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Highlights

Highlights of GAO-09-1014T, a testimony before the Committee on Natural Resources, House of Representatives

FEDERAL OIL AND GAS MANAGEMENT

Opportunities Exist to Improve Oversight

Why GAO Did This Study

In fiscal year 2008, the Department of the Interior collected over $22 billion in royalties and other fees related to oil and gas. Within Interior, the Bureau of Land Management (BLM) manages onshore federal oil and gas leases, and the Minerals Management Service's (MMS) Offshore Energy and Minerals Management (OEMM) manages offshore leases. A federal lease gives the lessee rights to explore for and develop the lease's oil and gas resources. MMS is responsible for collecting royalties for oil and gas produced from both onshore and offshore leases.

GAO has reviewed federal oil and gas management and revenue collection and found many material weaknesses. This testimony is based primarily on key findings from past GAO reports and some preliminary findings from ongoing work. These findings focus on Interior's: (1) policies for oil and gas leasing, (2) oversight of oil and gas production, (3) royalty regime and policies to boost oil and gas development, (4) oil and gas information technology (IT) systems, and (5) royalty-in-kind program. GAO's past reports provided recommendations that Interior officials report that they are working to implement.

View GAO-09-1014T or key components.
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What GAO Found

GAO's numerous evaluations of federal oil and gas management have identified five key areas where Interior could provide greater oversight:

- Interior's policies for leasing offshore and onshore oil and gas differed in key ways. Specifically, MMS sets out a 5-year strategic plan identifying both a leasing schedule and the areas it would lease. In contrast, BLM relies on industry and others to nominate areas for leasing, then selected lands to lease from these nominations, as well as areas it had identified. Additionally, MMS independently assessed the value of the lease and reserves the right to reject low bids, whereas BLM relied exclusively on the results of its bid auctions to determine the lease's market value.

- Oil and gas activity has generally increased in recent years, and Interior has, at times, been unable to meet its legal and agency mandated oversight obligations for (1) completing required environmental inspections, (2) verifying oil and gas production, (3) using categorical exclusions to streamline environmental analyses required for certain oil and gas activities, and (4) performing environmental monitoring in accordance with land use plans.

- Interior may be missing opportunities to fundamentally shift the terms of federal oil and gas leases and increase revenues. Compared to other countries, the United States receives one of the lowest shares of revenue for oil and gas. In addition, Interior's royalty rate, which does not change to reflect changing prices and market conditions, has at times, led to pressure on Interior and Congress to periodically change royalty rates in response to market conditions. Interior also has done less than some states and private landowners to encourage lease development and may be missing opportunities to increase production and, subsequently, revenues.

- Interior's oil and gas IT systems lack key functionalities. GAO's past work found that MMS's ability to maintain the accuracy of oil and gas production and royalty data was hampered by two key limitations in its IT system (1) it did not limit companies' ability to adjust self-reported data after MMS had audited them, and (2) it did not identify missing royalty reports. Preliminary GAO findings have also identified technical problems within BLM's IT systems and their compatibility with MMS's IT systems.

- Interior's royalty-in-kind program, in which oil and gas producers submit royalties in oil and gas rather than cash, continues to face challenges. GAO found problems with MMS's analysis of program benefits that were reported to Congress, and that MMS failed to use third party data to verify companies' self-reported data. Meanwhile, Interior's Inspector General identified major ethical lapses, including inappropriate relationships between MMS royalty-in-kind program officials and industry representatives.