

Highlights of [GAO-11-487T](#), a testimony before the Committee on Natural Resources, House of Representatives

Why GAO Did This Study

The Department of the Interior oversees oil and gas activities on leased federal lands and waters. Revenue generated from federal oil and gas production is one of the largest nontax sources of federal government funds, accounting for about \$9 billion in fiscal year 2009. For onshore leases, Interior's Bureau of Land Management (BLM) has oversight responsibilities. For offshore leases, the newly created Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE), has oversight responsibilities. Prior to BOEMRE, the Minerals Management Service's (MMS) Offshore Energy and Minerals Management Office oversaw offshore oil and gas activities, while MMS's Minerals Revenue Management Office collected revenues from all oil and gas produced on federal leases.

Over the past several years, GAO has issued numerous recommendations to the Secretary of the Interior to improve the agency's management of oil and gas resources. In 2011, GAO identified Interior's management of oil and gas resources as a high risk issue. GAO's work in this area identified challenges in five areas: (1) reorganization, (2) balancing responsibilities, (3) human capital, (4) revenue collection, and (5) development of existing leases.

View [GAO-11-487T](#) or key components. For more information, contact Frank Rusco at (202) 512-3841, or ruscof@gao.gov

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OIL AND GAS LEASING

Past Work Identifies Numerous Challenges with Interior's Oversight

What GAO Found

Reorganization: Interior's reorganization of activities previously overseen by MMS will require time and resources and may pose new challenges. Interior began a reorganization in May 2010 that will divide MMS into three separate bureaus—one focusing on revenue collection, another on leasing and environmental reviews, and yet another on permitting and inspections. While this reorganization may eventually lead to more effective operations, GAO has reported that organizational transformations are not simple endeavors. GAO is concerned with Interior's ability to undertake this reorganization while meeting its revenue collection and oil and gas oversight responsibilities.

Balancing Responsibilities: GAO has reported that Interior has experienced several challenges with meeting its responsibilities for providing for the development of oil and gas resources while managing public lands for other uses, including wildlife habitat. In January 2010, GAO reported that, while BLM requires oil and gas operators to reclaim the land they disturb and post a bond to help ensure they do so, not all operators perform reclamation. For fiscal years 1988 through 2009, BLM spent about \$3.8 million to reclaim 295 so-called "orphaned" wells—because reclamation had not been done, and other resources, including the bond, were insufficient to pay for it.

Human Capital: GAO has reported that BLM and MMS have encountered persistent problems in hiring, training, and retaining sufficient staff to meet their oversight and management responsibilities for oil and gas operations. For example, in March 2010, GAO reported that BLM and MMS experienced high turnover rates in key oil and gas inspection and engineering positions responsible for production verification activities. As a result, Interior faces challenges meeting its responsibilities to oversee oil and gas development on federal leases, potentially placing both the environment and royalties at risk.

Revenue Collection: While federal oil and gas resources generate billions of dollars in annual revenues, past GAO work has found that Interior may not be properly assessing and collecting these revenues. In September 2008, GAO reported that Interior collected lower levels of revenues for oil and gas production in the deep water of the U.S. Gulf of Mexico than all but 11 of 104 oil and gas resource owners whose revenue collection systems were evaluated in a comprehensive industry study. Nonetheless, Interior has not completed a comprehensive assessment of its revenue collection policies and processes in over 25 years. Additionally, in March 2010, GAO reported that Interior was not consistently completing inspections to verify volumes of oil and gas produced from federal leases.

Development of Existing Leases: In October 2008, GAO reported that Interior could do more to encourage the development of existing oil and gas leases. Federal leases contain one provision—increasing rental rates over time for offshore 5-year leases and onshore leases—to encourage development. In addition to escalating rental rates, states undertake additional efforts to encourage lessees to develop oil and gas leases more quickly, including shorter lease terms and graduated royalty rates.