



Highlights of [GAO-09-744](#), a report to congressional requesters

Why GAO Did This Study

Companies that develop and produce oil and gas from federal lands and waters are required to report their production volumes and other data to the Department of the Interior's (Interior) Minerals Management Service (MMS) and to pay royalties either in value (cash) or in kind (oil or gas). In fiscal year 2008, MMS estimated that it had collected more than \$2.4 billion in royalty-in-kind (RIK) gas.

It is important that MMS ensure that it receives the RIK gas to which it is entitled. The difference between the RIK gas owed—MMS's entitled percentage of gas—and the percentage it actually receives is referred to as a "gas imbalance."

GAO was asked to evaluate the extent to which MMS can provide reasonable assurance that it is accurately identifying and collecting RIK gas imbalances in a timely fashion. GAO analyzed MMS documents and data, documentation of industry standards, and interviewed MMS and industry officials.

What GAO Recommends

GAO is making seven recommendations to the Secretary of the Interior to help MMS improve the accurate and timely identification and collection of RIK gas imbalances. In commenting on this report, Interior agreed with four of GAO's recommendations and partially agreed that it should audit a sample of leases and promulgate program regulations. Interior did not agree that daily gas imbalances be monitored.

View [GAO-09-744](#) or [key components](#). For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

ROYALTY-IN-KIND PROGRAM

MMS Does Not Provide Reasonable Assurance It Receives Its Share of Gas, Resulting in Millions in Forgone Revenue

What GAO Found

MMS is forgoing revenues for gas royalties owed to the federal government because it does not provide reasonable assurance that it accurately and promptly identifies and collects on RIK gas imbalances. GAO found that MMS is forgoing revenues for the following reasons:

- MMS estimates that it is owed a net of \$21 million for past imbalances but it lacks the information necessary to calculate the full amount of revenues due. MMS does not have sufficient data to determine whether it has received its full percentage of RIK gas. Also, MMS's estimate does not include interest on some unpaid imbalances because MMS has not determined when interest begins to accrue on imbalances, as required by law. Further, MMS monitors imbalances on a monthly, rather than daily basis, which leaves open the possibility that some companies owing RIK gas could provide less gas to MMS when gas prices are relatively high, making up the difference by providing more gas when prices are relatively low, something that could cost MMS additional revenues because it could miss the opportunity to sell gas on the days when prices are high.
- MMS does not audit gas companies' production and allocation data, therefore it cannot verify that it is receiving its entitled percentage of gas. MMS does not audit, in part, because it believes that its verification procedures are sufficient. However, other governments and gas companies routinely audit their imbalances and uncover inaccuracies that would result in lost revenues if left unchecked.
- MMS lacks adequate policies and procedures for accurately and promptly identifying and collecting gas imbalances. For instance, the agency does not know how companies allocate gas among all parties having a claim on a share of gas produced; this may affect whether MMS receives its percentage of gas on a daily basis. In addition, MMS does not compel companies to document production and deliveries in a consistent format and meet deadlines. As a result, MMS analysts spend time gathering and reformatting data instead of identifying and collecting on imbalances. MMS also allows companies to negotiate imbalances indefinitely. For example, MMS has been negotiating with a company for more than 2 years regarding a \$900,000 imbalance.
- MMS's information system does not provide accurate and timely data on RIK gas imbalances. For instance, MMS's information system cannot calculate cash settlements for imbalances or compare various types of data that companies submit. Consequently, MMS processes more than half of its gas imbalance data manually.
- MMS has been operating for many years without sufficient staff to reconcile gas imbalances, and the staff it has is not sufficiently trained. For instance, according to RIK management, MMS does not have sufficient staff to dedicate someone to fully review RIK gas analysts' work on imbalances, even though mistakes in that work often occur. MMS recently hired one new gas imbalance analyst but has not formally assessed staffing needs. In addition, RIK gas imbalance staff lack, among other things, training on industry standards on gas imbalance calculations.