

GAO

United States General Accounting Office

Report to the Chairman, Subcommittee  
on Mining and Natural Resources,  
Committee on Interior and Insular  
Affairs, House of Representatives

August 1990

# MINERAL REVENUES

## Collection and Distribution of Revenues From Acquired Lands



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Resources, Community, and  
Economic Development Division

B-228947

August 2, 1990

The Honorable Nick J. Rahall, II  
Chairman, Subcommittee on Mining  
and Natural Resources  
Committee on Interior and Insular Affairs  
House of Representatives

Dear Mr. Chairman:

This report responds to your request for information about the collection and distribution of mineral revenues from acquired lands.<sup>1</sup> We grouped the specific points that you asked us to address under three broad objectives. They are: (1) to discuss the role of the Department of the Interior's Minerals Management Service (MMS) in collecting mineral revenues from acquired lands; (2) to identify the agencies involved, and the processes they use, to distribute mineral revenues from acquired lands; and (3) to evaluate the accuracy and timeliness of agencies' distributions of fiscal years 1986 and 1987 mineral revenues to nonfederal recipients.<sup>2</sup>

## Results in Brief

MMS collects all mineral revenues from leases on acquired lands and maintains centralized accounting for its collections. For fiscal years 1986 and 1987, MMS collected about \$56.4 million and \$61.3 million, respectively, in mineral revenues from about 9,030 leases on acquired lands. In accordance with various laws, six federal agencies in three departments distributed about \$15.5 million and \$16.2 million, respectively, for these 2 years, to nonfederal recipients consisting of states, territories, counties, and reclamation projects.<sup>3</sup> The remaining \$40.9 million and \$45.1 million, respectively, were retained by the federal government.

<sup>1</sup>Acquired lands are lands purchased by, condemned by, or donated to the federal government. Public domain lands, on the other hand, are lands owned by the federal government that have never been in private ownership.

<sup>2</sup>Our report was in the final stages when a certifying official in the Department of Agriculture's Forest Service requested that the Comptroller General determine the correct timing for distributing oil and gas royalties to states from leases on national forest acquired lands. The result of the Comptroller General's decision directly affected our report. We suspended work on the report until the decision was issued on May 9, 1990. The requester agreed that the fiscal years 1986 and 1987 data were sufficient for his purposes and it was not necessary to update the data beyond those 2 years.

<sup>3</sup>Interior's Bureau of Reclamation constructs and operates dam and reservoir projects (reclamation projects) to provide irrigation, hydropower, and water supply.

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For fiscal years 1986 and 1987, mineral revenues from acquired lands generally were distributed accurately and annually to nonfederal recipients.<sup>4</sup> Although actual distributions to nonfederal recipients were made in accordance with the percentage shares specified by law, we did find—on the basis of information two agencies provided for the 2 years—that a total of about \$384,000 (representing about 1 percent of the revenues to nonfederal recipients) was improperly retained by the federal government instead of being distributed to states. Subsequently, MMS distributed these revenues to the appropriate U.S. Treasury account for further distribution to states.

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## Background

Many federal agencies known as surface managing agencies are authorized by various laws to acquire lands for specific purposes. These agencies manage nonmineral activities, such as timber production, livestock grazing, and irrigation, and collect revenues from these nonmineral activities.

The Mineral Leasing Act for Acquired Lands, as amended, (30 U.S.C. 351 et seq.) (commonly referred to as the Acquired Lands Act), authorizes Interior to lease acquired lands for mineral development. Interior's Bureau of Land Management (BLM) manages mineral activities on acquired lands. BLM issues leases, approves drilling permits, monitors production and lease status, and maintains the official lease files. During fiscal year 1987, BLM administered about 9,030 active mineral leases on acquired lands.<sup>5</sup>

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## MMS Collects All Mineral Revenues

MMS collects all mineral revenues from leases on acquired lands and maintains centralized accounting for its collections. For fiscal years 1986 and 1987, MMS collected about \$56.4 million and \$61.3 million,

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<sup>4</sup>Distribution refers to the means by which the agencies account for the mineral revenues received, including applying the correct distribution percentage or formula to the revenues and posting revenues to the correct nonfederal recipient accounts.

<sup>5</sup>During this period, BLM administered a total of about 101,000 mineral leases on public domain, acquired, and Indian lands.

respectively, from mineral leases on acquired lands, including oil, gas, coal, and phosphates.<sup>6</sup>

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA) (30 U.S.C. 1701 *et seq.*), the Mineral Leasing Act of 1920, and the Acquired Lands Act collectively require that MMS accurately and in a timely manner determine, collect, account for, and distribute revenues from mineral leases on all federal (public domain and acquired) and Indian lands. MMS is responsible for distributing the revenues monthly into various Treasury accounts (either its own or those of certain surface managing agencies).

## Six Agencies Distribute Mineral Revenues From Acquired Lands to Many Recipients

Six federal agencies in three departments—five surface managing agencies and MMS—distribute mineral revenues from acquired lands to many nonfederal recipients. (App. I provides information on each of the six agencies.) The five surface managing agencies are the U.S. Army Corps of Engineers; the Department of Agriculture's Forest Service; and Interior's Fish and Wildlife Service, Bureau of Reclamation, and BLM. These agencies distribute mineral revenues from acquired lands when legislation specifies that these revenues be shared with nonfederal recipients. MMS distributes revenues from mineral leases issued since January 1, 1981, on the Department of Defense's acquired lands.

The six agencies distribute certain percentages of the revenues to states, territories, counties, or reclamation projects. The remaining revenues are deposited in the Treasury for retention by the federal government. When legislation applicable to other surface managing agencies does not specify that mineral revenues be shared with nonfederal recipients, MMS distributes the revenues to another Treasury account (Miscellaneous Receipts) for retention by the federal government.<sup>7</sup>

<sup>6</sup>In fiscal years 1986 and 1987, total mineral revenue collections from public domain, acquired, and Indian lands were \$4.2 billion and \$3.7 billion, respectively. These revenues consisted of bonuses, which are payments over and above administrative fees made to purchase leases; rents, which are annual amounts paid by lessees for leases that are not producing and are calculated at a rate-per-acre basis; and royalties, which are amounts paid by lessees for minerals produced and are usually calculated as a percentage of the value of production.

<sup>7</sup>For fiscal year 1987, the federal government retained \$7.8 million in mineral revenues from the following surface managing agencies' acquired lands: the General Services Administration, the National Aeronautics and Space Administration, the Veterans Administration, and the Departments of State, Commerce, Energy, Transportation, and Health and Human Services.

## Distributions Are Made According to Various Laws

The six agencies distribute mineral revenues from acquired lands in accordance with various laws. Although these laws did not originally apply to mineral revenues the Acquired Lands Act directs that virtually all revenues from mineral leases on acquired lands be distributed in the same manner as other revenues from these lands, such as recreation fees and sales of timber, hay, and grass.<sup>8</sup> The various laws differ on who should receive the mineral revenues, what percentages should be distributed, and how the revenues should be used. (App. II lists the agencies that distribute mineral revenues from acquired lands, the legislation that controls the distribution, the percentage of revenues distributed and to whom, and the purposes for which the revenues can be used.)

## Distributions Are Made to Many Nonfederal Recipients

The five surface managing agencies distributed about \$53.1 million in mineral revenues collected in fiscal year 1987 from about 7,000 active leases on acquired lands. They distributed \$37.1 million to the Treasury and about \$16.0 million to nonfederal recipients: 40 states, 2 territories, 700 counties, and 25 reclamation projects. MMS distributed another \$8.2 million from about 2,000 active leases on acquired lands: \$8.0 million to the Treasury and about \$0.2 million to various states from about 285 leases on Department of Defense acquired lands. Table 1 shows the amounts and percentages of mineral revenues from acquired lands distributed to nonfederal recipients and the Treasury for fiscal years 1986 and 1987.

**Table 1: Mineral Revenues From Acquired Lands Distributed for Fiscal Years 1986 and 1987**

Dollars in millions				
Recipients	Fiscal year 1986		Fiscal year 1987	
	Amount	Percentage	Amount	Percentage
Nonfederal				
States and territories	\$5.3	10	\$3.7	6
Counties	9.4	17	11.9	19
Reclamation projects	0.8	1	0.6	1
<b>Subtotal</b>	<b>15.5</b>	<b>28</b>	<b>16.2</b>	<b>26</b>
Federal (Treasury)	40.9	72	45.1	74
<b>Total</b>	<b>\$56.4</b>	<b>100</b>	<b>\$61.3</b>	<b>100</b>

<sup>8</sup>One exception is that revenues from mineral leases issued since January 1, 1981, on lands acquired by the Department of Defense be distributed in the same manner as public domain mineral revenues.

Nonfederal recipients usually receive a notice identifying the legislation governing the revenue distribution. However, the notice does not differentiate between mineral and nonmineral revenues when they are combined by the surface managing agencies. In fiscal year 1987, mineral revenues distributed to nonfederal recipients as a percentage of all revenues from acquired lands varied from a high of 85 percent on Forest Service national grasslands to a low of 1 percent on national forest land. (See app. III for details on these revenues.)

There is no single centralized accounting for mineral revenue distributions from acquired lands. Rather, each of the six federal agencies that distribute these revenues maintains its own accounting system. (App. IV summarizes distributions of mineral revenues from acquired lands for fiscal years 1986 and 1987 by surface managing agency, number of leases, and distributing agency. App. V lists these distributions by state and territory. Revenues to counties and reclamation projects are included in their respective state totals.)

## Mineral Revenues Generally Distributed Accurately and on an Annual Basis to Nonfederal Recipients

MMS and the surface managing agencies generally distributed fiscal years 1986 and 1987 mineral revenues from acquired lands accurately and on an annual basis.<sup>9</sup> However, a total of about \$384,000 for the 2 years, representing about 1 percent of the revenues to nonfederal recipients, was incorrectly retained by the federal government instead of being distributed to states. MMS has since distributed these revenues to a Treasury suspense account for the Corps of Engineers for further distribution to states.

## Mineral Revenues Generally Distributed Accurately to Nonfederal Recipients

The approximately \$15.5 million and \$16.2 million distributed to nonfederal recipients for fiscal years 1986 and 1987, respectively, were generally made accurately in that they represented the correct percentages as specified in legislation. However, by comparing information BLM and MMS provided us for these 2 years, we identified \$559,000, from 120 leases, that potentially should have been distributed to nonfederal recipients but was not. After we brought this to MMS' attention, MMS determined that about \$384,000 of the \$559,000 was from two Corps of Engineers leases and should have been distributed to states rather than retained by the federal government. MMS has changed its automated

<sup>9</sup>We did not review the accuracy of the Bureau of Reclamation's distributions for fiscal years 1986 and 1987 because they accounted for only about 1 percent of the total distributions of mineral revenues from acquired lands in those 2 years.

system so that these funds, as well as past and future revenues from these two leases, would be distributed to the Corps of Engineers for further distribution to states. MMS also found that revenues from some of the other 118 leases were incorrectly being distributed to the Treasury and retained by the federal government. According to an MMS official, by August 1989 MMS had corrected its lease information so that future revenues from these leases would be distributed correctly. Although MMS could not readily identify the total number of leases or the amounts involved, it is currently redistributing past incorrect distributions.

### Mineral Revenues to Nonfederal Recipients Distributed After Year-End

The five surface managing agencies that distribute mineral revenues to nonfederal recipients generally do so annually. Four surface managing agencies are required to distribute most revenues after the end of the fiscal or calendar year, which they do. The fifth surface managing agency, the Bureau of Reclamation, retains the revenues in the Reclamation Fund at the Treasury or credits the reclamation projects on whose lands the revenues were generated.

Enabling legislation does not generally establish the precise timing for revenue distributions by surface managing agencies to nonfederal recipients but permits flexibility with language such as "as soon as practical" after year-end. We found that distributions to nonfederal recipients by the four surface managing agencies that are required to distribute after year-end ranged from within 2 to 7 months of year-end. BLM distributed within 2 months, the Forest Service within 3 months, the Corps of Engineers within 4 months, and the Fish and Wildlife Service within 7 months of year-end.

### Oil and Gas Royalties Distributed Annually to States

FOGRMA amended the Mineral Leasing Act to require that states' shares of mineral revenues, including oil and gas royalties, from leases on public domain lands be distributed monthly. FOGRMA also provides that any late payments are subject to an interest charge. A September 1988 memorandum of Interior's Office of the Solicitor concluded that FOGRMA also requires that (1) oil and gas royalties to states from leases on acquired lands be paid monthly and (2) any untimely payments be subject to an interest charge.

Because the Forest Service and the Corps of Engineers had made yearly rather than monthly distributions of oil and gas royalties, the Office of the Solicitor's memorandum would have required that an interest charge be paid to states on approximately \$2.2 million and \$1.4 million in oil

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and gas royalties from acquired lands distributed to states for fiscal years 1986 and 1987, respectively.

On June 29, 1989, a Forest Service certifying official responsible for certifying the appropriateness of agency payments requested that the Comptroller General decide whether FOGRMA requires that (1) oil and gas royalties from leases on national forest acquired lands be paid monthly to states, instead of annually, and (2) late royalty payments be subject to an interest charge.

In a May 9, 1990, decision which is binding on the Forest Service certifying official, the Comptroller General concluded that FOGRMA does not require that such payments be made monthly and that they should continue to be distributed in the same manner as nonmineral revenues, i.e., annually.<sup>10</sup> Consequently, no interest charge must be paid to states. Also, we believe that the Comptroller General's conclusion applies as well to oil and gas royalty payments to states from leases on Corps of Engineers acquired lands. Such payments should continue to be made annually and are not subject to FOGRMA late payment interest charges.

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## Agency Comments

Officials from MMS and the five surface managing agencies commented orally on a draft of this report. The Forest Service officials disagreed with the September 1988 memorandum by Interior's Office of the Solicitor, and, subsequent to their comments, a Forest Service certifying official requested a Comptroller General decision on the timing of oil and gas royalties to states from leases on national forest acquired lands. The other agencies generally agreed with the information presented. They suggested some technical changes, which have been incorporated where appropriate. Appendix VII contains detailed information on each agency's comments.

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We obtained information for this report from officials in MMS' Royalty Management Program in Lakewood, Colorado; five surface managing agencies (Corps of Engineers and Forest Service in Washington, D.C., and Fish and Wildlife Service, Bureau of Reclamation, and BLM in Lakewood, Colorado); the Department of Agriculture's National Finance Center in New Orleans, Louisiana; and numerous BLM state offices. We obtained financial information on fiscal years 1986 and 1987 collections

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<sup>10</sup>Implied Repeal of Date for Forest Service Royalty Payments to States, Comptroller General Decision B-236057 (May 9, 1990).



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and distributions from MMS and the surface managing agencies. We conducted our review from May 1988 through January 1989 in accordance with generally accepted government auditing standards. (See app. VI for additional details on our scope and methodology.)

Unless you publicly announce the contents of the report earlier, we plan no further distribution until 30 days from the date of this letter. At that time, we will send copies to interested parties and make copies available to others upon request. Please contact me at (202) 275-7756 if you or your staff have any questions concerning the report. Other major contributors to this report are listed in appendix VIII.

Sincerely yours,

A handwritten signature in black ink that reads "James Duffus III". The signature is written in a cursive style with a horizontal line at the end.

James Duffus III  
Director, Natural Resources  
Management Issues

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**Abbreviations**

BLM	Bureau of Land Management
FOGRMA	Federal Oil and Gas Royalty Management Act of 1982
FWS	Fish and Wildlife Service
GAO	General Accounting Office
MMS	Minerals Management Service



# Information on Agencies That Distribute Mineral Revenues From Acquired Lands

This appendix provides information on each of the six federal agencies that distribute mineral revenues from acquired lands. It discusses the legislation that authorizes land acquisition and directs mineral revenue distributions, collections of mineral revenues for fiscal years 1986 and 1987, and the processes for distributing these revenues. The Mineral Leasing Act for Acquired Lands, as amended, (hereinafter referred to as the Acquired Lands Act), permits mineral leasing on acquired lands. For the five surface managing agencies, the act requires that mineral revenues be distributed in the same manner as other revenues from the acquired lands. Other legislation dictates the percentages of these revenues that should be distributed to nonfederal recipients. Remaining revenues are distributed to the U.S. Treasury for retention by the federal government.

## Forest Service National Forests

The Weeks Law, otherwise known as the Appalachian Forest Act, as amended (16 U.S.C. 480, 500, 515-519, 521, 552, 563), authorizes the Secretary of Agriculture to acquire lands for the production of timber and other uses. These lands are administered as national forests. The act requires that 25 percent of revenues from a national forest be distributed at the end of each fiscal year to the state or territory (or states/territories) in which the forest is located. The act specifies that these revenues be used for the benefit of public schools and public roads in the county (or counties) in which the forest is located.

Monthly, MMS collects revenues from mineral leases on national forests and distributes them to a Forest Service account at the Treasury. According to its reports, MMS collected about \$11.2 million and \$9.9 million in mineral revenues for fiscal years 1986 and 1987, respectively, from approximately 3,230 mineral leases on national forests in about 34 states.

The Forest Service combines the mineral revenues collected by MMS with other revenues that it has collected from acquired national forests during a fiscal year and distributes 75 percent of the estimated total to the states in September and the remainder in December. For fiscal years 1986 and 1987, the Forest Service distributed about \$2.8 million and \$2.5 million, respectively, in mineral revenues to states and about \$8.4 million and \$7.4 million, respectively, to the federal government.

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## Forest Service National Grasslands

The Bankhead-Jones Farm Tenant Act was enacted in 1937 to promote a more secure occupancy of farms and to require programs for land conservation and land utilization. Title III of this act (7 U.S.C. 1010-1012) originally authorized the Secretary of Agriculture to acquire submarginal lands—those land not primarily suitable for cultivation. The Congress intended that the lands be acquired for many purposes, including assisting in controlling soil erosion, encouraging reforestation, and preserving natural resources. The lands are commonly called national grasslands or land utilization projects.

The act requires that as soon as practical after the end of each calendar year, 25 percent of the revenues received from the use of the lands be paid to the counties in which the national grasslands are located. The act further requires that the revenues paid to counties be used for schools and/or roads.

Monthly, MMS collects revenues from mineral leases on acquired national grasslands and distributes them to a Forest Service account at the Treasury. According to its reports, MMS collected about \$28.5 million and \$37.7 million in mineral revenues for fiscal years 1986 and 1987, respectively, from approximately 2,120 mineral leases on Forest Service national grasslands in about 22 states.

The Forest Service combines the mineral revenues collected by MMS with other revenues that it has collected from acquired national grasslands during a fiscal year and distributes the revenues to counties and the federal government after the end of each calendar year. For fiscal years 1986 and 1987, the Forest Service distributed about \$7.1 million and \$9.4 million, respectively, in mineral revenues to counties and about \$21.4 million and \$28.2 million, respectively, to the federal government.

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## Bureau of Land Management National Grasslands

Title III of the Bankhead-Jones Farm Tenant Act (7 U.S.C. 1011) authorizes the Department of Agriculture to recommend to the President that other federal agencies administer submarginal lands it acquired. Between 1941 and 1958, the President transferred about 2.34 million acres of land by executive order to the Department of the Interior. Interior's Bureau of Land Management (BLM) manages these acquired lands and refers to them informally as BLM national grasslands.

The Bankhead-Jones Farm Tenant Act has the same revenue distribution requirements for BLM national grasslands as it does for revenues from Forest Service national grasslands. The act requires that, as soon



as practical after the end of each calendar year, 25 percent of the revenues generated from the use of national grasslands be paid to the counties in which the land is located. The act requires that these revenues be used for schools and/or roads.

Monthly, MMS collects revenues from mineral leases on BLM's acquired national grasslands and distributes them to BLM's Treasury account. According to its reports, MMS collected about \$1.4 million and \$1.5 million in mineral revenues for fiscal years 1986 and 1987, respectively, from approximately 800 mineral leases on BLM national grasslands in about 16 states.

BLM combines the mineral revenues collected by MMS with other revenues collected from acquired national grasslands and distributes the revenues to counties and the federal government after the end of each calendar year. For fiscal years 1986 and 1987, BLM distributed about \$0.4 million and \$1.1 million, respectively, each year to counties and the federal government.

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## U.S. Army Corps of Engineers Flood Control Lands

The Flood Control Act of 1936 (33 U.S.C. 701a et seq.) authorizes the Secretary of the Army (through the Corps of Engineers) to acquire lands for flood control.

Pursuant to 33 U.S.C. 701c-3, 75 percent of revenues from Corps of Engineers acquired lands is to be paid at the end of the fiscal year to states in which the acquired lands are located. The revenues must be used for public schools, public roads, and county expenses.

MMS collects revenues monthly from mineral leases on Corps of Engineers acquired lands. Under a 1985 agreement with the Corps, MMS distributes mineral revenues monthly to a Treasury suspense account and annually sends the Corps a check for the mineral revenues collected. According to its reports, MMS collected about \$2.5 million and \$1.3 million in mineral revenues for fiscal years 1986 and 1987, respectively, from approximately 425 mineral leases on Corps flood control lands in about 22 states. In addition, the Corps collected revenues from about 300 private mineral leases until September 1987, when MMS began collecting the revenues.<sup>1</sup>

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<sup>1</sup>Mineral Revenues: Corps of Engineers Management of Mineral Leases (GAO/RCED-88-49, Nov. 24, 1987).

The Corps combines the mineral revenues collected by MMS with other revenues collected from its acquired lands and distributes the revenues annually to those states in which the revenues were generated and to the federal government. For fiscal years 1986 and 1987, the Corps distributed about \$1.9 million and \$1.0 million, respectively, in mineral revenues to states and about \$0.6 million and \$0.3 million, respectively, to the federal government.

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## Bureau of Reclamation Project Construction Lands

The Reclamation Act of 1902, as amended, (43 U.S.C. 421), authorizes the Secretary of the Interior to acquire lands for the construction of reclamation projects. A number of statutes dictate the proper allocation of mineral revenues from these acquired reclamation lands. Revenues go to the Bureau's Reclamation Fund at the Treasury, where they remain or are further credited to the reclamation projects from which they were generated.

Monthly, MMS collects revenues from mineral leases on the Bureau of Reclamation's acquired lands and distributes them to the Bureau's Reclamation Fund at the Treasury. According to its reports, MMS collected about \$0.8 million and \$0.6 million in mineral revenues in fiscal years 1986 and 1987, respectively, from approximately 400 mineral leases on Bureau project lands in about 18 states.

Monthly, the Bureau generally credits mineral revenues from the Reclamation Fund to the reclamation projects on whose lands the revenues were generated. For fiscal years 1986 and 1987, the Bureau distributed about \$0.8 and \$0.6 million, respectively, to reclamation projects.

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## Fish and Wildlife Service Wildlife Refuges

The National Wildlife Refuge System Administration Act of 1966, as amended, (16 U.S.C. 668dd), and legislation establishing particular refuges authorize the Secretary of the Interior to acquire areas of land suitable for use as refuges for wildlife. The wildlife refuge system includes those lands and waters administered by the Secretary of the Interior as wildlife refuges, wildlife ranges, game ranges, wildlife management areas, and waterfowl production areas. The Wildlife Refuge Revenue Sharing Act (16 U.S.C. 715s) provides that all revenues from the national wildlife refuge system be distributed to a separate fund in the Treasury for distribution to counties at the end of each fiscal year.<sup>2</sup> It further requires that each county in which refuge system lands or

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<sup>2</sup>The legislation directs that Puerto Rico and the Virgin Islands be treated as counties.

waters are located will receive a payment to be shared by the local government and school districts that have incurred a loss of property tax revenues because of the existence of the refuge.

Monthly, MMS collects revenues from mineral leases on the Fish and Wildlife Service's acquired lands and distributes them to the Service's account at the Treasury. According to its reports, MMS collected about \$1.9 million and \$2.1 million in mineral revenues in fiscal years 1986 and 1987, respectively, from approximately 30 mineral leases on Service wildlife refuge lands in seven states.

The Fish and Wildlife Service combines the mineral revenues collected by MMS with other revenues collected from refuges and with yearly appropriations. Then, after deducting administrative costs, the Service distributes the net revenues to the affected counties. The distribution is based on the greatest of three calculations: (1) 25 percent of the refuge's net receipts, (2) \$0.75 per acre of the refuge's acreage, or (3) three-fourths of 1 percent of the refuge's fair market value. However, the payment is not to be less than the payment made for fiscal year 1977. For the 2 years we examined, the Fish and Wildlife Service's collections were not sufficient to make distributions as calculated above. Accordingly, and as directed by legislation, the Fish and Wildlife Service obtained appropriations (\$5,645,000 each year) to supplement its payments.

For fiscal years 1986 and 1987, the Fish and Wildlife Service distributed about \$1.9 and \$2.1 million, respectively, in mineral revenues to about 700 counties in which refuge system lands or waters were located, including Puerto Rico and the Virgin Islands.

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## MMS' Distributions for the Department of Defense and Other Surface Managing Agencies

The Acquired Lands Act, as originally enacted in 1947 (30 U.S.C. 352), excluded mineral leasing on acquired lands used for military purposes. However, the Federal Coal Leasing Amendments Act of 1976 removed that exemption.

Before 1981, all revenues from mineral leases on acquired military lands were to be distributed to the Treasury. However, 1981 amendments to the Acquired Lands Act changed the distribution. The act, as amended, requires that all revenues from mineral leases issued since January 1, 1981, on lands acquired for military purposes (except the naval petroleum reserves and national oil shale reserves) be distributed in the same

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**Appendix I**  
**Information on Agencies That Distribute**  
**Mineral Revenues From Acquired Lands**

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manner as public domain revenues (50 percent to states and 50 percent to the Treasury).

Monthly, MMS collects revenues from mineral leases issued since January 1, 1981, on the Department of Defense's acquired lands and distributes them to the Treasury. As it does for public domain mineral revenues, MMS distributes these revenues on a monthly basis equally between states and the Treasury. According to its reports, MMS collected about \$1.4 million in mineral revenues in fiscal year 1986 and about \$0.5 million in mineral revenues in fiscal year 1987 from approximately 285 leases issued since January 1, 1981, on acquired military lands in about 11 states.

Monthly, MMS also collects revenues from mineral leases on lands acquired by other surface managing agencies, which for 1987 consisted of the General Services Administration, the Veterans Administration, the National Aeronautics and Space Administration, and the Departments of State, Commerce, Energy, Transportation, and Health and Human Services. MMS distributes the revenues to the Treasury on behalf of these agencies when the legislation allowing acquisition is silent on sharing of revenues with nonfederal recipients. These revenues are retained by the federal government.

According to its reports, MMS collected about \$8.8 million and \$7.8 million in mineral revenues for fiscal years 1986 and 1987, respectively, from about 1,740 leases on lands acquired by other agencies.

# Agencies Distributing Mineral Revenues From Acquired Lands, Their Legislative Authorities, Recipients, and Uses

Distributing agencies and legislative authorities to distribute	Distribution of revenues in percentages		Legislative uses for nonfederal recipients
	To U.S. Treasury <sup>a</sup>	To nonfederal recipients	
Corps of Engineers Flood Control Act of 1941	25	75 to states	Schools and roads or county expenses
Forest Service Weeks Law	75	25 to states & territories	Schools and roads
Forest Service Bankhead-Jones Farm Tenant Act	75	25 to counties	Schools and roads
BLM Bankhead-Jones Farm Tenant Act	75	25 to counties	Schools and roads
Fish and Wildlife Service Wildlife Refuge Revenue Sharing Act	0	100 to counties <sup>b</sup>	Local governments and schools
Bureau of Reclamation Various legislation	c	c	Construction
MMS (for Department of Defense <sup>d</sup> ) Acquired Lands Act, as amended	50	50 to states	As directed by state legislature <sup>e</sup>
MMS (for other surface managing agencies <sup>f</sup> ) Various legislation	100		

<sup>a</sup>The federal government receives the residual after the legislatively mandated percentage is distributed to the states, territories, counties, or reclamation projects. When no percentage is specifically designated, the Treasury gets 100 percent of the revenues.

<sup>b</sup>One hundred percent of net revenues (after deducting operating expenses) are distributed to nonfederal recipients.

<sup>c</sup>Revenues go to the Reclamation Fund in the Treasury, where they remain or are further credited to the reclamation projects from which they were generated.

<sup>d</sup>Only for revenues from mineral leases issued since January 1, 1981.

<sup>e</sup>State legislatures direct the way in which the funds will be used, giving priority to those subdivisions socially or economically affected by the mineral lease development. Funds can be used for planning, construction, and maintenance of public facilities and services.

<sup>f</sup>Includes list of agencies identified in footnote 7 in the letter

# Fiscal Year 1987 Mineral Revenues From Acquired Lands as Percentage of Total Revenues Distributed to Nonfederal Recipients

Dollars in millions

Surface managing agency	Mineral revenues	Nonmineral revenues	Total revenues	Mineral revenues as percentage of total revenues
Corps of Engineers	\$1.0	\$4.3	\$5.3	19
Forest Service				
National Forests	2.5	283.5	286.0	1
National Grasslands	9.4	1.6	11.0	85
BLM	0.4	0.2	0.6	67
Fish and Wildlife Service	2.1	6.7	8.8	24
Bureau of Reclamation	0.6	a	a	a
Department of Defense	0.2	a	a	a

<sup>a</sup>Information on nonmineral revenues from acquired lands was not readily available.

# Surface Managing Agencies, Number of Mineral Leases on Acquired Lands, and Distribution of Revenues for Fiscal Years 1986 and 1987

Dollars in millions

Surface managing agency	Approximate number of leases	Distributing agency	Distributions	
			Fiscal year 1986	Fiscal year 1987
Department of the Interior				
Bureau of Reclamation	400	Reclamation	\$0.76	\$0.60
BLM	800	BLM	1.42	1.49
Fish and Wildlife Service (FWS)	30	FWS	1.89	2.07
U.S. Department of Agriculture				
Forest Service				
National grasslands	2,120	Forest Service	28.54	37.66
National forests	3,230	Forest Service	11.16	9.93
U.S. Army Corps of Engineers	425	Corps of Engineers	2.47	1.31
Department of Defense	285	MMS	1.35	0.46
Others <sup>a</sup>	1,740	MMS	8.83	7.82
<b>Total</b>	<b>9,030<sup>b</sup></b>		<b>\$56.42</b>	<b>\$61.34</b>

<sup>a</sup>Includes list of agencies identified in footnote 7 in the letter.

<sup>b</sup>Excludes about 300 private leases from which the Corps of Engineers collected revenues until September 1987, at which time MMS began collecting the revenues.

# Fiscal Years 1986 and 1987 Mineral Revenues From Acquired Lands Distributed to States, Territories, Counties, and Reclamation Projects

Dollars in thousands

State/territory	Fiscal year 1986	Fiscal year 1987
Alabama	\$67.4	\$57.6
Alaska	4.1	6.0
Arizona	37.9	30.5
Arkansas	921.9	628.2
California	84.9	100.2
Colorado	302.1	239.4
Connecticut	2.9	4.0
Delaware	9.8	10.7
Florida	173.7	188.0
Georgia	80.1	83.0
Hawaii	9.0	11.6
Idaho	13.9	10.3
Illinois	39.5	54.8
Indiana	5.8	6.4
Iowa	7.5	8.2
Kansas	59.1	4,677.1 <sup>a</sup>
Kentucky	95.1	102.0
Louisiana	266.1	287.8
Maine	12.3	15.4
Maryland	32.8	36.4
Massachusetts	51.1	56.9
Michigan	216.6	258.3
Minnesota	155.9	197.7
Mississippi	697.3	560.1
Missouri	629.2	838.1
Montana	430.7	383.2
Nebraska	80.7	38.7
Nevada	20.7	22.2
New Hampshire	1.8	5.9
New Jersey	45.7	51.4
New Mexico	129.1	96.9
New York	25.9	54.0
North Carolina	100.5	104.1
North Dakota	6,354.1 <sup>b</sup>	4,165.7 <sup>b</sup>
Ohio	32.3	57.8
Oklahoma	689.4	377.3
Oregon	62.7	55.8
Pennsylvania	44.3	13.4

(continued)



**Appendix V  
Fiscal Years 1986 and 1987 Mineral Revenues  
From Acquired Lands Distributed to States,  
Territories, Counties, and  
Reclamation Projects**

<b>State/territory</b>	<b>Fiscal year 1986</b>	<b>Fiscal year 1987</b>
Puerto Rico	0.8	0.9
Rhode Island	5.9	15.2
South Carolina	41.4	46.5
South Dakota	83.5	74.7
Tennessee	28.0	33.1
Texas	1,376.3	642.3
Utah	21.5	117.2
Vermont	0.7	0.7
Virgin Islands	2.6	2.8
Virginia	179.5	169.3
Washington	433.8	427.6
West Virginia	114.7	210.1
Wisconsin	35.0	43.8
Wyoming	472.4	254.6
<b>Subtotal<sup>c</sup></b>	<b>\$14,789.5</b>	<b>\$15,933.9</b>
Department of Defense <sup>d</sup>	677.4	230.0
<b>Total</b>	<b>\$15,466.9</b>	<b>\$16,163.9</b>

Note: Amounts aggregated by state and territory.

<sup>a</sup>Primarily from bonuses on new leases.

<sup>b</sup>Primarily from royalties.

<sup>c</sup>Columns do not add to totals due to rounding.

<sup>d</sup>Breakdown by states of leases on military acquired lands was not readily available

# Objectives, Scope, and Methodology

The Chairman, Subcommittee on Mining and Natural Resources, House Committee on Interior and Insular Affairs, asked us to provide information on the legal requirements for distributing mineral revenues from acquired lands and the processes for collecting and distributing these revenues. As a result of this request and subsequent discussions with the Chairman's office, we agreed to

- determine whether MMS has statutory authority to collect, account for, and distribute revenues derived from these mineral leases;
- determine whether MMS is collecting these mineral revenues;
- determine whether there is a centralized accounting for collections of revenues from mineral leases on acquired lands;
- identify how MMS distributes these mineral revenues and, specifically, whether MMS distributes bonuses, rents, and royalties to the surface managing agencies or directly to the recipients;
- determine, if MMS distributes mineral lease revenues to the surface managing agencies, the manner in which they distribute the revenues to the recipients;
- identify the various statutes that provide mineral leasing revenue distribution formulas applicable to leases on acquired lands;
- determine whether there is a centralized accounting for distribution of revenues from mineral leases on acquired lands; and
- evaluate the accuracy and timeliness of fiscal years 1986 and 1987 mineral revenue distributions to nonfederal recipients by the surface managing agencies.

For ease of presentation and understandability, we grouped the above into three broad objectives: (1) to discuss the role of MMS in collecting mineral revenues from acquired lands; (2) to identify the agencies involved, and the processes they use, in distributing mineral revenues from acquired lands; and (3) to evaluate the accuracy and timeliness of agencies' distributions of fiscal years 1986 and 1987 mineral revenues to nonfederal recipients.

The Chairman asked us to focus our work on the Bureau of Reclamation; the Departments of the Army, Air Force, and Navy; the Fish and Wildlife Service; the Forest Service; the General Services Administration; and the National Park Service. We included BLM in our review because it is responsible for distributing mineral revenues from its acquired lands. We did not, however, include the General Services Administration and

the National Park Service because they are not responsible for distributing mineral revenues from their acquired lands. Instead, MMS distributes all mineral revenues on behalf of these two agencies to the Treasury.

This report deals with mineral revenues from acquired lands and includes revenues from only those lands for which the federal government acquired the mineral rights even though the surface rights may be in private ownership. This report does not include information on acquired lands for which the mineral rights have always been part of the public domain.

We performed our work at the offices of the MMS Royalty Management Program, the Bureau of Reclamation, BLM, and the Fish and Wildlife Service in Lakewood, Colorado. In addition, we performed work at the Forest Service, the Corps of Engineers, BLM, and Interior's Office of the Solicitor in Washington, D.C. We visited the National Finance Center in New Orleans, Louisiana; the Bureau of Reclamation regional office in Boise, Idaho; and the Corps of Engineers district office in Little Rock, Arkansas. Focusing on the adequacy of information provided by surface managing agencies, we also visited state government offices that receive mineral revenues in Arkansas, Colorado, Idaho, Texas, and Wyoming. Further, we gathered information from 10 BLM state offices.

To achieve the objectives of this review, we interviewed officials at MMS and each surface managing agency that distributes mineral revenues from acquired lands. We identified statutes governing land acquisition and disbursements through work at MMS and the Office of the Solicitor. We reviewed legislation pertaining to the overall collection and distribution of mineral revenues, as well as those statutes that provide guidance for each agency that disburses mineral revenues from acquired lands.

We met with officials at MMS to document the processes for collecting, accounting for, and distributing mineral revenues from acquired lands. At each surface managing agency, we discussed with officials the processes for accounting for and distributing mineral revenues and obtained written procedures on such processes when available. At each agency we compared the current practices with the written procedures and with the legislative requirements for distribution. For purposes of this review, we defined distribution as the agencies' accounting for mineral revenues, including posting revenues to the correct recipient and applying the correct distribution percentage or formula to the revenues. We did not verify that each recipient received the revenues to which it

was entitled because mineral revenues are generally combined with nonmineral revenues and, consequently, lose their identity.

To determine the accuracy of distributions, we compared original MMS revenue transfer documents with the agencies' postings of MMS revenue transfers for fiscal years 1986 and 1987.<sup>1</sup> We verified that the surface managing agencies properly posted the revenues to the accounts they maintain for nonfederal recipients. Because of the large number of line items processed by the Forest Service, we selected a statistical sample for verification rather than examining each transfer. We also verified that the agencies applied the correct legislatively mandated distribution percentage to determine the amounts to distribute. Finally, we verified that the agencies notified the Treasury to distribute these amounts to the nonfederal recipients. We conducted tests regarding the accuracy of surface managing agencies' postings at BLM and the Fish and Wildlife Service accounting service centers in Lakewood, Colorado; the Corps of Engineers in Washington, D.C.; and at the National Finance Center in New Orleans, Louisiana, for Forest Service payments.

We did not examine distributions made to the Treasury by the surface managing agencies or by MMS because the requester was primarily interested in ensuring that mineral revenues from acquired lands were properly distributed to nonfederal recipients. We also did not verify that all mineral leases on acquired lands were included in our analysis because this would have required us to examine original BLM lease documents, such as master title plats, for all their leases to determine proper title status of the minerals. Therefore, we accepted MMS' current identification of its leases. However, on the basis of information provided by BLM and MMS, we identified the legislative authorities covering the approximately 2,000 mineral leases from which MMS distributes the revenues to the U.S. Treasury on behalf of many surface managing agencies. Because these legislative authorities govern revenue distributions, we wanted to ensure that states, territories, counties, and reclamation projects were not losing a share of revenues to which they were entitled. The results of this review are discussed in the report.

Our examination of the internal control procedures at each agency was limited because (1) we did not rely heavily on agencies' internal controls

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<sup>1</sup>We did not verify the accuracy of distributions made by the Bureau of Reclamation because they accounted for only about 1 percent of total fiscal years 1986 and 1987 distributions of mineral revenues from acquired lands.

to ensure accuracy of the data we gathered and (2) the deposit, distribution, and payment of revenues is performed by separate agencies. A thorough examination and testing of each agency's internal control procedures would have required a large commitment of resources and would have significantly lengthened the time required for our review. We discussed internal controls with officials at each agency, but we did not identify any significant weaknesses.

We did not evaluate MMS' distributions of mineral revenues to states from leases on acquired military lands because these revenues are distributed generally in the same manner as public domain revenues. Additionally, MMS has been the subject of several prior GAO reports, one of which discussed steps MMS took recently to ensure the accuracy of its distributions.<sup>2</sup>

We performed our work from May 1988 to January 1989 in accordance with generally accepted government auditing standards. We obtained oral comments on a draft of this report from MMS and the five surface managing agencies and included their comments in appendix VII. After providing agency comments, an official at the Forest Service responsible for certifying the appropriateness of agency payments requested on June 29, 1989, that the Comptroller General determine the proper timing of oil and gas royalty distributions to states from national forest acquired lands. Further work on this job was suspended until the Comptroller General's decision was issued on May 9, 1990. According to the decision which is binding on the certifying official, such distributions should continue to be made annually rather than monthly as stated in Interior's Office of the Solicitor memorandum. This point was incorporated in the report.

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<sup>2</sup>Mineral Revenues: Information on Interior's Royalty Management Program (GAO RCED-88-165, July 22, 1988).

# Agency Comments and Our Evaluation

We met with officials from the Forest Service, BLM, the Corps of Engineers, the Bureau of Reclamation, the Fish and Wildlife Service, and MMS to obtain oral comments to a draft of this report. The Forest Service officials pointed out that oil and gas royalties from leases on national forest acquired lands are not subject to the monthly distribution requirement of FOGRMA. Subsequent to our meeting, a Forest Service official requested that the Comptroller General determine the correct timing for distribution of oil and gas royalties to states from leases on national forest acquired lands. The other agencies generally agreed with the facts presented in the draft report. Technical clarifications that were provided have been incorporated.

## Forest Service

The Forest Service noted that (1) FOGRMA's monthly distribution requirement does not apply to mineral revenues from national forest acquired lands and (2) FOGRMA's interest penalty on untimely payments does not apply to national forest mineral revenues. This was confirmed by a Comptroller General decision issued May 9, 1990. The Forest Service also suggested including additional U.S. Code citations and provided some editorial changes, which we made to the report.

## Bureau of Land Management

BLM had no comments on the draft report.

## The Corps of Engineers

The Corps of Engineers noted that (1) it distributed fiscal years 1986 and 1987 mineral revenues to states in December of each year—within 3 months of year-end, rather than within 4 months of year-end as cited in the draft report and (2) MMS does not make a monthly deposit of Corps oil and gas royalties due states into a Corps account at the Treasury; but rather MMS makes a monthly deposit of Corps revenues into a Treasury suspense account and sends the Corps an annual check for revenues collected.

Regarding the first point, the Corps' fiscal year revenue collections cover the period September through August, and distribution was made in December—4 months later; therefore, we made no change to the report. Regarding the second point, we agree with the Corps and clarified the report.

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## Bureau of Reclamation

The Bureau of Reclamation noted that Interior's Office of the Solicitor was drafting an opinion regarding the distribution and crediting of mineral revenues from Bureau acquired lands, and preferred not to comment on the accuracy of the distributions discussed in our draft report until the opinion was finalized. The opinion, issued September 8, 1989, pointed out that mineral revenue distributions from leases on Bureau acquired lands are to be deposited into the Reclamation Fund at the Treasury and either remain in the fund or are further distributed to the reclamation project from which they were generated. We agree and changed the report to reflect this.

The Bureau also pointed out that the use of the mineral revenues from leases on Bureau acquired lands, as specified in legislation, is for construction purposes only, not for operations. We changed the report accordingly.

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## Fish and Wildlife Service

The Fish and Wildlife Service noted some refinements to its distribution process, which is discussed in appendix I. The Service said that (1) it deducts administrative costs prior to making revenue distributions to counties and (2) its payments to counties cannot be less than each county's distribution in 1977. We agree with these two points and made the necessary changes to the report.

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## Minerals Management Service

MMS pointed out that (1) the wording on the accuracy of distributions implied that only distributions to nonfederal entities (and not to the Treasury) were accurate, (2) FOGRMA's monthly distribution requirement also applies to geothermal leases (although MMS said no geothermal leases exist on acquired lands) and leases on the south half of the Red River, (3) the Treasury's Miscellaneous Receipts account is the specific name for the account to which MMS distributes revenues when legislation applicable to other surface managing agencies does not specify that mineral revenues must be shared with nonfederal recipients, (4) the 300 leases for which the Corps of Engineers collected revenues until September 1987 are privately issued leases, (5) the matter of the \$559,000 that potentially should have been distributed to nonfederal recipients was brought to the attention of both MMS and BLM and that both agencies are working to verify the information, (6) the U.S. Geological Survey, rather than MMS, collected revenues from military acquired lands prior to 1981, and (7) MMS is not responsible for identifying the locality from which revenues are generated.

Regarding the first point, we changed the report to indicate that accuracy refers to the correct percentage shares (to the Treasury and nonfederal recipients) as specified by law. Regarding the second point, since MMS pointed out that no geothermal leases exist on acquired lands, we did not include language about geothermal leases in the report. Further, regarding the applicability of FOGPMA to leases on the south half of the Red River, Interior's Office of the Solicitor issued a memorandum in September 1988 that points out that these leases are on public domain lands, not acquired lands. Consequently, because the report addresses only acquired lands, we did not include language in the report about leases on the south half of the Red River.

We agree with the third point and changed the report to cite the Treasury's Miscellaneous Receipts account. Regarding the fourth point, we agree that the 300 Corps leases are private leases and clarified this in the report.

Regarding the fifth point, we disagree with MMS. We asked BLM to determine the legislation that governs revenue distributions for the approximately 2,000 leases for which MMS distributes the revenues to the U.S. Treasury on behalf of many surface managing agencies. We compared the BLM data with MMS data and brought the discrepancies to MMS' attention, not BLM's attention. Regarding the sixth and seventh points, we deleted references to MMS collecting revenues prior to 1981 and identifying the locality of leases.



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