

Department of Conservation

2015 SLAA REPORT

December 11, 2015

John Laird, Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Mr. Laird,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Conservation submits this report on the review of our systems of internal control and monitoring processes for the biennial period ended December 31, 2015.

Should you have any questions please contact Clayton Haas, Division Director of Administration, at (916) 323-2950, Clayton.Haas@conservation.ca.gov.

BACKGROUND

The Department of Conservation (DOC) provides services and information that promote environmental health, economic vitality, informed land-use decisions and sound management of our state's natural resources. With a team of scientists and other dedicated professionals, the DOC administers a variety of programs vital to California's public safety, environment, and economy. The Department is comprised of four program divisions which include: The Division of Oil, Gas, and Geothermal Resources; Division of Land Resources Protection; Office of Mine Reclamation; the California Geological Survey; and the State Mining and Geology Board. The Director of Conservation is appointed by the Governor.

The Department principal functions are:

- Regulate the oil and gas industry by overseeing the drilling, operations, maintenance, and plugging of oil, natural gas, and geothermal wells.
- Protect agricultural farmland and open space through various financial incentives, and mechanisms.
- Oversee local lead agencies implementation of the Surface Mining Reclamation Act of 1975, which requires mine operators to obtain reclamation plans and financial assurances to ensure mine sites are cleaned up.
- Compile an inventory of the State's abandoned mines and conduct remediation of the sites when money is available.
- Identify, evaluate, and map the State's geology, geologic, and seismologic induced hazards such as earthquakes, landslides, tsunami and volcanic eruption threats, and hazardous mineral exposure.
- Analyze critical facility sites such as, reservoirs, bridges, and hospital sites for seismic safety.
- Operate the world's largest Strong Motion Instrumentation networks to provide seismic information to various state and local entities and to inform development of improved building codes.

Mission

The Department of Conservation balances today's needs with tomorrow's challenges and fosters intelligent, sustainable, and efficient use of California energy, land, and mineral resources.

Vision

A safe, sustainable environment for all Californians.

RISK ASSESSMENT PROCESS

DOC executive management identified and reported its significant risks in the 2013 FISMA report. For the 2014-15 reporting period, management has identified significant risks that impact the entire Department as well as risks that impact individual Department programs.

The Risk Assessment stage was assigned to the Equal Employment Opportunity Officer. A detailed look at prior year reporting was the starting point of the risk assessment. Through a series of meetings, management from each Division identified risks that could adversely impact achievement of the program's objectives and DOC mission. In performing the risk assessment, management utilized the *Guidance for Management's Evaluation of Controls* tool, control environment questions, a risk assessment matrix, and different facilitation techniques that allowed a detailed assessment of the Department.

Once risks were identified, mitigating controls were identified for each risk. Executive management then met to determine the most significant risks based both on severity and probability of occurrence. For all of the risks identified, the corresponding control, working as intended, would provide reasonable and adequate mitigation for the specific risk. Through a series of audits and internal reviews, DOC management continues to assess and evaluate its control structure. Though there were several risks that were identified, only the most significant risks are listed below.

EVALUATION OF RISKS AND CONTROLS

Operations- Internal- Staff—Key Person Dependence, Succession Planning

DOC programs are very technical in nature and rely on individuals with significant knowledge and expertise in the key areas of the program, thus making the Department vulnerable if these employees leave, retire, or are absent for a long period of time.

Hiring - The DOC has received over 75 positions over the course of the last two budget cycles. The DOC has made efforts for recruiting new employees skilled in the varied technical positions by participating in job fairs, holding hiring workshops in districts and developed a new continuous on-line exam. The DOC contracted with a vendor to develop a recruitment plan for vacant positions and utilized LinkedIn and other social media outlets as a vehicle for marketing.

Extensive Training Curriculum - The DOC is developing a training program with University of Texas and TOPCORP, a partnership with the University of Texas, Colorado School of Mines, and Penn State to provide detailed training on regulating the oil & gas industry.

Operations- Internal- New System Implementation (Other Than FI\$Cal)

The DOC will face many challenges in the years to come. New programs (SB4 - Well Stimulation Treatment Program) and changes to existing programs (Underground Injection Control, Aquifer Exemptions, and SB12181) have placed tremendous pressure and scrutiny on the DOC to increase performance and transparency.

The DOC has contracted with the Ground Water Protection Council (GWPC) to begin a proof of concept for the Risk Based Data Management System (RBDMS). This system will transform existing databases into a single well management system. The DOC has contracted with the Department of Technology and Alexan Consulting to work with the GWPC on the proof of

concept and eventual deployment of RMDMS. Funding has been received to hire additional staff to assist in converting legacy data from existing databases into the RBMS in addition to developing clear and concise business processes.

Compliance- Internal- Resource Limitations

The Office of Mine Reclamation has seen stagnant revenues in recent years. Much of this is attributed to the non-payment of mining fees, administrative penalties, and interest from mine operators throughout the State. In addition, the current fee structure is outdated and needs to be revised because enforced responsibilities have increased. This impacts the Division's ability to enforce and regulate mining in California under the Surface Mining and Reclamation Act of 1975. It is important that the Division increase its revenue through the appropriate management of the collection of these fees and penalties.

Online Annual Reporting System - The DOC is currently developing a comprehensive, user-friendly, online form where mine operators can submit their annual reports and pay fees and penalties. This online system will result in increased revenues and assist in data management. The DOC is working with the Department of Finance, the Legislature, and industry on a more equitable fee structure for industry.

ONGOING MONITORING

Through our ongoing monitoring processes, the Department of Conservation reviews, evaluates, and improves our systems of internal controls and monitoring processes. As such, we have determined we comply with California Government Code sections 13400-13407.

Roles and Responsibilities

As the head of Department of Conservation, David Bunn, Director, is responsible for the overall establishment and maintenance of the internal control system. We have identified Clayton Haas, Division Director of Administration, David Thesell, Deputy Chief, Division of Land Resource Protection; Jeff Newton, Manager, Administrative & Support Services, Division of Oil, Gas & Geothermal Resources; and, Martin Barela, Manager, Administrative & Technical, Office of Mine Reclamation, as our designated agency monitor(s).

Frequency of Monitoring Activities

The DOC will hold quarterly management meetings to discuss current and potential internal control issues that need to be addressed. These meetings allow management to discuss issues they have been made aware of and the steps that are needed to mitigate the issues. The management team is encouraged to share experiences to further assist each other in addressing the issues that may arise.

Reporting and Documenting Monitoring Activities

The DOC will require reports from each manager on a quarterly basis. These reports inform executive management of the monitoring practices being conducted, improvements needed, and the overall monitoring success or weakness within each division. This information is summarized and reported to the DOC Director.

The DOC ensures all staff receive information vital to the effectiveness and efficiency of controls by requiring management to update their teams' during their weekly meetings. The DOC encourages staff to speak with their supervisor if they discover an issue that should be addressed to better assist DOC with fulfilling its mission, goals, and objectives.

Procedure for Addressing Identified Internal Control Deficiencies

Management holds monthly meetings to review any deficiencies noted in either the quarterly reports or deficiencies that have been recently identified. Each Division has an internal team that designs and tests

the control procedures that have been developed and implemented. The DOC Administration team also assists in this and has its design team for department-wide controls. The internal team conducts separate evaluations on any deficiency noted if the deficiency relates to any initiatives or the entity-wide risk assessment.

The senior management will report to the executive management at the monthly meetings of any deficiencies and will continue to provide status reports until the deficiency is adequately mitigated.

Finally, DOC has set up an internal SharePoint for all staff to be kept informed of policy or procedure changes to assist in the mitigation of the deficiencies discovered. In addition there will be regular written communication along with stand-up meetings.

CONCLUSION

The Department of Conservation strives to reduce the risks inherent in our work through ongoing monitoring. The Department of Conservation accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies. I certify our systems of internal control and monitoring processes are adequate to identify and address material inadequacies or material weaknesses facing the organization.

David Bunn, Director
Department of Conservation

cc: Department of Finance
Legislature
State Auditor
State Library
State Controller
Secretary of Government Operations