employee's supervisor. Management is not required to approve additional access requests. Management also does not perform periodic reviews of user access to ensure employees have access only to roles pertinent to their job description.

There are three user role categories in RBDMS; Production, Application, and Bonding. Some users have the same access levels across these user roles, giving employees the ability to approve incomplete or inaccurate applications or bonding information.

During our review, it was noted that the Office Assistant in the Bond and Surety Section has the ability to override a hold in RBDMS, regardless of the reasoning for the hold on the application. Management should be the sole authority for overriding holds placed on applications. Additionally, it was observed that controls do not exist in the system to prevent revenue amounts being changed by individuals that have access to the system.

Not consistently reviewing the access levels of RBDMS users increases the risk of:

- Inappropriate access being granted to current employees;
- Unauthorized access when employees are terminated;
- Unauthorized overriding of system controls; and
- Inappropriate approval of Oil and Gas permits.

### Recommendation

Consider creating and implementing an authorization process for RBDMS access in which only certain designated management can authorize the assigning, editing, or deleting of employee access levels. No changes to employee access levels should be made without management authorization.

Management should consider conducting a review of current RBDMS roles to determine if the roles create adequate segregation to prevent unauthorized overriding of system controls. Also consider implementing periodic reviews of employee access and roles in RBDMS, documenting results of the review.

In addition, establish an internal policy that outlines which individuals can authorize access role additions, edits, or deletions; who should perform periodic reviews or access levels; when reviews should be conducted; the frequency; and how the reviews, results, and corrective actions should be evidenced and maintained.

### Management Response

The Division has addressed the control issues related to this observation. The only remaining



task is the completion of formal policy and procedure. The Department’s Office of Information Technology has worked closely with the DOGRM IT staff to address the security weaknesses. Anticipated implementation date: 12/15/15

Since April of 2015 the Departments’ Lead Database Administrator and the DOGRM Business Process Analyst have:

- Changed system user profiles which consist of reduction of editing capabilities of users, supervisory approvals and editing tracking/review.
- Performed an analysis of user securities and settings to determine user roles.
- Used database analysis to reassign securities based on hierarchy.
- Reduced the security settings of non-division personnel or removed them completely from their administrator roles where applicable.
- Created a standardized securities authorization form and associated policy and procedures that will be used to assign securities in the system (this form will also be used in the new RBDMS system once implemented).

Additionally, DOGRM is currently in the process of developing a new e-Permitting and Risk Based Data Management System (RBDMS) utility that will be used by clients to submit their permit applications. The new system will also replace the current function that RBDMS currently provides in regards to data collection, retention and manipulation. The implementation of the new system will allow for improved security settings and controls and will limit the number of staff not approved to make changes to tables and data without expressed approval from supervisors and Database Administrators. The new system will improve accountability, internal controls, accuracy, efficiency and consistency.

DOGRM staff submitted a Statement of Work to ODAS’ procurement group to begin the solicitation process for a document writer, project manager and software developer. According to ODAS Procurement staff, solicitation will begin the first week October 2015. It’s estimated that the permit module will take at least 1 year to complete.

Risk*	Remediation Owner	Estimated Completion Date
High	DOGRM Chief of Operations	March 2016

### Observation 3 – Timely Notification of Late Annual Production Reports

Revised code requires well owners to submit annual oil and gas statement of production reports by March 31<sup>st</sup>. If well owners fail to submit required reports, the DOGRM should make reasonable attempts to notify the owner. If a report is not received within 30 days of issuance of the notification, DOGRM may issue a material and substantial violation order, and may revoke permits or suspend drilling, operating, or plugging activities.



The Permitting Program within the DOGRM tracks receipt of production statements from well owners. After the reporting deadline has passed, the Geology Section provides the Legal Section of the DOGRM with a listing of well owners who have not submitted an annual production statement.

Through interviews with the Legal Section, current practice consists of: sending a first notice to well owners who have not filed production statements. If a production statement is not filed within 30 days of sending the first notice, they follow up with a second notice. A third notification, called a Chief's Order of Material and Substantial Violation is sent next, followed lastly by a Final Chief's Order to cease operations.

The Legal Section's procedures are not formally documented. The Legal Section utilizes the Ohio Revised Code as their policy for enforcement, but procedures detailing how notifications are sent, when they are sent, and who sends them are not documented in writing.

During review of the Legal Section's tracking and follow-up of calendar year 2013 production statements (due March 31, 2014), we noted the following:

- 945 production reports were not filed by the deadline and first notices were sent to the well owners. The first notices were sent to well owners between April 30 and June 6, 2014 with 87% of notices being sent in June.
- A majority of well owners were not sent second notifications notifying them production reports were not submitted after the first notification.
- A majority of well owners were not sent Chief's Orders notifying them production reports were not submitted after a second notice should have been sent.
- No Final Chief's Orders (ceasing operations) were sent to well owners notifying them production reports were not submitted after a Chief's Order.
- The Permitting Program and Legal Sections each maintain their own tracking spreadsheets for production reporting; the information in the two locations does not always agree.

Failure to consistently track production reports from well owners prevents the Agency from properly monitoring the activity of well owners. Without production reports from well owners, the Division cannot adequately plan for reviews to be conducted, potentially reducing the efficiency of the limited staff available. Inadequate procedures could also lead to noncompliance with laws and regulations related to production reporting and enforcement of production reporting.

## Recommendation

Document the Legal Section's procedures over the enforcement process for the late and non-filing of productions statements. The procedures should include:

- Who is to perform the work and when it should be completed;



- Where the data/information is obtained and how the data is received;
- Steps utilized to track notifications sent by the Legal Section, including the time periods allowed between the enforcement steps.
- What enforcement information is to be presented to management and how that information is to be presented.

Management should periodically review the procedures to determine if changes in the process have been made since the last review and to ensure the procedures ensure compliance with applicable laws and regulations.

In addition, the Legal Section should consider utilizing a more effective tracking mechanism. The current spreadsheet has date gaps and is difficult to follow. Consider working with IT to obtain a report from RBDMS and create a more effective tracking tool.

## Management Response

The new RBDMS features will include, but are not limited to annual certification of a well owner's information and the owner's well information, automated compliance notice issuance for failure to timely submit statement of production reports, tracking of statement of production submission, tracking of compliance notices issuance, tracking of second notifications, and tracking of chief's orders.

The DOGRM has formalized and implemented the procedures over the enforcement process. In order to ensure a proper understanding of the R.C. 1509 enforcement, DOGRM provides the following information. After a proper review of the Division's records, the Division sends compliance notices by certified mail to well owners who failed to submit annual statements of production. If a well owner receives a compliance notice and fails to submit statements of production to the Division within 14 days, a second notice is sent. If the well owner fails to submit statements of production within 30 days of the date the compliance notice was sent, and the second notice was received, all statutory requirements and due process requirements are satisfied. At that point, a Chief's Order may be presented to management for issuance. If the Chief's Order is not complied with, enforcement may be escalated to a suspension order, a referral to the Attorney General's Office, a bond forfeiture order, or the Division may enter into a compliance agreement with the owner. The issuance of compliance notices and Chief's Orders are not the sole method of enforcement. In addition, the Division and the Department of Taxation have statutory authority to share information in the enforcement of production reporting. Furthermore, an owner may request an extension of time for submission of annual statements of production. Anticipated implementation date: 3/1/16

Because submission of statements of production, compliance notices, second notifications, and Chief's Orders are all part of a legal process, DOGRM will not continue its enforcement if at any time a compliance notice, subsequent notification, or Chief's Order was not received. This may be due to an incorrect address, a deceased owner, a bankrupt or nonexistent company, or a mailing



that was otherwise undeliverable or returned. In such instances, a well owner would not have received due process. In addition, DOGRM does not continue in its enforcement process if a well owner submits the annual statements of production because at that point the statutory requirements are complied with, so subsequent notifications or Chief’s Orders would not be proper. All of these factors impact the number of compliance notices issued, second notifications issued, and Chief’s Orders issued.

Furthermore, DOGRM provides the following the reasons to provide a proper understanding of the use of two distinct spreadsheets related to annual reporting of production. The spreadsheets used by DOGRM’s Permitting Section and Legal Section are for different purposes and for different statutory requirements. The Permitting Section spreadsheet tracks compliance under R.C. 1509.11. The Legal Section spreadsheet is for tracking certified mailings of notices and Chief’s Orders sent to well owners; the spreadsheet is for tracking noncompliance under R.C. 1509.01 and 1509.04. Because the information in each spreadsheet is for different purposes, the information will not be identical.

The status of production reporting and tracking of notifications is a continuous and ongoing enforcement process and is updated in the appropriate spreadsheet and RBDMS. The Division will maintain one database, which will be updated annually on 3/31. The Division will document its issuance of notifications as part of this database.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	DOGRM Legal Counsel	March 2016

### Observation 4 – Application Review Process

Ohio Revised Code section 1509.06(C) requires the following:

- Applications for standard wells to be issued at least ten days after the application is filed, but no later than twenty-one days, unless the application is expedited or denied.
- Applications for wells in urbanized areas to be issued at least eighteen days after the application is filed, but not later than thirty days, unless the application is expedited or denied.
- Applications for expedited permits, accompanied by the appropriate fee (\$250 or \$500) to be issued within seven days after the application is filed, unless the application is denied or the request for expedite is refused.

Supervisor reviews and approvals should be consistently performed and formally documented to ensure employees are following procedures and inputting information accurately and timely. This is a standard business practice that promotes accountability and provides management with



assurance that the agency's objectives are carried out.

The Bonding and Surety Section enters the application information into the Risk Based Data Management System (RBDMS) and forwards it to the Geology Program team. Two geologists make revisions and document waiver requests on the hard-copy Proof Sheet and Daily Route Slip. All waiver requests require approval from the Geologist Manager. The application is routed back to the Bonding and Surety Section where final corrections are entered into RBDMS.

Before a permit is issued, the application should be forwarded to the Geologist Manager for final approval, however; Bonding and Surety makes the final corrections in RBDMS and the permit is issued. Also, there is no supervisor review process over the accuracy of the data entered into RBDMS.

The overall application review process appears to be inefficient. Upon receipt of an application, Bonding and Surety begins data entry into RBDMS within one to two days. After completing the information in RBDMS, the Office Assistant places the applications on the file cabinet in order by date. The application review process should progress immediately to the Geology Program team; however the geologists are waiting until the 10<sup>th</sup> day to start their reviews.

During testing of the applications, OIA noted the following non-compliance and keying errors:

- Two out of 25 (8%) standard permit applications tested were not issued within the allotted 10 to 21 days (on average, they were 12 days late).
- Five out of 10 (50%) expedited permit applications tested were not issued within the allotted seven days (on average, they were 5 days late).
- Two out of 25 (8%) permit applications tested did not have a peer review documented on the proof sheet, per internal policy manual.
- One out of 3 (33%) urban permit applications tested appeared to be issued in the system, three days sooner than the allotted 18 to 30 days.

The lack of supervisor reviews, failure to enter complete and accurate information from applications into RBDMS, and lack of final reviews (e.g. Geology Program) before issuance increases the risk of:

- Noncompliance;
- Incorrect or unallowable permit issuance;
- Program and customer expectations not being met; and
- Incorrect or unreliable data in the system.

## Recommendation

Consider creating, implementing, and conducting a quality review process over the data entry of permit applications by Bond and Surety management. This will assist with improving



standardization of the process and reducing or eliminating errors.

Update current procedures for the Geology Program over the issuance of permits. Create a procedure for the Geology Program to have final review and approval over the application prior to permit issuance. This review should be documented and maintained.

To improve efficiency in processing applications, consider instructing the Geology Program to cease the current practice of waiting 10 days prior to reviewing and proofing applications.

Incorporating reviews and authorizations in the process help maintain standards of quality, improve performance, and provide credibility.

### Management Response

In response to the first two bullet points raised by OIA, DOGRM has statutory authority to suspend review of an application if the application is deemed to be incomplete. The applicant is contacted and advised that the review process cannot move forward until the missing part of the application package is received. This is the main reason why permits are not issued within the regulatory time frame.

There is no statutory requirement for peer review of an application. However as OIA notes in its review, it is DOGRM policy for drilling applications and steps have been taken internally to achieve a 100% review within the section.

ORC 1509.06(C)(2) allows the chief to waive the 18 day waiting period for urban permits. In this case, it was a plug application in a remote section of an urban township and the waiver was granted.

A process has been created by the DOGRM IT section whereby either the Surety/Bonding manager or the Permitting manager can review data that is entered in the application module in RBDMS. Fees, well data, location data and other application data can now be viewed and approved. The current route slip will be expanded to document the Geology review. Anticipated Implementation Date: 11/1/15

The Permitting section has recently gone from a paper map system to a GIS based application review process. In doing so, a revised Standard Operating Procedure (SOP) for application review was drafted and approved in August 2015. Newly hired staff is being trained using this as a guideline.

The Geology Program manager does not agree that efficiency would be improved by reducing the 10 day waiting period to begin review of an application. In addition to other work projects, the permitting geologists may have at any given time multiple applications in various stages of review.

DOGRM believes that immediate review as suggested by OIA would create a logjam of applications in the geologist's work area that would be counterproductive to the work flow process and would make tracking of an application prior to issuance more difficult. The Permitting section will continue



to review applications in the fashion that it has; however, upon receipt of an application, it will be thoroughly proofed for completeness prior to putting it in the review queue. Applicants with missing or inaccurate information in their application will be contacted and advised of the material DOGRM needs to move the application forward.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	DOGRM Chief of Operations	March 2016

### Observation 5 – Lack of Segregation of Duties

Adequate internal controls establish a segregation of duties to prevent asset misappropriation or financial misstatement. Incompatible duties may include: custody of assets; authorization or approval of transactions affecting those assets; and recording or reporting related to those transactions. Procedures should be designed to prevent one employee from being assigned incompatible duties.

Currently, the DOGRM does not have a mechanism for logging and tracking incoming checks in the mailroom prior to being taken to Bond and Surety for processing. Also, checks received are not marked 'for deposit only', either manually or electronically, until they are prepared for deposit by Bond and Surety.

The Program Administrator in Permitting has the ability to edit/update permit application information in RBDMS (recording), approve Revenue Deposits in OAKS (authorization), and has physical access to checks (custody).

The Office Assistant in Bond and Surety has the ability to edit/update permit application information in RBDMS (recording) and has physical access to checks (custody).

Absence of segregation of duties increases the risk of asset misappropriation. Additionally, not immediately logging the receipt of checks and endorsing them increases the risk of loss and misappropriation.

#### Recommendation

Evaluate current procedures to ensure incompatible duties are delegated such that no individual has at least two of the following: custody of assets; authorize transactions or processes; or perform recording or reporting of transactions. If process changes are not cost effective, consider compensating controls to help ensure errors or irregularities are detected timely.

Consider having the individual opening mail create the check log and endorse all checks 'For Deposit Only'. Consider having two individuals open the mail to mitigate the risk that revenues are misplaced, lost, or stolen. Additionally, the person creating the log should sign after all checks have



been recorded and the second individual should sign after they have reviewed the information and deem it to be accurate. Fiscal should also sign the check log once they agree that the full amount has been provided to them for deposit.

### Management Response

Upon review of this Observation, DOGRM staff determined that improvements can be made to rectify the “segregation of duty” observation in the short term as well as the long term. Short term solutions can be made within the next 2 - 3 months and will focus on the realignment of some duties, staff and revenue collection and permitting process controls.

#### System Implementation

DOGRM is currently in the process of developing a new e-Permitting and Risk Based Data Management System (RBDMS) utility that will be used by clients to submit their permit applications. The implementation of the new system will virtually eliminate the need for clients to submit paper form checks. The new system will improve accountability, internal controls, accuracy, efficiency and consistency.

System features related to this observation will include (but are not limited to) automated date stamp, automated payment receipt at the point of application approval, real-time revenue receipts for the user, real-time report output, automated (permit) distribution flows, automated approval chain of security, other fee collection, user account maintenance and final management and fiscal approval processes.

#### Staffing Changes

In addition to implementation of the New e-Permitting and RBDMS system, DOGRM is realigning the Fiscal and Permitting Sections to include a Compliance program that will manage compliance in addition to the routine review of fiscal and programmatic controls and processes to ensure compliance. The new Fiscal Unit will include a Manager, two Compliance Officers, an Analyst and Researcher. This section will also utilize assistance from the Divisions’ Fiscal Section that will work in tandem with the new External Auditor (Manager) to conduct routine reconciliations, revenue collections, audits and reporting for all inbound collection of fees, fines and other income.

#### Short Term Resolution

The incorporation of a new mail log similar to the one currently used in the Fiscal Section, will be incorporated into the daily duties of the front desk staff member responsible for receiving mail (that may contain inbound checks). The front desk staff member will now be required to date stamp, log/record all items received and authorize receipts. Each mail log will be reviewed and approved by his/her immediate supervisor. Anticipated implementation date: 12/1/15

All revenue in check form will be verified by Fiscal staff. Revenue deposit source documents will then be reviewed by the Compliance Supervisor prior to posting into the OAKS FIN system. Note:



assignment of revenue to the proper account will be managed by the Compliance Section manager.  
Anticipated implementation date: 12/15/15

Risk*	Remediation Owner	Estimated Completion Date
Moderate	DOGRM Chief of Operations	March 2016

**Observation 6 – Reconciliation of OAKS and RBDMS**

A well-designed system of internal controls includes procedures to ensure completeness and accuracy of revenue received. Periodic reconciliations of the Department’s permit data to official State accounting records must be conducted to ensure internal controls are properly utilized and revenue information is accurate.

The DOGRM’s Fiscal Section has Monthly Revenue Reconciliation Procedures. The procedures instruct the Program Administrator to run the following reports:

- A Business Intelligence (BI) Cognos Revenue Accounting Entries Report – a report from the State’s accounting system, and
- An OAKS General Ledger Report – a report from the State’s accounting system.

The Program Administrator verifies that the revenue amount in the BI Report is in agreement with the revenue amount in the OAKS Report. Current procedures do not include a reconciliation of OAKS revenue data to the Department’s Risk Based Data Management System (RBDMS) data.

Not performing periodic reconciliations of RBDMS to OAKS increases the risk of undetected fraud or errors, such as deposits for incorrect amounts and/or deposits into the wrong fund or account. Also, by not performing a reconciliation of applications to revenues, misappropriated revenues or overpayments could go undetected.

**Recommendation**

Update the Monthly Revenue Reconciliation procedures to include a comparison between the Department’s permit revenue data (RBDMS) and the revenue recorded in the State’s accounting software (OAKS). The reconciliation should compare OAKS revenue to the revenues reported per each application in RBDMS, with explanations of variances noted (typically due to timing, etc.).

Also, consider having a fiscal supervisor review all reconciliations performed. This will allow management to ensure the reconciliations are being performed adequately and accurately and allows them to stay abreast of any reoccurring issues.

**Management Response**



Upon review of this Observation, DOGRM staff determined that improvements can be made to rectify the “segregation of duty” observation in the short term as well as the long term. Short term solutions can be made within the next 2 - 3 months and will focus on the realignment of some duties, staff and revenue collection and permitting process controls.

System Implementation

DOGRM is currently in the process of developing a new e-Permitting and Risk Based Data Management System (RBDMS) utility that will be used by clients to submit their permit applications. The implementation of the new system will virtually eliminate the need for clients to submit paper form checks. The new system will improve accountability, internal controls, accuracy, efficiency and consistency.

System features related to this observation will include (but are not limited to) automated date stamp, automated payment receipt at the point of application approval, real-time revenue receipts for the user, real-time report output, automated (permit) distribution flows, automated approval chain of security, other fee collection, user account maintenance and final management and fiscal approval processes.

Staffing Changes

In addition to implementation of the New e-Permitting and RBDMS system, DOGRM is realigning the Fiscal and Permitting Sections to include a Compliance program that will manage compliance in addition to the routine review of fiscal and programmatic controls and processes to ensure compliance. The new Fiscal Unit will include a Manager, two Compliance Officers, an Analyst and Researcher. This section will also utilize assistance from the Divisions’ Fiscal Section that will work in tandem with the new External Auditor (Manager) to conduct routine reconciliations, revenue collections, audits and reporting for all inbound collection of fees, fines and other income.

Anticipated implementation date: 12/15/15

Risk*	Remediation Owner	Estimated Completion Date
Moderate	DOGRM Chief of Operations	March 2016

**Observation 7 – Application Improvements**

Ohio Revised Code (ORC) requires an application for a permit to drill a new well, drill an existing well deeper, reopen a well, convert a well to any use other than its original purpose, or plug back a well to a different source of supply, including associated production operations, to be filed with the Chief of the Division of Oil and Gas Resources Management (DOGRM).

Effective written communication and education regarding the program's policies should be viewed as the primary approach to ensuring adherence with ORC. It is the responsibility of the DOGRM



and its administrative officials to clearly communicate requirements around the well permit process. It is recognized that the gathering of data through the permit application process is an essential part of the issuance of a well permits.

Currently, the DOGRM “Application For A Permit” (Form 1) is not clear and concise to the external user. During our walkthrough and review of the test samples, OIA noted the following:

- There is no expedited request section. DOGRM assumes that an expedited application is requested when an additional \$250 payment is received.
- To request a permit, applicants must select multiple permit descriptions. For example, if an applicant is requesting a permit for a reissued horizontal well, the applicant must select two checkboxes.
- Applicants must look on the back of the application in multiple sections to determine the permit pricing.
- Permits and fees for converted wells are discussed in two sections of the application, which may be confusing to the applicant.
- Non-refundable policies are not documented on the application.
- On the back of the application, items 1-27 are an application completeness checklist. However, this section does not include a distinct header and it appears to be a part of section five “Temporary Inactive (valid for 12 months)”.

When applicants provide incorrect information on the application, it may result in inaccuracies when entering the information into RBDMS and require additional processing time. While there are safeguards in place to ensure data is corrected prior to permit issuance, ineffective written or instructional communication may lead to confusion, errors, and delays in processing.

## Recommendation

Applicants may have limited knowledge of all the requirements for receiving a well permit when completing the application. To eliminate errors and ease the process of completing a permit application, DOGRM should consider making the following changes:

- Incorporate a checkbox for expedited service requests and include pricing next to it.
- Update the well permit type list so applicants only have to select one from the list.
- Include the pricing beside each well permit type. For example, Reissue Revised Drill Horizontally: \$250.
- Clearly document the non-refundable policies for well permits and expedited fees.
- Incorporate all appropriate well types and fees in each section that is applicable. For example, converted wells should be clearly described in the header of two sections.



- Add a title to the completeness checklist (items 1-27) such as “Application Completeness Checklist”.

Creating a more user-friendly application will assist well owners with completing it more accurately.

**Management Response**

DOGRM agrees that improvements can be implemented but, many of the improvements will be counterproductive with the eventual upgrade to e-permitting system. Some features may be incorporated as noted by OIA when system design is evaluated.

The majority of expedited applications received are accompanied with a cover letter stating the applicant’s desire to rush the application. In coal bearing townships, a landowner affidavit must also be submitted in order to process the application in timely manner. Both of these are captured on the DOGRM route slip that is attached to the permit application at the time of receipt.

In addition to the instructions on the back of Form 1, the DOGRM website also contains a section entitled Documents Required to File for a Permit and was updated in September 2015.

All of the issues raised by the OIA review were considered in 2014 when DOGRM began evaluating the planned change from our current application system to electronic permitting. DOGRM anticipates that E-permitting will be implemented in 2016 and will be a more instructional process than the one currently being used.

In the short term, the Division’s permitting staff will continue its protocol of communicating directly with applicants in order to minimize confusion and processing delay. The Division will, as practical, reduce these communications to writing in order to better document the customer service provided in this area.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	DOGRM Chief of Operations	March 2016

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

\* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

**Classification of Audit Objective Conclusions**

Conclusion	Description of Factors
<b>Well-Controlled</b>	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.
<b>Well-Controlled with Improvement Needed</b>	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
<b>Improvement Needed</b>	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
<b>Major Improvement Needed</b>	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.

**Classification of Audit Observations**

Rating	Description of Factors	Reporting Level
<b>Low</b>	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Agency Management; State Audit Committee (Not reported)
<b>Moderate</b>	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Agency Management and State Audit Committee
<b>High</b>	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Agency Management and State Audit Committee