



U.S. Department of the Interior
Office of Inspector General

SURVEY REPORT

**ADMINISTRATION OF REVENUES
DUE FROM HELIUM PRODUCED
ON FEDERAL LEASES,
BUREAU OF LAND MANAGEMENT**

**REPORT NO. 99-I-395
MARCH 1999**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

MAR 31 1999

SURVEY REPORT

Memorandum

To: Director, Bureau of Land Management

From: Robert J. Williams *Robert J. Williams*
Acting Inspector General

Subject: Survey Report on Administration of Revenues Due From Helium Produced on Federal' Leases, Bureau of Land Management (No. 99-I-395)

INTRODUCTION

This report presents the results of our survey of the Bureau of Land Management's administration of revenues due from helium produced on Federal leases. The objective of the survey was to determine whether the Bureau effectively identified, collected, and accounted for helium fee sales revenues due from Federal leases.

BACKGROUND

Helium produced on federally leased lands and revenues collected by the Federal Government from helium production are subject to the requirements of the Mineral Lands Leasing Act of 1920 (30 U.S.C. 181), the Helium Act as amended by the Helium Privatization Act of 1996 (50 U.S.C. 167), and the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1701). The Mineral Lands Leasing Act excludes helium from Federal mineral leases and reserves helium exclusively to the Federal Government. The Helium Act reserved to the Secretary of the Interior all helium on public domain lands and provided the Secretary with complete rights of access to helium extraction plants, data, and accounts. The Helium Privatization Act continued the Secretary's authority provided in the Helium Act to enter into agreements with private parties for the recovery and disposal of helium on Federal lands and to deposit helium revenues into the Treasury. The Federal Oil and Gas Royalty Management Act requires that all activities/individuals "directly involved in developing, producing, transporting, purchasing, or selling oil or gas" from Federal leases establish and maintain records for 6 years and that they make reports and provide information that the "Secretary may ... reasonably require."

Helium produced on Federal lands is part of the “residual gas” resulting from natural gas production on leases issued by the Bureau. When production is begun, the lessees make payments to the Minerals Management Service for their production of the natural gas. Helium is contained in the residual gas of this production process. When the quantity of helium is economically recoverable, producers of the natural gas may extract the helium from the residual gas. According to Bureau officials, helium is considered to be economically recoverable when the helium content of the gas stream is .03 percent or greater. Bureau officials also stated that producers of the natural gas stream which have plants capable of extracting helium extract the gas as a result of entering into gas gathering agreements, contracts for sale of gas, or transport agreements with lessees. The majority of the helium produced in the United States was processed by 11 extraction plants, which received production from wells located in Texas, Oklahoma, Kansas, and Wyoming (the process for helium production is detailed in Appendix 1).

The Bureau collected helium revenues of about \$3.9 million during fiscal year 1996 for production from approximately 1,200 wells. The Bureau receives helium revenues through “fee sales,” which result from helium extracted from federally leased oil and gas wells authorized by the Mineral Land Leasing Act. Contracts for the sale of extracted Federal helium that results in fee sales revenues to the Bureau are issued by the Bureau to producers which extract the helium and have obtained the rights to the natural gas processed or which have signed agreements to purchase the gas stream processed from oil and gas lessees. The Bureau also collects royalties for helium produced under Federal leaseholds authorized by the Federal Farm Mortgage Corporation. During fiscal year 1996, about \$3.7 million of the \$3.9 million collected by the Bureau for helium was received from fee sales from contracts with two major producers. The remaining revenues were collected from 54 companies that extracted helium from Federal leaseholds.

In fiscal year 1996, helium operations of the former U.S. Bureau of Mines were transferred to the Bureau of Land Management. In addition, the Helium Privatization Act of 1996 (50 U.S.C. 167b) required that the Bureau of Land Management end its activities to produce, refine, and market helium by April 9, 1998. However, under the Act, the Bureau remained responsible for identifying, collecting, processing, and auditing revenues due the Government for helium produced by private entities on Federal lands.

The Bureau’s Helium Field Operations Office in Amarillo, Texas, is responsible for identifying, collecting, and accounting for helium fee sales and royalties collected from helium producers. The Unit of Federal Leased Lands, Helium Resources Evaluation Section, Branch of Helium Resources, of the Helium Field Operations Office had three full-time employees who were responsible for identifying Federal helium-producing wells and accounting for the payments received. Helium revenues are collected monthly and deposited into the Helium Fund, which is a revolving fund intended to fund all operating expenses of the Federal helium program.

SCOPE OF SURVEY

Our survey was conducted in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. Our survey included reviewing the Bureau's procedures for fiscal years 1996 and 1997 for identifying, collecting, processing, and auditing helium revenue payments that resulted from fee sales and oil and gas leases authorized by the Federal Farm Mortgage Corporation. We also discussed these procedures with Bureau officials and performed detailed analyses of payor lists, obtained records relating to the 11 active helium production plants in the United States, and evaluated the Bureau's resources for identifying payors. In addition, we contacted officials in the Minerals Management Service to determine whether the Service had an interest in assuming the Bureau's duties for administering helium revenue collections because of the similarities in functions performed by the Service.

As part of our survey, we evaluated the system of internal controls to the extent that we considered necessary to accomplish the survey objective. The internal control weaknesses we identified are discussed in the Results of Survey section of this report. The recommendations, if implemented, should improve internal controls in these areas. We also reviewed the Departmental Report on Accountability for fiscal year 1997, which includes information required by the Federal Managers' Financial Integrity Act, and the Bureau's annual assurance statement for management controls for fiscal year 1997 and determined that no material weaknesses were reported which directly related to the objective and scope of our survey.

PRIOR AUDIT COVERAGE

Neither the Office of Inspector General nor the General Accounting Office has audited the administration of helium revenues during the past 5 years.

OTHER REVIEW

In September 1993, the U.S. Bureau of Mines issued an internal report performed by Bureau of Mines officials titled "Unit of Federal Leased Lands: Background, Development, Obstacles, Progress, and Status, 1991-1993." The report described the methods and steps taken to organize the Unit of Federal Leased Lands and its workplan, an overview of the processes and procedures for administering helium royalty payments, a discussion of the obstacles encountered by the Unit, and payment statistics and information relating to helium fee sales (the Unit now operates as part of the Bureau of Land Management). The obstacles discussed in the report included the following:

- The extensive amount of time required to research, assemble, and coordinate the information required to accurately determine revenues due the Government.

- Incomplete, inconsistent, and nonexistent information resources. Comprehensive information, such as data on Federal acreages, exact spot locations of wells, Federal wells feeding extraction plants, and lessees/operators, did not exist.

- Lack of reliable maps to identify whether wells were located on Federal acreage.

- The inability of Helium Field Operations staff to obtain access (primarily from extraction plants) to data listings of all wells feeding extraction plants because extraction plant operators said that this information was proprietary.

- The inability of Helium Field Operations staff to obtain access to Bureau of Land Management state office databases containing critical case recordation information (for example, maps, first production reports, lease copies, agreement copies, and quit claim copies) concerning Federal leaseholds.

- The amount of time and the difficulty in locating proper payors because the Bureau did not officially document the Designation of Operators, which indicated what producers were operating wells that may produce helium.

- Complex and time-consuming leasehold research; the lack of specific directives and instructions or procedures; the process of informing producers, operators, and extractors and other Governmental agencies about helium payments; and payment details that are required to be included in the accounting records.

However, the report did not contain any recommendations to address these obstacles.

RESULTS OF SURVEY

We found that the Bureau of Land Management effectively accounted for and processed the helium payments it received. However, the Bureau did not effectively identify all of the helium producers and require them to submit production information to compute fees from helium sales or to determine the payments due. The Mineral Lands Leasing Act reserves all helium rights to the Federal Government when a mineral lease is issued. The Federal Oil and Gas Royalty Management Act of 1982 requires gas producers and sellers to maintain and provide records of helium production and sales to the Bureau for payment verification and audit. However, the Bureau did not effectively identify helium payments due because it did not take actions to ensure that information requests for production and sales records were provided by gas producers. In addition, the Bureau did not establish adequate reporting mechanisms to ensure that payors were identified when leases or contracts were issued, and it assigned a low priority to identifying wells producing helium on Federal lands. As a result, the Bureau had little assurance that fees from the production and sales of helium were paid on Federally leased lands. We further determined that the Minerals Management Service may be able to perform the Bureau's helium revenue collection function more effectively than the Bureau.

Bureau Procedures for Identifying and Verifying Revenues

The Bureau did not effectively identify all the helium producers and require them to submit production information to compute fees from helium sales or to determine the amount of payments due. Bureau procedures require that companies submit lists of wells that may produce helium to the Bureau after they obtain a Federal lease. The companies are then to make payments to the Bureau if helium is produced. However, all companies producing helium had not submitted lists or payments to the Bureau. Consequently, the Bureau had to develop internal lists of wells capable of producing helium through the “time consuming” process of researching natural gas production and land ownership databases and through the examination and comparison of maps, lease data, and listings of wells feeding helium extraction plants. While the Bureau’s Helium Resources Evaluation Section had made progress in establishing useful information sources for identifying potential payors, such as researching Bureau and industry databases, it did not (1) enforce information requests to identify helium production on Federal lands from producers and helium extraction plants and (2) establish a reporting mechanism which ensured that **potential payors** were notified of their responsibilities to pay helium royalties when producing helium from leases on Federal lands.

Enforcement of Information Requests. The Bureau had not effectively enforced the requirements of the Federal Oil and Gas Royalty Management Act (30 U.S.C. 17 13) that required gas producers and sellers to maintain and provide records of helium production and sales records from leases on Federal land. At the time of our review, the Bureau had not initiated research on 75 companies that had been identified as potential helium extractors from Federal lands. The companies were identified because they were producing natural gas on Federal leases in areas such as Texas, Oklahoma, Kansas, and Wyoming, where helium production was common. For example:

- In August 1993 and again in April 1994, the Bureau sent letters to 11 helium extraction plants requesting information to assist in identifying Federal wells that were feeding the plants. However, only 2 of the 11 plants provided the requested information, and Bureau officials had not followed up with the unresponsive plants or initiated legal action, such as issuing subpoenas, to ensure the plants’ compliance with the requests.

- As of May 1997, the Bureau had unsuccessfully attempted to obtain information from two producers to determine the amount of Federal helium revenues due. In each case, the Bureau had not obtained legal assistance to ensure that the producers complied with the request.

As part of our survey, we judgmentally selected, based on suggestions from Bureau officials, a list of 29 Federal wells operated by three companies. The companies had not submitted payments for these wells. Bureau officials said that they believed the wells were producing helium because the wells in the same geographic areas were submitting payments for production of helium. From production information received from helium extraction plants, we determined that 9 (31 percent) of the 29 wells were producing helium. Based on that

information, we estimated that the Bureau had not received payments totaling as much as \$4,900 for the companies' production from October 1993 through February 1997.

Because we found that 31 percent of the wells reviewed were producing helium, we believe that there may be significant amounts of unreported helium production and related revenue payments because the Bureau had not, at the time of our review, initiated research on potential production from 75 companies that had Federal leases. The Bureau attributed the lack of potential payor identification to insufficient staffing. An April 25, 1996, memorandum from a Bureau helium payment analyst to the General Manager of the Helium Field Operations Office provided justification for a request to add two positions to the Helium Resources Evaluation Section. The memorandum stated:

Research of wells producing extracted helium from Federal leaseholds and receipt and verification of monies due from 1991 to current are ever-increasing and time consuming tasks We have identified in excess of 2,500 wells to date from which we are receiving monies from helium extraction for approximately 1200 wells. This initial research has been completed for approximately 18 of 35 companies who are consistently paying. This well and company research is in various stages of completion for the remaining 17 companies. Also, approximately 75 additional companies have been identified to date as possible helium extractors requiring research yet to be initiated.

At present two Helium Payment Analysts are responsible for the research, Government ownership decimal percentage determinations, and verification and audit of payments received. Total annual revenues approximate \$4.5 million [estimate based on fiscal year 1994 collections].

This request for additional staff was not approved by Bureau management. Bureau officials also told us that the Section was supervised by an engineer who spent only about 25 percent of his time performing work related to helium royalties.

Reporting Mechanisms. The Bureau did not have an effective reporting mechanism to ensure that it was notified when helium production started on new or existing leases. As a result, payments received from helium producers were not accompanied with standardized forms itemizing production volumes, mole percentages, and sales prices. Consequently, according to the Bureau, its staff had to use the expensive and time-consuming payor identification steps described previously (see "Enforcement of Information Requests" in this report). The Bureau also did not have formal approved procedures and

'According to Bureau officials, the helium content of a natural gas stream is measured as a percentage, known as the mole percentage, which is used to determine the portion of helium in the gas stream attributable to each particular well. (The helium extraction process is described further in Appendix 1.) The mole percentage should be measured at the inlet gauge of the gas processing plant, which is before any processing occurs on the gas.

policies in its Manual for identifying, collecting, and accounting for helium revenues. We believe that the inclusion of these procedures in the Bureau Manual, together with enforcement of information requests, would improve the Bureau's ability to ensure that helium production was correctly and consistently reported by producers, documentation would be submitted to support production amounts, and proper revenue payments would subsequently be submitted.

For example, in 1996, one major extraction plant was reporting production information that was incorrect. According to Bureau officials, production data were received in a different format each month, and the payment received was incorrect because the producer was measuring the mole percentage of the helium it produced during the incorrect stages of production. In some cases, royalty computations could not be verified by Section personnel because the data needed to compute the royalties were not provided with the payments.

Transfer of Function

During our review, we noted that the Bureau's helium revenue collection functions were similar to those performed by the Minerals Management Service's Royalty Management Program. The Service's Royalty Management Program identifies, collects, accounts for, audits, and disburses mineral revenues **from** the exploration and development of mineral resources, primarily oil and natural gas production, on Federal lands and the Outer Continental Shelf. The Program, which operated on a budget of about \$69 million, collected about \$6.4 billion in fiscal year 1997 for offshore lease sales, rents, and royalties and **from** other collections.

According to the Service's report "Minerals Management Service, 1982-1997: 15 Years of Excellence," the Service's Royalty Management Program uses computerized accounting systems to process more than 200,000 transactions each month **from** almost 100,000 Federal and Indian leases. The Program also conducts an extensive audit program of mineral leases; develops regulations to implement royalty management legislation; coordinates its mineral revenue collection activities with those of agencies responsible for oversight and regulation of mineral development and production; establishes standards and procedures for determining the fair market value for minerals; conducts **payor** training; processes financial and production data submitted by companies; and performs monthly disbursements of monies collected to the U.S. Treasury, state and county governments, and Indian tribes and allottees. Thus, the Service receives production information and the related royalty payments on the natural gas produced and sold from Federal leases, which also may produce helium.

In September 1998, Service **officials** told us that they were negotiating a memorandum of understanding with the Bureau for the Service to utilize its audit resources to conduct an audit of the payments received by the Bureau **from** the largest producer of helium on Federal lands. We support this arrangement and believe that the Bureau should evaluate the feasibility of transferring helium responsibilities to the Service. If this occurs, we believe that cost savings could be realized and **payor** compliance could be improved. Further, the Service's Royalty Management Program has a significantly larger number of resources and

capabilities available to use in effectively identifying and collecting helium revenues than the Bureau has in this area.

Recommendations

We recommend that the Director, Bureau of Land Management:

I. Evaluate the feasibility of transferring responsibilities for administering helium revenues to the Minerals Management Service.

2. Establish written procedures to provide regulatory guidance for initiating necessary actions, including legal proceedings, to ensure the compliance of operators and extractors with the information requests concerning helium production.

3. Establish written procedures in the Bureau Manual which ensure that the Bureau is notified when production is initiated on new or existing wells that may produce helium. These procedures should also include standardized remittance forms, including specific production data to be required from each producer.

Minerals Management Service Response and Office of Inspector General Reply

In the March 18, 1999, response (Appendix 2) to the draft report from the Acting Director, Minerals Management Service, the Service stated that it will “work together with the Bureau” in any evaluation of the feasibility of transferring helium revenue collection responsibilities to the Service. Although the Service was not requested to respond, we believe that its stated willingness to work with the Bureau in improving the program will have a beneficial impact on the program.

Bureau of Land Management Response and Office of Inspector General Reply

In the March 22, 1999, response (Appendix 3) to the draft report from the Acting Director, Bureau of Land Management, the Bureau concurred with Recommendations 1 and 2 but indicated nonconcurrency with Recommendation 3. Based on the response, we consider Recommendations 1 and 2 resolved but not implemented and Recommendation 3 unresolved. Accordingly, the unimplemented recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation, and the Bureau is requested to reconsider its response to Recommendation 3 (see Appendix 4).

Regarding Recommendation 3, the Bureau stated that it does “not believe internal guidance to be the proper vehicle” for ensuring that operators notify the Bureau of Land Management of new production and requiring operators to submit standardized remittance forms. The Bureau further stated that it “did not agree that placing this additional burden on operators

is necessarily the appropriate process” to increase helium extraction and revenue collection on Federal lands.

However, as noted in our report (page 6), payments received from helium producers were not accompanied with standardized forms that indicated production volumes, mole percentage measurements, and sales prices. We believe that this requirement is critical to ensure that the Federal Government receives its fair share of helium revenues and that operators are treated equitably by adhering to the same requirements. We do not believe that such a requirement would place an undue burden on operators. We therefore request that the Bureau reconsider its response to the recommendation.

Additional Comments on Audit Report

In its response, the Bureau provided additional comments on the report. The Bureau’s comments and our replies are presented in the paragraphs that follow.

The Bureau stated that the draft report “incorrectly cites the Helium Privatization Act as authorizing the ‘Secretary to enter into agreements with private parties for the recovery and disposal of helium on Federal lands and to deposit helium revenues into the Treasury.’” The Bureau cited the Helium Act as the “legal basis” for this authority and said that the Helium Privatization Act “authorizes continuance of the administration of extracted FLHP [Federal Lands Helium Program] by the Secretary of the Interior.” To clarify the relationship between the two Acts, we have revised the Background section of our report.

The Bureau stated that it did not agree that the Federal Oil and Gas Royalty Management Act applied to helium but that “for ease of administration, wherever the Helium Act and FOGRMA [Federal Oil and Gas Royalty Management Act] allow,” it has “designed similar administrative procedures” for the Federal Lands Helium Program and the oil and gas program.

The Federal Oil and Gas Royalty Management Act (30 U.S.C. 1702(9)) defines oil and gas as “any oil or gas originating from or allocated to the Outer Continental Shelf, Federal or Indian Lands.” Therefore, helium is not excluded from this definition. Furthermore, the Code of Federal Regulations (30 CFR 202.152) states that producers of oil and gas from Federal leases should report “helium. . . and any other gas marketed as a separate product” in accordance with the standards cited in this section of the Code. The Act also provides the Bureau with the critical record retention and access requirements needed to identify production and verify payments.

The Bureau stated that it “believe[s] it is inappropriate to rely on an outdated report for any of the findings identified in” our draft survey report from its September 1993 internal report “Unit of Federal Leased Lands: Background, Development, Obstacles, Progress, and Status, 1991-1993.” The Bureau also stated, “Since 1993, the unit has undergone significant changes, including transfer of jurisdiction from the Bureau of Mines to the BLM [Bureau of

Land Management] and significant change in legislative authority through the Helium Privatization Act of 1996.”

The conclusions in the survey report are based on our review of controls, policies, and procedures in effect at the time of our review and not on the findings in the cited report. However, we found that the deficiencies noted in the Bureau’s 1993 internal report still existed and continued to impede the Bureau from effectively administering helium revenue collection. Specifically, the Bureau’s report noted the extensive amount of time needed to determine revenues due the Government; the lack of information resources needed to identify production; the inability of staff to obtain access to extraction plant data; the inability of staff to obtain access to Bureau state office databases; and the lack of specific directives, instructions, and procedures for program operations. As stated in our report (pages 5 and 6), we determined that the Bureau was not effectively identifying and verifying revenues by enforcing information requests and utilizing reporting mechanisms that were noted in its 1993 report.

The Bureau said that our report “indicates that we [the Bureau] had not established a reporting mechanism for potential payors. Since August 1991, we have routinely sent notices to operators of Federal wells. The notice outlines their responsibility to pay helium royalties or fees and provides an appropriate contact. These notices are also periodically updated and reissued.” However, the Bureau did not state, in its response, how effective these mechanisms were and how the Bureau was following up on these initial contacts. As noted in our report (pages 5 and 6), we found that the Bureau had been unsuccessful in enforcing information requests. We have revised the report to note that the Bureau did not have an effective reporting mechanism.

The Bureau stated that our report “implies that recoverable helium is widespread” and that this conclusion was based on our review of “29 wells from a helium-rich area.” The Background of the report (page 2) stated that most of the helium production in the United States was processed by 11 plants and that this production was received from four states. Our selection of the 29 wells was based on a judgmental sample chosen with the assistance of Bureau helium program personnel. As stated in the report (page 5), we believe that there may be significant amounts of unreported helium production, since we found that 31 percent of the 29 wells were producing helium and that the Bureau had not initiated research on potential production from 75 companies.

The Bureau stated that our report “correctly identified the need for additional staffing, but failed to note that an additional analyst position was added to the Unit of Federally Leased Lands group in June, 1998.” The Bureau’s additional staff position was created after our audit fieldwork was completed, but we recognize this as a positive effort to improve the program’s operations.

The Bureau stated, “Regardless of the size of the agency or program handling of these responsibilities, the Helium Privatization Act requires helium program management to be funded from collection receipts.” The Bureau also stated that although “this small part” of

the Bureau's helium program "does exhibit similarity" to the functions of the Minerals Management Service, "these functions do not encompass the full spectrum of helium management functions" performed by the Bureau's Amarillo Field Office. We agree that the Act requires helium production management to be funded from collection receipts but believe that this requirement can be met more economically if the Minerals Management Service assumes some or all of the Bureau's helium revenue functions because of the Service's expertise in this area. Our report and Recommendation 1 indicate that only functions related to identifying and collecting helium revenues from helium produced on Federal lands should be considered for transfer to the Service.

In accordance with the Departmental Manual (360 DM 5.3), we are requesting a written response to this report by May 10, 1999. The response should provide the information requested in Appendix 4.

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings, actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Bureau personnel in the conduct of our audit.

cc: Director, Minerals Management Service

HELIUM EXTRACTION PROCESS'

Natural gas produced from wells consists of a mixture of methane and other gases such as nitrogen, hydrogen, butane, ethane, propane, and helium. From the well, the natural gas may be piped to a processing plant. Although all natural gas contains at least trace quantities of helium, helium production in the United States is concentrated in the States of Texas, Oklahoma, Kansas, and Wyoming because the natural gas mixture in these areas is richer in helium than in other parts of the country. The helium content of a natural gas mixture is measured as a percentage, known as the mole percentage, which is used to determine the portion of helium in the gas stream attributable to each particular well. If the processing plant is not connected to a helium purification plant, the helium is vented into the atmosphere. If the processing plant is connected to a helium purification plant, the processing plant will extract a crude helium mixture averaging about 70 percent helium and 30 percent nitrogen. The helium production volumes are measured for revenue purposes at the inlet valves at the gas processing plants that receive the gas **from** the wells. The crude helium mixture is sent by way of a pipeline to a helium purification plant. The helium purification plant then processes the helium into a marketable grade of helium (which is approximately 99 percent pure).

A producer incurs a liability to the Bureau of Land Management for helium produced that is allocated at the metered wellheads. Helium is used for space shuttle **propellents**; nuclear, biological, and superconductor research; magnetic resonance imaging equipment; and various lighter-than-air activities.

'The description of the helium extraction process is based on information obtained **from** Bureau of Land Management documents and discussions with Bureau officials.



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240

APPENDIX 2



MAR 12 1999

Memorandum

To: Assistant Inspector General for Audits

Through: Sylvia V. Baca *Sylvia V. Baca* MAR 18 1999
Acting Assistant Secretary, Land and Minerals Management

From: Thomas R. Kitsos *Thomas R. Kitsos*
Acting Director, Minerals Management Service

Subject: Office of Inspector General (OIG) Draft Survey Report C-IN-BLM-002-97,
"Administration of Revenues due from Helium Produced on Federal Leases,
Bureau of Land Management"

Thank you for the opportunity to comment on the attached draft report. The one issue that concerns the Minerals Management Service is OIG's recommendation that the Bureau of Land Management evaluate the feasibility of transferring revenue collection responsibilities to MMS. As discussed in the closeout conference for this audit, we will work together with the Bureau in any such evaluation it may perform.

If you have any questions, please contact Bettine Montgomery at 202-208-3976.

Attachment

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OFC INSPECTOR GENERAL
OFFICE OF THE INSPECTOR
United States Department of the Interior

1999 MAR 22 PM 3: 38
BUREAU OF LAND MANAGEMENT
Washington, D.C. 20240
<http://www.blm.gov>

In Reply Refer To:
1245 (310/880)

MAR 22 1999

MEMORANDUM

To: Assistant Inspector General for Audits

Through: Sylvia V. Baca *Sylvia V. Baca* MAR 22 1999
Acting Assistant Secretary, Land and Minerals Management

From: *for* Acting Director, Bureau of Land Management *Bob Anderson*

Subject: Response to Draft Survey Report on Administration of Revenues Due **from** Helium Produced on Federal Leases, Bureau of Land Management, dated February 1999 (C-IN-BLM-002-97)

Thank you for the opportunity to respond to the subject draft survey report on the administration of revenues from helium produced on Federal leases by the Bureau of Land Management (BLM). The BLM's Federal Lands Helium Program (FLHP) has undergone significant changes in the last few years. We appreciate the recognition of our efforts to meet the difficult challenges associated with these changes through the finding that the BLM has done an effective job in accounting for and processing helium payments received. **After** a change of this magnitude, the Office of Inspector General (OIG) surveys and the resulting recommendations can be particularly helpful in designing and improving critical programs. We value the opinions presented in the draft survey report.

Issuing guidance for the BLM's FLHP, as well as further integration of the BLM's Amarillo Field Office into the BLM's Fluid Minerals Program, will lead to improvements in the operations of the FLHP. The BLM has already begun implementing action to bring this effort to fruition. We have organized monthly conference calls with the Department of the Interior's Office of the Solicitor beginning on February 19, 1999, to provide legal assistance in establishing policy and guidance for the BLM's FLHP. Additionally, a Bureauwide satellite broadcast was held on February 25, 1999, to educate BLM employees about the roles and responsibilities of the FLHP. The **OIG's** draft survey report also recommends evaluating the feasibility of transferring the BLM's FLHP to the Minerals Management Service (MMS). We are examining the appropriate role for MMS in the BLM's FLHP and will consider the **OIG** recommendation as a part of this review.

The BLM offers the following specific comments on the draft survey report.

The draft report incorrectly cites the Helium Privatization Act as authorizing the “Secretary to enter into agreements with private parties for the recovery and disposal of helium on Federal lands and to deposit helium revenues into the Treasury.” The Helium Act is the legal basis for this authority. The Helium Privatization Act authorizes continuance of the administration of the extracted FLHP by the Secretary of the Interior.

While the OIG correctly cites some of the requirements of the Federal Oil and Gas Royalty Management Act (FOGRMA) with respect to oil and gas, we do not concur with the opinion expressed that FOGRMA also applies to helium. However, for ease of administration, wherever the Helium Act and FOGRMA **allow**, we have designed similar administrative procedures for the FLHP and the Oil and Gas Program.

The September 1993 internal report entitled “Unit of Federal Leased Lands: Background, Development, Obstacles, Progress, and Status, **1991-1993**,” cited in the draft survey report, was prepared to document a historical perspective of the development of the unit. Since 1993, the unit has undergone significant changes, including transfer of jurisdiction **from** the Bureau of Mines to the BLM and significant change in legislative authority through the Helium Privatization Act of 1996. We believe it is inappropriate to rely on an outdated report for any of the findings identified in this draft survey report.

The **draft** survey report indicates that we had not established a reporting mechanism for potential payors. Since August 1991, we have routinely sent notices to operators of Federal wells. The notice outlines their responsibility to pay helium royalties or fees and provides an appropriate contact. These notices are also periodically updated and reissued.

The **draft** report implies that recoverable helium production is widespread. This conclusion appears to be based on the **OIG’s** review of 29 wells from a helium-rich area. This sample had a disproportionately high level of wells producing recoverable helium compared to other oil and gas producing areas in the United States. While helium may be found in all natural gas streams in varying concentrations, helium is not extracted **from** all natural gas streams. Also, not all Federal wells produce extracted helium. At the time of the survey, only **11** crude helium extraction plants existed.

The **draft** report correctly identified the need for additional staffing, but failed to note that an additional analyst position was added to the Unit of Federal Leased Lands group in June 1998. The duties for this position specifically address identification and confirmation of wells producing extracted Federal helium.

The draft report states that the **MMS's** Royalty Management Program has significantly greater resources for identifying and collecting helium revenues than does the BLM. Regardless of the size of the agency or program handling of these responsibilities, the Helium Privatization Act requires helium program management to be funded **from** collection receipts. Therefore, both the BLM and the MMS would have to operate the FLHP using the same resources.

The draft report states that the revenue collection functions of the FLHP are similar to those of the MMS. While this small part of the FLHP does exhibit similarity, these **functions** do not encompass the full spectrum of helium management functions performed by the **BLM's** Amarillo Field Office.

Again, we would like to express our appreciation to the OIG for conducting this survey and recommending actions that the BLM may implement to more effectively administer the **FLHP**. If you have any questions, please contact Donnie Shaw, Geologist, at (202) 452-0382 or Gwen Midgette, BLM Audit Liaison Officer, at (202) 452-7739.

Attachment

RESPONSE TO DRAFT SURVEY REPORT
ADMINISTRATION OF REVENUES DUE FROM HELIUM
PRODUCED ON FEDERAL LEASES, BUREAU OF LAND MANAGEMENT
FEBRUARY 1999
(C-IN-BLM-002-97)

(We recommend that the Director, Bureau of Land Management (BLM)):

Recommendation 1:

Evaluate the feasibility of transferring responsibilities for administering helium revenues to the Minerals Management Service (MMS).

Response: We concur with the recommendation to evaluate the feasibility of the transfer of responsibilities for administering helium revenues to the MMS. The evaluation will be completed by April 3, 2000, by the BLM Washington Office (WO) Fluid Minerals Group.

Responsible Official: Carson W. Culp, Assistant Director, Minerals, Realty, and Resource Protection.

Recommendation 2:

Establish written procedures to provide regulatory guidance for initiating necessary actions, including legal proceedings, to ensure the compliance of operators and extractors with the information requests concerning helium production.

Response: We concur with the need to provide comprehensive guidance for administering the Federal Lands Helium Program (FLHP). The BLM WO Fluid Minerals Group will issue an appropriate Instruction Memorandum by April 3, 2000.

Responsible Official: Carson W. Culp, Assistant Director, Minerals, Realty, and Resource Protection.

Recommendation 3:

Establish written procedures in the Bureau Manual which ensure that the Bureau is notified when production is initiated on new or existing wells which may produce helium. These procedures should also include standardized remittance forms, including specific production data to be required from each producer.

Response: While we concur with the recommendation to provide guidance (see response to Recommendation 2), we do not believe internal guidance to be the proper vehicle to (1) ensure operators notify the BLM of new production and (2) require operators to submit standardized remittance forms. Further, the BLM does not agree that placing this additional burden on operators is necessarily the appropriate process to accomplish the goal of increasing helium extraction and revenue collection from Federal lands.

Two Information Collections for the FLHP have been completed and approved by the Office of Management and Budget (OMB). However, we will further review the recommendation to determine if there are additional needs. We will submit any needed requests to OMB for approval by April 3, 2000.

Responsible Official: Carson W. Culp, Assistant Director, Minerals, Realty, and Resource Protection.

STATUS OF SURVEY REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
land2	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendations will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.
	Unresolved.	Reconsider the recommendation, and provide an action plan that includes a target date and title of the official responsible for implementation.

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