RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF ENVIRONMENTAL QUALITY
LANSING

DAN WYANT
DIRECTOR

January 24, 2014

Mr. Doug Ringler, Director
Office of Internal Audit Services
Office of the State Budget
George W. Romney Building
111 South Capitol, 6th Floor
Lansing, MI 48913

Dear Director:

In accordance with the State of Michigan, Financial Management Guide, Part VIII, enclosed is a summary table identifying our responses and the corrective action plan, to address recommendations contained within the Office of the Auditor General's audit report of the Office of Oil, Gas, and Minerals within the Department of Environmental Quality (DEQ).

Questions regarding the summary table or the corrective action plan should be directed to Amy Epkey, Administration Division Assistant Chief, DEQ, epkeya@michigan.gov or at 517-284-5002.

Sincerely,

Signature Redacted

James Kasprzak, Chief
Administration Division
517-284-5003

Enclosures
cc/enc: Mr. Dennis Muchmore, Executive Office
Ms. Mary Ann Cleary, House Fiscal Agency
Ms. Ellen Jeffries, Senate Fiscal Agency
Mr. Thomas H. McTavish, Office of the Auditor General
Mr. Mike Green, Senate Appropriations Subcommittee on Environmental Quality
Ms. Eileen Kowall, House Appropriations Subcommittee on Environmental Quality
Ms. Maggie Datema, Director of Legislative Affairs, DEQ
Ms. Amy Epkey, DEQ
Ms. Lisa Root, DEQ

Department of Environmental Quality
Summary of Agency Responses to Recommendations
OAG Performance Audit of the Office of Oil, Gas, and Minerals
October 1, 2009 through March 31, 2013

Audit recommendations the agency complied with:

Audit recommendations the agency agrees with and will comply:

Finding 1. Field Inspections – The Office of Oil, Gas, and Minerals (OOGM) is continuing to address high priority tasks and reprioritize them as needed based on risk. If other priorities of greater risk begin to routinely impact the ability to meet targeted inspection frequencies for an area, OOGM will do an analysis of workload indicating the need for additional staff. **Agency has finalized work prioritization policy, will have analysis of workload complete by February 1, 2014, and will provide recommendations for staff level if any.**

Finding 2. Enforcement of Stipulation and Consent Agreements and Transfer Settlement Agreements – OOGM is still in the process of documenting modifications to stipulation and consent agreements (SCAs) and transfer settlement agreements (TSAs) to ensure that proper documentation exists in the future. **Compliance and enforcement procedure will be complete by January 16, 2014 which addresses these requirements. Documentation is being required now for all requested SCA and TSA, modifications, and modification approvals.**

Finding 3. Monitoring of Violations – OOGM is still working on finalizing an updated policy and procedure for compliance communication and is still in the process of implementing an electronic document management system and an updated program database that will be used to track follow-up inspection data. **Compliance and enforcement procedure will be complete by January 16, 2014 which addresses these requirements.**

Finding 4. Documentation of Inspections and Violations – OOGM is currently in the process of developing and implementing processes to support consistent document management. **Compliance and enforcement procedure will be complete by January 16, 2014 which addresses these requirements. OOGM is also currently working through a re-write of the database used to track compliance information. This re-write will be substantially complete by April 2015.**

Finding 5. Bond Amounts – DEQ is working on initiating stakeholder discussions regarding appropriate bonding amounts and potential recommended administrative rule revisions to update current laws related to surety bonds. **Rule R324.212 establishes the conformance bond amounts for single wells. OOGM has brought this issue to the Oil and Gas Advisory Committee and currently holds single well bonds for 599 wells. The agency will identify appropriate stakeholder workgroup participants by March 1, 2014.**

Workgroup activities will progress through 2014, with goal of recommendations for administrative rule change by September 1, 2014.

Finding 6. Updated Contingency Plans – OOGM is still working on establishing a process for ensuring that the plans are updated in the future and anticipates the ability to use the electronic document management system to notify staff when three years has elapsed and an updated plan is due. **OOGM has addressed this issue to get updated H2S plans submitted, has identified responsible staff to address the updates, and is working on creating workflow alerts within records management software to alert when 3 years is passed and an update is due. This response is substantially complete and the alert portion is targeted for completion by June 1, 2014.**

Finding 7. Reconciliation of Oil and Gas Totals – DEQ will continue to work to strengthen the coordination between OOGM and the Department of Treasury. **The agency has had one initial meeting with the Department of Treasury to initiate coordination. An additional meeting will be scheduled by March 1, 2014 to determine action plan to improve coordination and define roles related to reporting and records. The improved coordination will be ongoing.**

<u>Audit recommendations the agency disagrees with:</u>

None