




OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

August 25, 2014

Memorandum

To: Eric Eisenstein
Division Chief, Internal Control and Audit Follow-up
Office of Financial Management

From: Jeff Carlson 
Director, Energy Audits Unit
Office of Inspector General

Subject: Verification Review of Recommendations for the Evaluation “Oil and Gas
Production on Federal Leases: No Simple Answer” (C-EV-MOA-0009-2008)
Report No. CR-VS-MOA-0010-2014

The Office of Inspector General has completed a verification review of the five recommendations presented in the evaluation report “Oil and Gas Production on Federal Leases: No Simple Answer” (C-EV-MOA-0009-2008) issued February 27, 2009. The objective of this verification review was to determine whether the recommendations were implemented by the Bureau of Land Management (BLM) and the Minerals Management Service (MMS)—now separated into the Bureau of Ocean Energy Management (BOEM), the Office of Natural Resources Revenue (ONRR), and the Bureau of Safety and Environmental Enforcement—as reported to the Office of Financial Management (PFM), Office of Policy, Management and Budget. PFM reported to us when each of the five recommendations in the report had been addressed. We concur that all five recommendations are resolved and implemented.

Background

In our February 2009 evaluation report we examined the statutory and regulatory requirements that govern production progress, the reasons why drilling and production activities have not occurred on leases currently in non-production status, and the reasons for granting lease extensions. We found numerous data integrity issues and confirmed that the U.S. Department of the Interior (Department) cannot compel companies to develop their Federal leases. We provided recommendations to help the Department streamline and improve the reporting and reliability of oil and gas lease data. Our recommendations were intended to help the Department monitor the development of nonproducing leases.

The Acting Assistant Secretary for Land and Minerals Management partially concurred with one recommendation and fully concurred with the remaining four recommendations in a memorandum dated March 25, 2009. As a result, we referred all five of the report's

recommendations to the Assistant Secretary for Policy, Management and Budget for implementation tracking on April 10, 2009.

Subsequently, PFM issued memorandums as they closed the recommendations. From August 10, 2010, through January 15, 2013, PFM reported that BLM, BOEM, and ONRR had completed the actions required to close the five recommendations in the report.

Scope and Methodology

We limited the scope of this review to documenting the Department's implementation of our recommendations. To accomplish our objective, we reviewed the supporting documentation that BLM, BOEM, and ONRR officials provided to PFM and us. We discussed actions related to each recommendation and independently verified each recommendation's implementation.

We did not visit any sites or conduct fieldwork to determine if the underlying deficiencies we initially identified were corrected. As a result, this review is not conducted in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States or the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

Results of Review

We concluded that BLM, BOEM, and ONRR resolved and implemented Recommendations 1, 2, 3, 4, and 5.

Recommendation 1: BLM and MMS coordinate the reporting of producing and nonproducing lease data, to include adopting standard and consistent terminology.

We consider Recommendation 1 resolved and implemented.

Action Taken: BLM issued Instruction Memorandum (IM) No. 2009-175, dated July 10, 2009, "Classifying Producing and Nonproducing Oil and Gas Leases." The IM changes how BLM classifies oil and gas leases from "producible" if held by actual or allocated production or if the lease was held by location in a producing unit, to "producing" if held by actual or allocated production. Leases held by location in a producing unit are held by allocated production, so this third category has been dropped. This change in terminology is now consistent with MMS' definition for producing leases. BLM also modified Tables 3 through 17 in "Public Land Statistics" for FY 2009 to reflect this change in terminology.

Recommendation 2: BLM improve the reliability of lease status information in its lease data system [Legacy Rehost 2000] (LR2000) by correcting existing erroneous data and establishing new controls to ensure accurate and consistent data input in the future.

We consider Recommendation 2 resolved and implemented.

Action Taken: BLM issued IM-2010-100 dated April 9, 2010, “LR2000 Transaction Processing Edits for Oil and Gas Leases.” The IM transmits policy guidance on enhancements to LR2000 for oil and gas lease transaction processing edits. BLM sent a memorandum to the National Operations Center requesting the final data entry edits be programmed and implemented.

Recommendation 3: The Department work with BLM and MMS to identify the best existing system (either MMS or BLM system) for lease management and develop the capability for both bureaus to access and use this system, thus eliminating multiple systems, the need for manual reporting between bureaus, and the attendant data integrity problems that arise.

We consider Recommendation 3 resolved and implemented.

Action Taken: In response to the evaluation report, the Department partially concurred with the recommendation, agreeing that data reliability is essential to ensure good stewardship of the Nation’s mineral resources, but it disagreed that choosing either BLM’s or MMS’ system is the best way to improve data accuracy and reliability. Since both BLM’s and MMS’ systems are utilized for other data collection needs specific to their respective missions, they must be able to exchange data electronically, in an integrated and reliable way. The Department’s response states, “The bureaus will continue to work to improve data reliability, aiming for seamless electronic transfer of data between their systems, thus reducing errors from manual data entry and improving the reliability of data. The development of the data transfer process will be less expensive and less risky than developing a single system, while holding the prospect of earlier improvement in our data reliability.”

As stated in our referral memo to PFM, we considered the Department’s corrective action plan to address deficiencies in the bureaus’ separate data management systems to be a reasonable alternative approach.

To address the recommendation, BLM implemented an automated accounting advice module that provides a consistent entry process for accounting advices associated with new oil and gas leases. As reported by BLM, this module links LR2000 case record information with the Central Billing System Intra-Governmental Payment and Collections system to help ensure data quality. The module then electronically sends that accounting advice information to ONRR to automatically update its system. This interface eliminates duplicate entry, the need for manual reporting, and reduces the risks of human-introduced errors while providing efficiency improvements. The module and interface was completed and placed into production in February 2012 and successfully transferred its first submittal of accounting advices to ONRR in March 2012.

ONRR and BLM are now using the Interagency Database Verification System, which compares key data elements in ONRR’s financial system with the data stored in LR2000. This ensures the consistency of lease data maintained in both systems.

Recommendation 4: The Department, in consultation with Congress, determine if BLM, MMS, and BIA should monitor the status of development and production on nonproducing leases.

We consider Recommendation 4 resolved and implemented.

Action Taken: BLM issued IM-2010-100 dated April 9, 2010, “LR2000 Transaction Processing Edits for Oil and Gas Leases,” to improve the reliability of lease information on producing and nonproducing oil and gas leases in the system. A comparison of lease data found in LR2000, in conjunction with geophysical permits, can identify producing and nonproducing leases. BLM continuously analyzes the data and produces a quarterly lease status report of producing and nonproducing onshore oil and gas leases. This quarterly analysis provides a more specific breakdown of preproducing activities thereby helping BLM become more aware of development on its lands.

The Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) evaluated its policy regarding offshore oil and gas leasing, production, and monitoring and the terms of Federal oil and gas leases in the Outer Continental Shelf (OCS). Because of its evaluation, BOEMRE changed the primary term for OCS deepwater leases in water depths of 400 meters to 1,600 meters to encourage development or timely relinquishment. Based on its analysis, BOEMRE established a new policy, which changed the length of lease terms.

Recommendation 5: The Department, in consultation with Congress, establish a clear policy regarding the production of oil and gas from Federal leases. This policy should include guidelines and policies that direct the bureaus on production monitoring, such as tracking the lease development activities and where, and at what pace, development should occur.

We consider Recommendation 5 resolved and implemented.

Action Taken: BLM developed a new process, a fluid mineral lease analysis, to analyze producing and nonproducing lease data, based on the leases’ stages of development. Furthermore, BLM commissioned a study to consider a royalty rate increase and an increase’s possible effects on the development of oil and gas leases. In addition, BLM submitted a legislative proposal to impose a \$4.00 per acre fee on new nonproducing oil and gas leases to encourage energy development on lands and waters leased for development. The fee would provide a financial incentive for oil and gas companies to either get their leased operations into production or relinquish them. If not placed into production, the leases can be re-leased to, and developed by, other companies. The proposed fee would apply to all new leases, and the fee would be indexed annually. The Office of Management and Budget’s disapproval of the proposal, however, limits BLM’s ability to develop a policy to encourage the oil and gas companies to bring their leases into production.

BOEMRE monitors Federal offshore oil and gas lease development by requiring exploration plans, development plans, applications for permit to drill, seismic survey permits (if additional seismic work is needed), and, for deepwater leases, deepwater operations plans and

conservation information documents. The data are entered into BOEMRE's Technical Information Management System, which helps the Department monitor producing and nonproducing Federal offshore oil and gas leases.

Conclusion

We informed BLM, BOEM, and ONRR officials of the results of this review on July 31, 2014. All agreed with the results of our review.

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