



Highlights of [GAO-10-888T](#), a testimony before the Committee on Oversight and Government Reform, House of Representatives

## Why GAO Did This Study

The catastrophic oil spill in the Gulf of Mexico has drawn attention to the exploration and production of oil and gas from leases on federal lands and waters. The Department of the Interior oversees oil and gas activities on federal lands and waters. Onshore, the Bureau of Land Management (BLM) has oversight responsibilities. Offshore, 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 oversaw offshore oil and gas activities, while MMS's Minerals Revenue Management collected revenues from oil and gas produced. For the purposes of our testimony today, we present our findings in accordance with Interior's organizational structure prior to establishing BOEMRE.

Over the past 5 years, GAO has issued numerous recommendations to the Secretary of the Interior to improve the agency's management of oil and gas resources—most recently in two reports issued in March 2010 (see app. II for a list of GAO reports). Overall, GAO's work in this area can be useful in evaluating potential strategies for reorganizing and improving oil and gas management at Interior. Specifically, GAO's work can assist the Secretary and Congress as they are considering restructuring Interior's oversight of oil and gas development and production, revenue collection, and information technology (IT) systems.

View [GAO-10-888T](#) or [key components](#).

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## OIL AND GAS MANAGEMENT

### Past Work Offers Insights to Consider in Restructuring Interior's Oversight

#### What GAO Found

GAO's recent evaluations of federal oil and gas management have identified key areas where Interior could provide more effective oversight, including:

- In October 2008, GAO reported that Interior policies and practices for leasing offshore and onshore oil and gas differed in key ways. Considering the ways that areas are selected for leasing, GAO found that MMS sets out a 5-year strategic plan identifying both a leasing schedule and the offshore areas it will lease. In contrast, BLM relies on industry and others to nominate onshore areas for leasing, then selects lands to lease from these nominations and from areas it has identified.
- 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 in key areas. For example, in a June 2005 report, GAO found that Interior was unable to complete its environmental inspections because of increased onshore drilling activity. GAO also found in a September 2008 review that Interior was not consistently completing inspections to verify oil and gas volumes produced from federal leases. GAO found in a March 2010 report that MMS faces challenges conducting required environmental reviews in Alaska. In particular, MMS has no handbook providing guidance on how to conduct these reviews, although Interior policy directs it to prepare one.
- Interior may be missing opportunities to fundamentally shift the terms of federal oil and gas leases and increase revenues. In a September 2008 report, GAO reported that, 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 revenues. Interior began studying ways to improve revenue collection and leasing practices earlier this year.
- Interior's oil and gas IT systems lack key functionalities. A September 2008 GAO review 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. More recently, a March 2010 report found that Interior's long-standing efforts to implement two key technologies for verifying oil and gas production are behind schedule and years from widespread adoption.