



Highlights of [GAO-08-560T](#), a testimony before the Subcommittee on Energy and Mineral Resources, Committee on Natural Resources, House of Representatives

Why GAO Did This Study

Companies that develop and produce federal oil and gas resources do so under leases administered by the Department of the Interior (Interior). Interior's Bureau of Land Management (BLM) and Offshore Minerals Management (OMM) are responsible for overseeing oil and gas operations on federal leases. Companies are required to self-report their production volumes and other data to Interior's Minerals Management Service (MMS) and to pay royalties either "in value" (payments made in cash), or "in kind" (payments made in oil or gas).

GAO's testimony will focus on whether (1) Interior has adequate assurance that it is receiving full compensation for oil and gas produced from federal lands and waters, (2) MMS's compliance efforts provide a check on industry's self-reported data, (3) MMS has reasonable assurance that it is collecting the right amounts of royalty-in-kind oil and gas, and (4) the benefits of the royalty-in-kind program that MMS has reported are reliable. This testimony is based on ongoing work. When this work is complete, we expect to make recommendations to address these and other findings.

To address these issues GAO analyzed MMS data, reviewed MMS, and other agency policies and procedures, and interviewed officials at Interior. In commenting on a draft of this testimony, Interior provided GAO technical comments which were incorporated where appropriate.

To view the full product, including the scope and methodology, click on [GAO-08-560T](#). For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

MINERAL REVENUES

Data Management Problems and Reliance on Self-Reported Data for Compliance Efforts Put MMS Royalty Collections at Risk

What GAO Found

Interior lacks adequate assurance that it is receiving full compensation for oil and gas produced from federal lands and waters because Interior's Bureau of Land Management (BLM) and Offshore Minerals Management (OMM) are not fully conducting production inspections as required by law and agency policies and because MMS's financial management systems are inadequate and lack key internal controls. Officials at BLM told us that only 8 of the 23 field offices in five key states we sampled completed their required production inspections in fiscal year 2007. Similarly, officials at OMM told us that they completed about half of the required production inspections in calendar year 2007 in the Gulf of Mexico. In addition, MMS's financial management system lacks an automated process for routinely and systematically reconciling production data with royalty payments.

MMS's compliance efforts do not consistently examine third-party source documents to verify whether self-reported industry royalty-in-value payment data are complete and accurate, putting full collection of royalties at risk. In 2001, to help meet its annual performance goals, MMS moved from conducting audits, which compare self-reported data against source documents, toward compliance reviews, which provide a more limited check of a company's self-reported data and do not include systematic comparison to source documentation. MMS could not tell us what percentage of its annual performance goal was achieved through audits as opposed to compliance reviews.

Because the production verification processes MMS uses for royalty-in-kind gas are not as rigorous as those applied to royalty-in-kind oil, MMS cannot be certain it is collecting the gas royalties it is due. MMS compares companies' self-reported oil production data with pipeline meter data from OMM's oil verification system, which records oil volumes flowing through metering points. While analogous data are available from OMM's gas verification system, MMS has not chosen to use these third-party data to verify the company-reported production numbers.

The financial benefits of the royalty-in-kind program are uncertain due to questions and uncertainties surrounding the underlying assumptions and methods MMS used to compare the revenues it collected in kind with what it would have collected in cash. Specifically, questions and uncertainties exist regarding MMS's methods to calculate the net revenues from in-kind oil and gas sales, interest payments, and administrative cost savings.