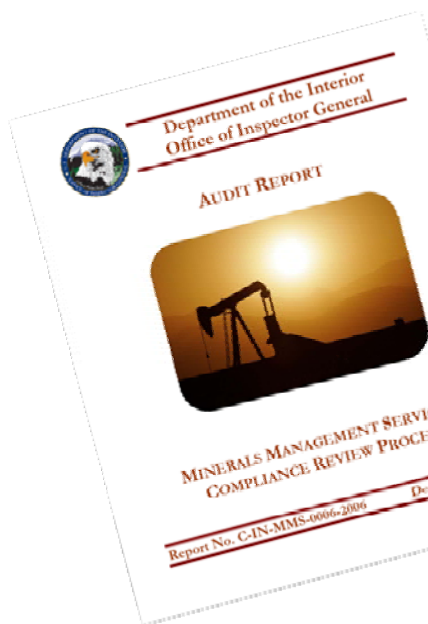




U.S. DEPARTMENT OF THE INTERIOR OFFICE OF INSPECTOR GENERAL ROYALTY INITIATIVES GROUP

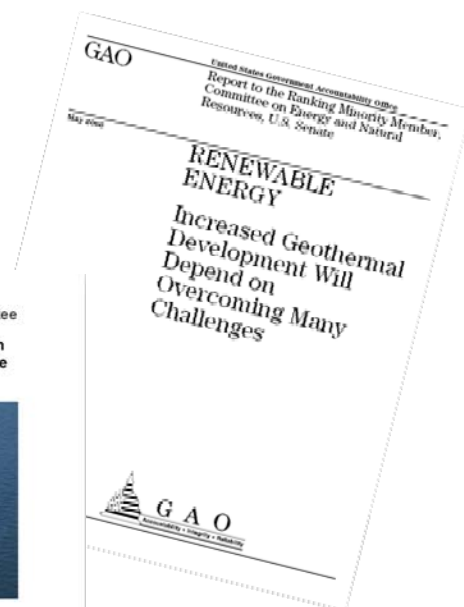
Evaluation of Royalty Recommendations Made to the Department of the Interior Fiscal Year 2006 – February 2009



Report to the Royalty Policy Committee
**Mineral Revenue Collection from
Federal and Indian Lands and the
Outer Continental Shelf**



Submitted by:
The Subcommittee on Royalty Management
with staff support from
U.S. Department of the Interior
Office of Policy Analysis (Office of the Secretary)
and the Bureau of Land Management
December 17, 2007



Report No. CR-EV-MOA-0003-2009

April 2009



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, DC 20240

APR 15 2009

Memorandum

To: Secretary Salazar

From: Mary L. Kendall *Steph A. Hooper*
Acting Inspector General

Subject: Evaluation Report on Royalty Recommendations Made to the Department of the Interior (Report No. CR-EV-MOA-0003-2009)

This memorandum transmits our report detailing the results of our evaluation of the Department's implementation of recommendations related to royalty programs since fiscal year 2006.

Our evaluation found that of the 137 royalty related recommendations made since fiscal year 2006, 59 recommendations had sufficient actions taken to consider them implemented or closed. For the remaining 78 recommendations, we confirmed 52 as having actions initiated towards completion, and 26 as having no action taken but a completion date has been established in the corrective action plan.

Should you have any questions about this report, please do not hesitate to contact me at 202-208-5745.

Attachment

cc: Assistant Secretary, Land and Minerals Management
Director, Minerals Management Service
Director, Bureau of Land Management

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INTRODUCTION

The Department of the Interior's (Department) Minerals Management Service (MMS) collected more than \$24 billion in mineral royalty revenue in fiscal year 2008, which was more than double the collections of \$11.4 billion in fiscal year 2007 and \$12.6 billion in fiscal year 2006. This increase was primarily due to bonus payments from successful mineral lease bidders totaling \$10.1 billion.

The Subcommittee on Royalty Management (Subcommittee), the Government Accountability Office (GAO), and the Office of Inspector General (OIG) have all made numerous recommendations to the Department for program improvements in the last 3 years. The Subcommittee issued one report, GAO issued 12 reports and testimonies, and OIG issued 6 audit and evaluation reports during the period October 1, 2005 through February 9, 2009, concerning royalty collections. A total of 137 recommendations were generated from the reports.

We initiated this evaluation in order to determine the status of the 110 royalty related recommendations made to the Department by the Subcommittee. After starting our review, we decided to include those recommendations made by GAO and OIG. This report presents the results of our evaluation of the Department's implementation of recommendations related to royalty programs since fiscal year 2006.

Background

The Subcommittee reports to the Royalty Policy Committee, which is chartered under the Federal Advisory Committee Act to provide advice to the Secretary of the Interior (Secretary) and other Departmental officials responsible for managing mineral leasing activities. The Royalty Policy Committee further serves as a forum for individual States, American Indian tribes, individual Indian mineral lease holders, industry, government agencies, other stakeholders, and the general public who wish to voice their viewpoints on pertinent royalty policy issues.

On March 22, 2007, the Subcommittee was appointed by the Secretary to conduct an independent, prospective examination of MMS's minerals revenue management program. The Subcommittee was appointed following the publication of a report by OIG that raised concerns about the audit and compliance program, as well as other issues separately raised by OIG related to employee misconduct. These reports led to increased public concern and heightened scrutiny by members of Congress. As a result of these concerns, the Secretary determined that a fully independent examination of the program was warranted, and necessary, to restore credibility to this important revenue-generating program and to the staff who support it.

The Subcommittee issued its report on December 17, 2007. The report contained 110 recommendations, mostly directed at MMS and the Bureau of Land Management (BLM), which are the two Departmental bureaus with major roles in royalty management. In addition, the Office of the Solicitor and the Bureau of Indian Affairs (BIA) were required to respond to some of the recommendations. MMS's Office of Policy and Management Improvement (PMI) was appointed to coordinate the implementation of the recommendations and track implementation progress.

The GAO; the audit, evaluation, and investigative arm of Congress; has the authority to audit all government operations, including royalty collections in the Department. Since fiscal year 2006, GAO issued 12 reports relating to royalty collections. However, only four of the reports contained recommendations directed at the Department or MMS. The four reports contained 14 recommendations.

The OIG, created by the Inspector General Act of 1978, is chartered to perform audits, inspections, evaluations, and investigations of the Department's programs. Congress can request the OIG to review royalty collections and the OIG can initiate its own reviews. Since fiscal year 2006, the OIG issued six audit/evaluation reports; however, only five reports contained recommendations (13 in total) related to royalty collections.

The Department's Office of Financial Management (PFM) coordinates and tracks the implementation of GAO and OIG recommendations.

Objective, Scope and Methodology

The scope of the review covered recommendations relating to the Department's royalty activities. The objectives of the evaluation were to assess whether the actions taken have fully addressed recommendations reported as implemented and, also, whether action has been initiated to address unimplemented recommendations. We did not attempt to determine whether or not the actions taken will correct the identified problems.

To accomplish our objectives, we reviewed documentation provided by PMI and PFM, in addition to information contained in the OIG recommendation tracking system. We also determined the status of GAO recommendations using its website. As necessary, we requested additional documentation.

Using the information obtained through document reviews, we designated the implementation status of each recommendation into one of four categories:

- Implemented – Actions taken have fulfilled the intent of the recommendation as reported.

- Closed – Closed but not implemented. The Department determined that it was not appropriate to implement the recommendation. Action was approved by management.
- Action Initiated – Responsible bureau has completed one or more of the tasks identified for completing the recommendation, or the responsible bureau has submitted a formal and complete corrective action plan to GAO or OIG.
- No Action initiated – A target date for completion of the Subcommittee recommendation has been established, but no corrective action has been completed.

We performed our evaluation from February through April 2009, and conducted our work in accordance with the Quality Standards for Inspections issued by the President’s Council on Integrity and Efficiency.

RESULTS IN BRIEF

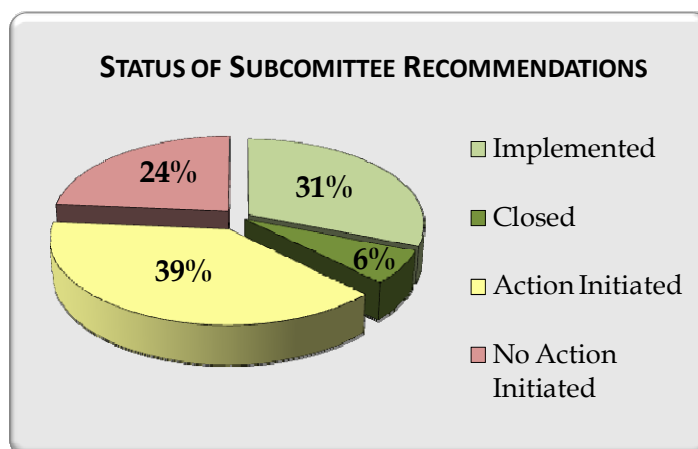
Our evaluation found that 41 of the 110 recommendations of the Subcommittee had sufficient actions taken to consider them implemented or closed. For the remaining 69 recommendations, we confirmed 43 as having actions initiated towards completion, and 26 as having no action taken but a completion date has been established in the corrective action plan. In addition, we confirmed that 9 of the 14 recommendations made by GAO and 9 of the 13 recommendations made by OIG had been implemented. The remaining five GAO recommendations and four OIG recommendations were resolved but not implemented (action initiated).

Status of Royalty Recommendations Reviewed

Recommending Agency	Total	Implemented	Closed	Action Initiated	No Action Initiated
Subcommittee	110	34	7	43	26
GAO	14	9	-	5	-
OIG	13	9	-	4	-
Total	137	52	7	52	26

RECOMMENDATIONS MADE BY THE SUBCOMMITTEE ON ROYALTY MANAGEMENT

The Department has implemented or closed 41 of the 110 recommendations (34 implemented and 7 closed). For 43 recommendations, a target date for completion has been established and at least one or more intermediate tasks have been completed and reported to PMI. For the remaining 26 recommendations, a completion date has been established but no completed actions have been reported to PMI (see Appendix 1).



The Department took a prioritized approach to implementing the Subcommittee recommendations, first addressing those that management considered of high risk, then identifying those that needed to be done before other recommendations could be addressed, and finally addressing those that required publication in the Federal Register, such as for rule making or regulatory changes. Consideration also had to be given to the availability of staff and coordination of the large number of groups involved from each agency.

When we initiated our evaluation, we were informed that 39 of the recommendations had been implemented. During our review, two additional recommendations were completed. However, we noted that one recommendation was scheduled to be completed by the end of January 2009, but is now past due, as shown in the following table:

Subcommittee Recommendation Summary

		Number of Recommendations				
Implemented or Closed	Past Due	To Be Implemented By				Total
		FY 2009	FY 2010	FY 2011	FY 2012	
41	1	27	30	5	6	110

Included in the 41 recommendations listed as Implemented or Closed are 7 recommendations that were closed but not implemented. The MMS determined for

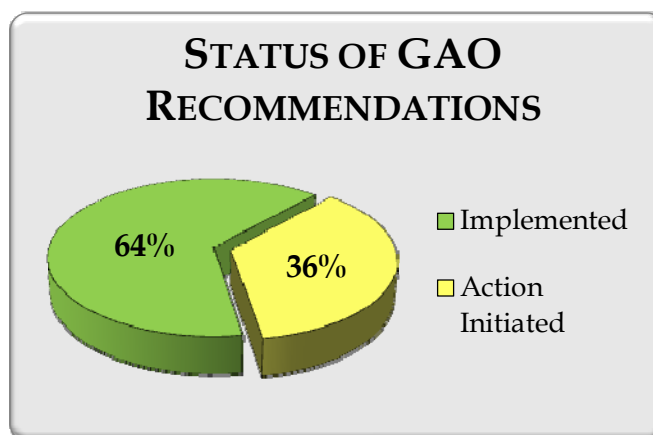
various reasons that it would not be appropriate to implement the recommendations. Our review concluded that the actions taken were appropriate and properly approved. For example, Recommendation 6-13 (see Appendix 1) was to discontinue the small refiners' set-aside program as soon as possible. After MMS received public feedback in a Federal Register notice, performed a determination of need, and prepared an Issue Paper, the MMS Associate Director for Minerals Revenue Management recommended continuing the small refiners' program, primarily based on the comments received from program participants. The MMS Director concurred with the decision. Since MMS considered the recommendation as completed without implementation, we designated the recommendation as closed.

Our evaluation determined that the status reported by PMI in their tracking system is current and accurate. The status of the recommendations is updated monthly subsequent to the Implementation Steering Committee meetings. PMI's tracking system reports implementation of the recommendations, including tasks completed or outstanding, which were established to complete each recommendation, and the completion date for each recommendation. PMI's tracking system is different than those used by GAO or OIG in that one or more tasks are established and tracked toward implementation of each recommendation. PMI receives and files documentation supporting the completion of each task and final completion of the recommendation. Therefore, PMI can show that action has been initiated towards implementation. Neither GAO nor OIG receive interim information on actions taken towards implementation. Their tracking systems only report when all actions are completed on each recommendation.

RECOMMENDATIONS MADE BY THE GOVERNMENT ACCOUNTABILITY OFFICE

The Department has implemented 9 of the 14 recommendations made by GAO. For the remaining five recommendations, the Department has concurred with the recommendations and has established completion dates for implementation; therefore, we consider the status of these recommendations as Action Initiated (see Appendix 2).

We noted that in the case of one other GAO report, issued in draft to the Department, the Department disagreed with the recommendations. Subsequently, GAO issued the final report to Congress and recommended that it ensure the Department takes



appropriate action to implement the recommendations. Since GAO made the recommendations to Congress, not the Department, we excluded these recommendations from our review.

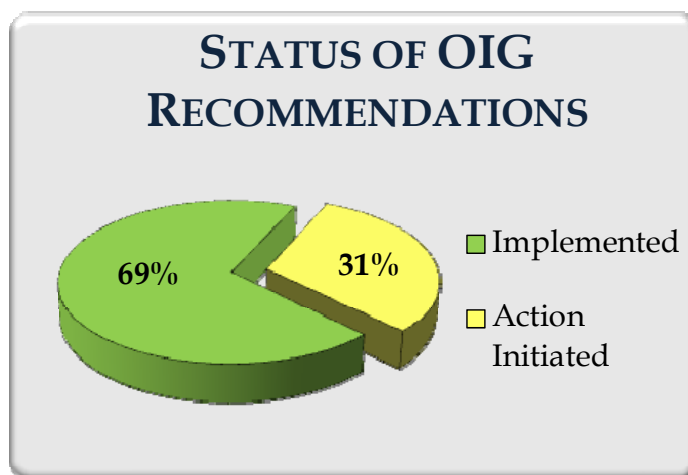
GAO's recommendations made to the Department are tracked in two separate systems. One is maintained by GAO and the other by the Department. Although these two systems should agree with one another, we found that for two of the four reports, the status listed and recommendations tracked were different. In Report No. GAO-08-893R, four of the seven recommendations were not listed in the GAO system and two of the three recommendations listed as in-process in GAO's system were shown as implemented in the Department's system. In Report No. GAO-08-942R, one of the two recommendations listed as in-process in GAO's system was shown as implemented in the Department's system. We made no attempt to determine why the difference existed. We used the best available information from the two systems to confirm the status of the recommendations we reviewed.

GAO Recommendation Summary

Report Number	Total	Implemented	Action Initiated
GAO-06-629	2	2	-
GAO-07-590R	3	3	-
GAO-08-942R	2	1	1
GAO-08-893R	7	3	4
Total	14	9	5

RECOMMENDATIONS MADE BY THE OFFICE OF INSPECTOR GENERAL

The Department has implemented 9 of the 13 recommendations issued by OIG. For the four other recommendations, the Department has agreed with the recommendations and is in the process of implementing them. For our purposes in this evaluation they are shown as Action Initiated (see Appendix 3).



In performing our evaluation, we noted that 22 of the recommendations made by the Subcommittee were related to or similar to recommendations or observations contained in OIG reports. In six cases the documentation used to close the Subcommittee recommendations had already been submitted to OIG for closure of its recommendations. While there is nothing wrong with two entities issuing identical or similar recommendations, it does demonstrate that the issues being discussed are well known and that correcting them should be a priority.

OIG recommendations are tracked in separate systems at the Department and at OIG. During our review we noted no differences between the two systems for the recommendations being tracked or the reported status.

Our evaluation noted two recommendations where MMS did not concur; however, we designated the recommendations as Action Initiated. These recommendations were referred by OIG to the Department for resolution. Subsequently, MMS and OIG have agreed to a corrective action plan. MMS has prepared and submitted this plan to the Department to resolve the recommendation and show that MMS is taking action to correct the problems noted. We have categorized these two recommendations as Action Initiated for this review.

We identified one recently issued OIG report, Report No. C-EV-MOA-0009-2008 “Oil and Gas Production on Federal Leases; No Simple Answer”. It contained five recommendations and OIG has just received the written response from MMS. The response stated that MMS concurred with four recommendations and partially concurred with one recommendation. Since the report was issued at the end of our fieldwork and we just recently referred the recommendations to the Department, we excluded the report from this review.

OIG Recommendation Summary

Report Number	Total	Implemented	Action Initiated
C-IN-MMS-0006-2006	3	3	
C-EV-MMS-0001-2008	6	2	4
X-IN-MMS-0006-2006	2	2	
X-IN-MMS-0010-2007	1	1	
X-IN-MMS-0019-2006	1	1	
Total	13	9	4

APPENDIX 1

STATUS OF THE SUBCOMMITTEE RECOMMENDATIONS

Recommendation	MMS	BLM	BIA	SOL
3-1 BTU Variability Procedures				
3-2 BTU Sampling and Analysis				
3-3 Requesting BTU Information				
3-4 BTU Comparisons				
3-5 Revise CFR				
3-6 Amend MMS-2014				
3-7 Modify Systems				
3-8 Amend RSFA				
3-9 Electronic Transmissions				
3-10 Report Frequency				
3-11 Electronic Reporting				
3-12 Pilot System				
3-13 Electronic Payments				
3-14 Error Corrections				
3-15 Exception Reporting				
3-16 Gas Plant Reporting				
3-17 Gas Plant Reviews				
3-18 Update Guidance				
3-19 Communication Timelines				
34 Implemented	7 Closed	43 Action Initiated	26 No Action Initiated	

Recommendation	MMS	BLM	BIA	SOL
3-20 MMS Contacts				
3-21 Update Handbooks				
3-22 Establish Workgroup				
3-23 Specialist Team				
3-24 New LR2000 Code				
3-25 Estimate Review Hours				
3-26 PATs Duties				
3-27 Compliance Enforcement				
3-28 Contract Employees				
3-29 Adequate Staffing Levels				
3-30 Standardized PAT Descriptions				
3-31 PET Certification				
3-32 Training Needs Assessment				
3-33 Annual Agency Workshop				
3-34 Mine Inspector Certification				
3-35 Surface Mine Technology				
3-36 Periodic PET/PAT Meetings				
4-1 Compliance Strategy Council				
4-2 Compliance Resource Needs				
4-3 Resource Allocations				
4-4 Compliance Tool Evaluation				
4-5 High-risk Review Targets				
4-6 Whistleblower Pilot Program				
4-7 Flexible Requirements				
34 Implemented	43 Action Initiated	26 No Action Initiated		
7 Closed				

Recommendation	MMS	BLM	BIA	SOL
4-8 Electronic Submissions				
4-9 Risk-based Pilot Project				
4-10 Enhance Tracking System				
4-11 GAO/OIG Project Progress				
4-12 Monitor Compliance Program				
4-13 New GPRA Goals				
4-14 Automate Data Entry				
4-15 Evaluate Other Measures				
4-16 Improve Calculating Interest				
4-17 Eliminate Duplicate Databases				
4-18 Automated Updates				
4-19 Consistent Review Procedures				
4-20 Consult Inspector General				
4-21 Electronic Run Tickets				
4-22 Onshore Run Tickets				
4-23 Process Improvements				
4-24 Finalize Valuation Changes				
4-25 Valuation Methodology				
4-26 Gas Valuation Regulations				
4-27 Price Calculation Guidance				
5-1 Understanding Permit Issuance				
5-2 Secure Indian System Access				
5-3 Reconnect Indian Systems				
5-4 Revise password Requirements				
34 Implemented	7 Closed	43 Action Initiated	26 No Action Initiated	

Recommendation	MMS	BLM	BIA	SOL
5-5 Coordination Guidance				
5-6 Verification Reports to MMS				
5-7 Establish Geospatial Standards				
5-8 Boundary Information Review				
5-9 Establish PCC				
5-10 Inter-Bureau Coordination				
6-1 Establish RPC				
6-2 Subcommittee RIK Review				
6-3 Revised Certainty Regulations				
6-4 Public RIK Guidebook				
6-5 MMS Outreach				
6-6 Treasury Trust Fund Feasibility				
6-7 FAR Contracting Arrangements				
6-8 Commercial Activity RIK				
6-9 Organizational Cost-Benefit				
6-10 Alternative Structure Oversight				
6-11 Discontinue RIK Program				
6-12 RIK Decision Document				
6-13 Discontinue Set-Aside				
6-14 Amend MOU with DOE				
6-15 SPR Transfer Report				
6-16 RIK Personnel Ethics				
6-17 RIK Workforce Structure				
6-18 Streamline Vacancies Process				
34 Implemented	7 Closed	43 Action Initiated	26 No Action Initiated	

Recommendation	MMS	BLM	BIA	SOL
6-19 RIK Legal Support				
6-20 RIK Market Expertise				
6-21 Monthly Performance Metrics				
6-22 Benchmarking Presentation				
6-23 Benchmark Methodology				
6-24 RIK Performance Data				
6-25 Centralized Calculations				
6-26 Future Marketing Strategy				
6-27 Enhanced Measures				
6-28 Publish RIK Comparison				
6-29 Codify Auction Approach				
6-30 Detailed Bid Procedures				
6-31 Alternative Auction Pilot				
7-1 Voluntary Royalty Payments				
7-2 Royalty Legislative Options				
7-3 Implement Secretary Memo				
7-4 “Lessons Learned” Review				
7-5 Key Staff Performance				
7-6 Additional Ethics Training				
<div> <div>34 Implemented</div> <div>7 Closed</div> <div>43 Action Initiated</div> <div>26 No Action Initiated</div> </div>				

APPENDIX 2

STATUS OF GOVERNMENT ACCOUNTABILITY OFFICE RECOMMENDATIONS

Recommendation	Status
Renewable Energy GAO-06-629	
1 Correct royalty data	
2 Collect for electricity sold	
Oil and Gas Royalties: Royalty Relief GAO-07-590R	
1 Lease status to Congress	
2 Lease status to Congress	
3 Estimates to Congress	
Oil and Gas Royalties: Royalty-in-Kind Program GAO-08-942R	
1 Verification of natural gas	
2 Benefits and costs for RIK	
Mineral Revenue GAO-08-893R	
1 Production inspections	
2 Terms for offshore leases	
3 Production Inspection Data	
4 Conduct study FOGRSF Act	
5 Monitor adjustments	
6 Timely royalty reports	
7 Self-reported data	
<div>9 Implemented</div> <div>5 Action Initiated</div>	

APPENDIX 3

STATUS OF OFFICE OF INSPECTOR GENERAL RECOMMENDATIONS

Recommendation	Status
<i>MMS Compliance Review Process C-IN-MMS-0006-2006</i>	
A.1 CAM program	
A.2 Strengthen CRP	
A.2 CAM performance	
<i>Royalty-In-Kind Program C-EV-MMS-0001-2008</i>	
1 Operations manual	
2 Legal review contracts	
3 Consult with SOL	
4 RIK staffing needs	
5 Pilot project sales	
6 Longer term contracts	
<i>Management Letter on MMS Financial Statements 2005 X-IN-MMS-0006-2006</i>	
3 Interest billing backlog	
5 Offshore bonus revenue	
<i>Management Letter on MMS Financial Statements 2006 X-IN-MMS-0010-2007</i>	
2 Process to bill interest	
<i>Auditors' Opinion on MMS Financial Statements 2006 X-IN-MMS-0019-2006</i>	
B-2 Proper recording	
<div>9 Implemented</div> <div>4 Action Initiated</div>	

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