

# Committee on Natural Resources

U.S. House of Representatives  
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## Written testimony of Mike Geesey

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Mr. Chairman and members of this committee, I would like to thank you for the opportunity to talk about the federal royalty management program. I am Mike Geesey, with the State of Wyoming, Department of Audit. I am here today at the Chairman's invitation. As the Chairman is well aware, Wyoming has a large amount of onshore mineral production where federal royalties are paid. Wyoming's Department of Audit contracts with the Federal Government to audit royalty payments from that production. I offer the following comments from a State's point of view.

### **State funding of Federal Royalty Audits**

On January 23, 1998 KPMG Peat Marwick LLP (KPMG) presented an independent report "Cost Allocation for Royalty Management Program (RMP) Functions Performed by Minerals Management Service (MMS)." The role of KPMG was to present, among other analysis, an independent report on the appropriate allocation of existing federal and state audit resources. The conclusion, in short, was that state audit programs are resource effective and cost efficient. However some states were over funded and other states were under funded, thus necessitating the need for a reallocation of audit resources. Wyoming worked with the MMS to allocate those limited resources to match

the risk and oversight needed to ensure proper onshore federal royalty payment compliance. In 2000, we received about 20% of the funds budgeted for all the state audit programs, with over 40% of the onshore royalty payments being made from federal leases in Wyoming. Last year 2006 Wyoming received 30% of the state audit funding with over 50% of the onshore payments being made from leases in Wyoming. I believe their still needs to be an additional reallocation of the present budgeted funds, to balance audit funding with royalties at risk. Given Wyoming's current federal production, any reduction in funding could potentially place some federal royalty payments at risk.

### **Compliance Review program**

The Wyoming Audit Department is proud of the role we have played in helping MMS with its onshore Royalty Management Program. We are constantly striving to improve our audit program. Likewise, Mineral Management Service's efforts to do the same, includes the implementation of a compliance review program. The State of Wyoming, Department of Audit has always had a professional working partnership with the MMS and sees the compliance review program as an additional tool in the audit process. Wyoming acknowledges that this program, compliments the current onshore royalty audit program, by enhancing the risk assessment process and providing early detection of noncompliant federal royalty payments. This process has not and will not reduce the number of full audits we plan to undertake. It only helps focus limited resources towards federal royalty payments at risk.

### **MMS budget concerns**

Wyoming is disappointed to read MMS's 2008 budget is considering amending Section 35 of the Mineral Leasing Act (30 U.S.C. 191) to siphoned off administrative costs for the singular act of calculating 50% of total royalties paid in a state, and writing a check for that statutory payment. Those cost using 2006 onshore royalties would amount to over \$44 million in reduced federal royalty payments to the states. Presently this would conflict with section 503 of the Mineral Payments Clarification Act of 2000. Wyoming cannot see any reason to return to a controversial policy of "net receipt sharing."