December 20, 2017

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

Dear Mr. John Laird,

In accordance with the State Leadership Accountability Act (SLAA), the Department of Conservation submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2017.

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; Division of Mine Reclamation; the California Geological Survey; and the State Mining and Geology Board. 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 projects and financial mechanisms.
- Oversee local lead agency 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 remediated to a beneficial end use.
- 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 network to provide seismic information to various state and local entities and to assist in the 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 and sustainable environment for all Californians.
ONGOING MONITORING

As the head of Department of Conservation, David Bunn, Director, is responsible for the overall establishment and maintenance of the internal control and monitoring systems.

Executive Monitoring Sponsor(s)

The executive monitoring sponsor responsibilities include facilitating and verifying that the Department of Conservation internal control monitoring practices are implemented and functioning as intended. The responsibilities as the executive monitoring sponsor(s) have been given to: Martin Barela, Manager, Administrative & Technical, Division of Mine Reclamation, Mandy Latzen, Deputy Chief, Division of Land Resource Protection, Cynthia Placentia, Staff Services Manager II, Program Administration of the California Geological Survey, and Brady Van Englen, Special Assistant to the State Oil and Gas Supervisor.

Monitoring Activities

DOC will confirm the effectiveness of the internal control systems by monitoring progress of Division-wide work plans. Each Division will utilize program-level work plans that have been vetted by management to determine key performance indicators that can be tracked and reviewed on a regular basis. Periodic detailed reviews are conducted by program subject matter experts who can evaluate the effectiveness of the activity and report results to Executive Management. Reported data will be compared to expectations that will allow for necessary changes to be incorporated.

Addressing Vulnerabilities

Vulnerabilities are typically identified during work plan development. When identified, a risk assessment is conducted, which accounts for both impact and likelihood of occurrence. Severity of risk will determine whether or not it requires dedicated staff to monitor.

Communication

Each Division’s finalized work plan will be available to all staff to review and make comments, allowing for transparency within each Division. During the development of the work plan, each position’s duty statement is considered to ensure workloads are accurately distributed. Divisions will follow their policies/procedures and maintain consistent communication requiring management to update their teams’ during weekly meetings. Weekly meetings will encourage staff to speak with their supervisor (following the chain-of-command noted on the organizational charts) if they discover an issue that should be addressed to better assist DOC with fulfilling its mission, goals, and objectives. DOC will hold quarterly program management meetings, informing the Executive Management of the monitoring practices being conducted, improvements needed, and the overall monitoring success or challenges within each Division. This information is summarized and reported to the DOC Director.

Ongoing Monitoring Compliance

The Department of Conservation is in the process of implementing and documenting the ongoing monitoring processes as outlined in the monitoring requirements of California Government Code sections 13400-13407. These processes include reviews, evaluations, and improvements to the Department of Conservation systems of controls and monitoring.
RISK ASSESSMENT PROCESS

The following personnel were involved in the Department of Conservation risk assessment process: Executive Management, Middle Management, Front Line Management, and Staff.

Risk Identification

The DOC Executive Management identified and reported its significant risks in the 2015 SLAA Report. For the 2017-18 reporting period, management has identified significant risks that impact the entire DOC as well as risks that impact individual DOC 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. Additionally, a two day Executive and Senior Level Management workshop was held that included brainstorming sessions to assist in identifying the risks from each Division and how the risks could adversely impact achievement of the overall Department and program objectives and mission. In performing the risk assessment, management utilized control environment questions, considered current environmental climate changes, developed risk statements (addressing root cause), and analyzed the best method of responding to the risks.

The DOC’s Executive Management evaluated each Division’s risks considering the occurrence of prior activities including a number of factors that may impact a Division such as audits, internal reviews, funding, legislation, and budget monitoring.

Risk Ranking

Once risks were identified, mitigating controls were identified for each risk. Executive management then met to rank the most significant risks based both on severity and probability of occurrence. For all risks identified, the corresponding control, working as intended, would provide reasonable and adequate mitigation for the specific risk. DOC management continues to review, assess, and evaluate its control structure.

Though there were several risks identified, only the most significant risks are listed below.

RISKS AND CONTROLS

Risk: Operations - Internal Staff — Key Person Dependence, Workforce Planning

The DOC programs rely on individuals who are technical in nature and have 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. A high number of senior subject matter experts are nearing the age of retirement, and their knowledge base and experience may not be transferred to new staff. Lack of training existing staff and attracting/hiring new technical staff in the recruitment process is the main cause of the risk.

As a result, each Division in the DOC will not have appropriate knowledge to manage and supervise programs effectively. Division staff will be required to re-learn a number of business practices.

Control A

Hiring - The DOC has received over 40 positions over the course of the last two budget cycles. 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 developing 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* - DOC contracted with a vendor (Unleashing Leaders) to train managers on how to effectively manage a team and how to develop and maintain an agile project management based work plan that aligns with divisional cross functional priorities, increasing communication and knowledge between divisions. DOC has also developed 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 and gas industry.

**Risk: Operations - Internal - New System Implementation (Other Than Fiscal)**
The Division of Oil, Gas, and Geothermal Resources (DOGGR) is in the midst of consolidating its databases into a single well management system: WellSTAR. To ensure successful implementation of WellStar a number of changes to current business practices will be required.

Since implementation depends on new changes to current business practices, staff may be resistant to change and prefer to practice prior methods of populating databases that are no longer supported by the Department.

The result of this risk occurring will lead to obsolete data and limit the capability of the new well management system.

**Control A**
The Division has identified "superusers" within the organization. The organizational change management team has trained them to ensure that these early adopters are able to provide Division staff with a basic level of assistance when needed. There have been a number of Division-wide training sessions to ensure staff are apprised of forthcoming changes and understand who to contact if any questions regarding the transition arise. Additionally, the WellSTAR team distributes monthly updates to all Division staff to ensure they remain informed of progress to date.

**Risk: Compliance - Internal - Resource Limitations**
The Division of Land Resource Protection (DLRP) Soil Conservation Fund is erratic and inflexible causing instability concerns for the program.

The Soil Conservation Fund is dependent on the Williamson Act cancellation fees and funds the majority of the Division’s program. Due to the current structure of the Fund, it does not provide the Division with a reliable source of funding. If the Soil Conservation Funds decrease, programs within the Division would be financially compromised resulting in loss of staff positions.

**Control A**
DLRP is currently drafting a legislative proposal to give the Division more flexibility within the Soil Conservation Fund. DLRP is currently working on ways to diversify their sources of funding so it is not solely dependent on the Soil Conservation Fund.

**Conclusion**
The Department of Conservation strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising controls to prevent
those risks from happening. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

David Bunn, Director

CC: California Legislature [Senate (2), Assembly (1)]
California State Auditor
California State Library
California State Controller
Director of California Department of Finance
Secretary of California Government Operations Agency