

Highlights of [GAO-11-734T](#), a testimony before the Committee on Oversight and Government Reform, 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.

Since the April 2010 explosion on board the Deepwater Horizon, Interior has been in the midst of restructuring the bureaus that oversee oil and gas development. Specifically, Interior's Bureau of Land Management (BLM) oversees onshore federal oil and gas activities; the Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE)—created in May 2010—oversees offshore oil and gas activities; and the newly established Office of Natural Resources Revenue (ONRR) is responsible for collecting royalties on oil and gas produced from both onshore and offshore federal leases. Prior to BOEMRE, the Minerals Management Service's (MMS) Offshore Energy and Minerals Management Office oversaw offshore oil and gas activities and revenue collection.

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-11-734T](#) for key components. For more information, contact Frank Rusco at (202) 512-3841, or [ruscof@gao.gov](mailto:ruscof@gao.gov)

June 2, 2011

## OIL AND GAS

### Interior's Restructuring Challenges in the Aftermath of the Gulf Oil Spill

#### What GAO Found

*Reorganization:* Interior's reorganization of activities previously overseen by MMS, which Interior expects to be completed in October 2011, will require time and resources and may pose new challenges. 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. For example, in September 2009, GAO reported that BLM's use of categorical exclusions under Section 390 of the Energy Policy Act of 2005 was frequently out of compliance with the law and BLM's internal guidance. As a result, GAO recommended that BLM take steps to improve the implementation of Section 390. BLM has taken steps to address these recommendations, but it has not yet implemented all of them.

*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. As GAO recommended, Interior is undertaking a comprehensive assessment of its revenue collection policies and processes—the first in over 25 years. Interior expects to complete this study later this year.

*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. Recently, Interior has stated its intent to pursue legislation establishing a per acre fee on non-producing leases to encourage development of federal leases.