

117083

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Tuesday, December 15, 1981

United States General Accounting Office
Washington, D.C. 20548

Statement of
J. Dexter Peach
Director, Energy and Minerals Division

Before the
Subcommittee on Oversight and Investigations and the
Subcommittee on Mines and Mining
House Committee on Interior and Insular Affairs

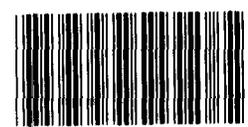
on
Department of the Interior Organizational Effectiveness
for Management of Federal Energy and Mineral Resources

Mr. Chairman and Members of the Subcommittees:

We appreciate this opportunity to present our views on the Department of the Interior's organizational effectiveness in managing energy and mineral resources. We have done a considerable amount of work in this general area. We have not, however, fully completed the type of analysis required to address the questions you recently raised. Thus our views expressed today are tentative, subject to results of further evaluation.

GAO has reported on several occasions that hundreds of millions of dollars in royalties due from Federal Government and Indian leases are not being collected annually. Since 1959, GAO has been reporting on the need for major improvements in the U.S. Geological Survey's oil and gas royalty accounting system. As you are aware, the Secretary of the Interior established the Commission on Fiscal Accountability of the Nation's Energy Resources to report on necessary improvements in this system by the end of January 1982.

011721



117083

Our current work is looking beyond the financial management control issue into the organization and funding of the Geological Survey and the Bureau of Land Management as they relate to royalty management and the prevention of identified problems of theft or incorrect royalty payments. We are also examining the broader questions of the organizational effectiveness of the Department of the Interior in managing energy and mineral resources. As such, we are working to identify overlaps or gaps in responsibilities between Geological Survey and the Bureau of Land Management. Where problems in organization are identified, we will develop potential solutions. In doing our work we will make maximum use of prior GAO work and the work of the Commission on Fiscal Accountability.

With this background, let me briefly summarize our preliminary observations on the Department of the Interior's management of energy and mineral resources. I will then relate them to the conclusions and recommendations reached in a recent GAO report on the need for improved minerals management organization and coordination by the Department. 1/ We testified in October on that subject before the Subcommittee on Mines and Mining.

ONGOING WORK

The energy and minerals resource management function is split between several offices in Interior, including the U.S.

1/"Minerals Management at the Department of the Interior Needs Coordination and Organization," (EMD-81-53, June 5, 1981)

Geological Survey, the Bureau of Land Management, the Bureau of Mines, and the National Park Service. Part of the functions of the Geological Survey and the Bureau of Land Management are the focus of hearings today.

The Survey, through its Conservation Division, is responsible for such economic determinations as royalty and rental rates, evaluations, and all other terms and conditions relating to mineral operations under leases and permits. For the most part these determinations must be made before a lease is issued. After a lease is issued the Division supervises operations by permittees, lessees, and licensees for development, conservation, and management of mineral resources under jurisdiction of the Department of the Interior. This includes collection of royalties.

On the other hand, the Bureau of Land Management exercises the Secretary's discretion in issuing leases and permits and is the office of record in mineral leasing matters. Thus, responsibility for making many of the mineral management decisions is split between the Bureau and the Survey.

With respect to revenues, there are three principal types; rentals, bonuses, and royalties. The Bureau of Land Management collects bonuses and most rents from energy and mineral leases, and the Geological Survey collects royalties and some rents. Thus, the revenue collection responsibility resulting from leasing also is split between the two agencies. Any effort to examine total revenues generated from leasing energy and mineral resources would require looking at both agencies activities.

The split responsibility also creates a possible problem in budget requests and cost reporting. The Geological Survey and the Bureau of Land Management report to different Assistant Secretaries and request their budgets through different budget accounts, which both include other, non-lease-management activities. This means that all the budget costs of leasing are not regularly reported together.

It also means that budget requests for leasing compete with the other activities in both agencies for limited funding and personnel. Currently, appropriations for the Conservation Division are enacted as part of the Geological Survey's Studies, Investigations, and Research budget account. The Bureau of Land Management receives appropriations for its programs, including energy and mineral leasing, through the Management of Lands and Resources budget account. Therefore, the revenue-generating activities of leasing must compete for budget resources in one agency with long-term geological and earth science study and, in the other, with surface management concerns the Bureau has in addition to leasing.

PRIOR WORK

As I previously indicated, the preliminary findings of our early work on this assignment regarding the split responsibility for energy and mineral resources management are consistent with our prior findings regarding Interior's minerals management.

In our June 5, 1981, report "Minerals Management at the Department of the Interior Needs Coordination and Organization," we found that the Department of the Interior lacked a coherent

mineral management policymaking process. This report pointed out that Federal energy and mineral resources are valuable assets, and, when developed under terms of a lease or otherwise sold, these resources provide revenues. It also pointed out that changes in both laws and administrative procedures have, in recent years enlarged the Federal Government's role in deciding where, when, and how exploration and development will occur. In that report, we noted the following problems which I believe are particularly germane to this hearing:

--Decisions affecting disposition of energy and mineral resources have been made without cumulative or consistent analysis of potential effects on supplies (and I might add here, potential effects on revenues); and

--There is no effective link between the information, analytical and advisory roles of the Bureau of Mines and Geological Survey and the planning and minerals management decisionmaking functions of the Bureau of Land Management.

In our earlier report, we called for program planning as a means of identifying the problems, goals, and funding and staff requirements for more effective Federal energy and minerals resource management. We saw such a program planning effort as a tool for improving both the consistency of decisionmaking and the accountability of the decisionmakers. We also recommended that the Secretary of the Interior consider consolidating the minerals management authorities now split between two Assistant Secretaries and two Federal Bureaus.

As I stated earlier, our current thinking based on our preliminary work in response to the questions you posed on minerals management leads us to reaffirm these earlier recommendations. The fragmentation of authority and accountability for implementing the mineral leasing laws contributes to the weakness of Federal minerals management. Such a weakening factor is central to any consideration of how to improve the revenue potential of Federal resources.

While awaiting the report of the Commission on Fiscal Accountability, the Department has formed a number of internal task forces to examine various aspects of its royalty management problems. This alone makes it impossible to reach conclusions about such things as the adequacy of current inspection programs or organizational arrangements because nearly everything is in a state of flux. We anticipate that the dust will settle and more concrete evaluations can be made after the Commission's report.

CONCLUSION

Mr. Chairman, we continue to believe that business-like management of Federal energy and mineral resources may be enhanced by consolidation of lease issuance and management under a single Assistant Secretary at the Department of the Interior. The potential benefits include (1) budget visibility, (2) fewer layers of review and revision of decisions between the Congress and executive agency offices responsible for actually implementing the leasing laws, and (3) a focal point for reporting and analyzing all costs and revenues associated with leasing activities.

That concludes my prepared statement, Mr. Chairman, I will be glad to respond to any specific questions you may have about my testimony.