

**STATE AUDITOR RECOMMENDATIONS TO STATE LANDS COMMISSION
Commission Staff Response and Audit Action Plan**

STATE AUDITOR'S RECOMMENDATIONS	STATE LANDS COMMISSION STAFF RESPONSE	STATE LAND'S COMMISSION STAFF AUDIT ACTION PLAN
<p>To ensure that it manages delinquent leases in an effective and timely manner and collects all amounts owed to it, the commission should do the following:</p>		
<ul style="list-style-type: none"> Determine the amount of past-due rent that should be included in its accounts receivable account. 	<p>Staff acknowledges past due amounts maintained in its receivable account. However, staff disputes the amount. The report describes \$1.2 million in past due rents. The commission contends the correct amount is \$209,389 for 210 invoices.</p>	<p>Commission staff has proofed the outstanding receivables accounts noted in the report and continues to disagree with the conclusions in the report regarding the magnitude of past due amounts.</p>
<ul style="list-style-type: none"> Develop and adhere to policies and procedures that include the steps staff should take when a lessee is delinquent, time standards for performing those steps, and a process for tracking the status of delinquent leases between divisions. 	<p>Commission staff agrees and has already begun taking measures to implement to this recommendation. While accounting procedures for 30, 60, and 90-day dunning letters are in place, there is a recognized need to better coordinate Accounting, Land Management and Legal divisions in disposition of delinquent leases should those initial steps fail.</p>	<p>A process has been developed to address lease compliance issues and specifically coordinate actions regarding delinquent leases. The process involves review of delinquent accounts by senior management meeting on a regular basis to determine the course of action to be taken up to and including litigation and possible ejectment.</p>
<ul style="list-style-type: none"> Conduct and document cost-benefit analyses when it contemplates either referring a delinquent lessee to the attorney general or pursuing the delinquent lessee through other means. 	<p>While no formal written process exists, commission staff conducts an extensive, informal cost-benefit analysis, including consideration of statewide policy implications, through coordination with senior management, the Executive Officer and the Attorney General's Office, when deciding whether to recommend pursuing litigation to the commission.</p>	<p>All delinquent accounts will be evaluated as part of the Lease Compliance process and will ensure cost/benefit considerations in such documentation of decisions regarding enforcement are referenced in the lease file. Commission staff has submitted a request for an additional staff position to pursue delinquent lessees, as well as request for a Staff Counsel position to provide legal support, advice and enforcement.</p>

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<p>To ensure that as few leases as possible are in holdover, the commission should continue to implement its newly established holdover reduction procedures and periodically evaluate whether its new procedures are having the intended effect of reducing the number of leases in holdover.</p>	<p>Commission staff agrees and has already implemented this recommendation. The report states that the commission's new holdover procedures "appear reasonable [however], because the commission only recently implemented them, we were unable at the time of our audit fieldwork to determine whether they would be effective."</p>	<p>Commission staff continues to build upon its holdover reduction process, including: finalizing language for the holdover notification letters for both significant and routine leases; formalizing the practice of including a provision in the more significant leases that the lessee provide a 2-year lease renewal notification; and finalizing the holdover checklist, which identifies the steps and timeframes to be followed by staff.</p>
<p>To complete its rent reviews promptly and obtain a fair rental amount for its leases, the commission should conduct rent reviews on each fifth anniversary as specified in the lease agreements or consider including provisions in its leases that allow it to use other strategies, such as adjusting rents annually using an inflation indicator.</p>	<p>Commission staff agrees with this recommendation and will be exploring alternatives that are manageable with existing staff resources available.</p>	<p>Staff continues to move forward with a more expanded use of the consumer price index (CPI) in calculating annual rent reviews, particularly for high-value commercial use, industrial use, and right-of-way use leases.</p>
<p>To ensure that it is charging rent based on the most current value of its properties, the commission should appraise its properties as frequently as the lease provisions allow—generally once every five years.</p>	<p>Commission staff agrees with this recommendation in those specific situations of high revenue-generating leases where the benefits are likely to exceed the costs.</p>	<p>Additional staff is needed to ensure adequate resources are available to conduct appraisals on high value leases and ensure that 5-year rent review are completed on schedule. Commission staff has submitted a request for one position to supplement current appraisal capabilities ensuring that appraisals are available for timely rent reviews.</p>
<p>To ensure that it does not undervalue certain types of properties, the commission should</p>	<p>Commission staff agrees with this recommendation and was awaiting input from</p>	<p>Commission staff is moving forward with the regulatory process to thoroughly revise and update</p>

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amend its regulations for establishing pipeline rents on state land to reflect a more current method.	this audit before moving forward with the extensive regulatory process to implement this change.	regulations dealing with rent, including pipeline rents.
To improve its monitoring of leases, the commission should do the following:		
<ul style="list-style-type: none"> • Create and implement a policy, including provisions for supervisory review, to ensure that the information in ALID is complete, accurate, and consistently entered to allow for the retrieval of reliable lease information. 	Commission staff agrees and has already implemented this recommendation.	Action has been taken to improve the accuracy and reliability of the data in the ALID system. Staff has been instructed to complete entry of all commission actions into the system within 60 days of the meetings. All income-producing leases have been verified for data elements relating to rent amounts, rent review dates, lease term and lease expiration dates. A programmer has been assigned to work with LMD management. Also, investigations have begun into the availability of off-the-shelf lease/asset management software packages that could provide more extensive and flexible reporting and inquiry capabilities.
<ul style="list-style-type: none"> • Require all of its divisions to use ALID as its centralized lease-tracking database. 	The three divisions (Land Management, Accounting and Legal) involved in lease-tracking do use ALID. Staff recognizes that regular management reports from ALID need to be developed to reduce dependency on division only lists and spreadsheets tracking similar information.	Improved accuracy and enhanced reporting capabilities as a result of the steps noted above should reduce staff's need for multiple data sources.

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To adequately monitor its revenue-generating oil and gas leases, the commission should do the following:		
<ul style="list-style-type: none"> Develop an audit schedule that focuses on leases that have historically generated the most revenue and recoveries for the State, as well as those that have historically had the most problems. 	Commission staff agrees with this recommendation.	A comprehensive audit plan has been developed placing all mineral leases on a rotating audit schedule based on a combination of relevant factors. Commission staff has submitted a request for four Auditors and a Staff Services Analyst to re-staff the Commission's audit program. This level of staffing will result in a regular audit cycle with sufficient staffing to address urgent lease royalty matters while ensuring that all major revenue producing leases are audited at least once every 5 years with more significant leases being reviewed every 3 years.
<ul style="list-style-type: none"> Explore and take advantage of other approaches to fulfill its auditing responsibilities, such as contracting with an outside consulting firm that could conduct some of its audits on a contingency basis. 	Commission staff agrees to further explore this recommendation. There are concerns regarding civil service rules regarding contracting out as well as the use of contingency as the basis for payment in extending this practice beyond this isolated instance.	Staff is withholding consideration of this approach until a review of its effectiveness can be determined.
To better demonstrate its need for additional staff, the commission should conduct a workload analysis to identify a reasonable workload for its staff and use this analysis to quantify the need for additional staff.	Commission staff has and will continue to develop workload analyses and does submit this information in conjunction with requests for additional staffing.	Workload analyses have been conducted regarding the most urgent staffing needs and have been incorporated in requests for additional positions. A broader analysis of needs will be conducted as further programmatic needs are identified.

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<p>To better address current and potential future staffing shortages, the commission should create a succession plan.</p>	<p>Commission staff agrees with this recommendation and recognizes its value. In fact, all but one of the current division chief positions have turned over in the past two years bringing the need for a succession plan into sharp focus. However, given current budget dynamics regarding hiring freezes, continual staff reductions and limited staff resources, it is difficult to create and implement any such a plan.</p>	<p>Commission staff agrees with this recommendation, recognizes its value and will address it in the future, following adoption of its Strategic Plan update.</p>