

Why GAO Did This Study

Production of oil and natural gas from leased federal lands and waters is a significant source of revenue for the federal government—accounting for almost \$48 billion for fiscal years 2009 through 2013. GAO has issued many reports on Interior’s management of federal oil and gas resources, including its programs for verifying oil and gas production volumes and ensuring accurate royalty collections. These reports raised questions about whether the government was collecting all the revenue it was due and included 36 recommendations to strengthen royalty collection, among other things. In 2011, GAO added Interior’s management of federal oil and gas resources to its list of programs at high risk of fraud, waste, abuse, and mismanagement.

GAO was asked to review Interior’s efforts to improve verification of oil and gas produced from federal leases and the accuracy of royalty data. This report examines efforts Interior has taken since fiscal year 2009 and the reasonableness and completeness of Interior’s royalty data. GAO reviewed relevant laws, regulations, and guidance; analyzed Interior data for fiscal years 2009 through 2013; and interviewed Interior officials.

What GAO Recommends

GAO recommends that Interior meet its established time frames for updating its onshore measurement regulations, reconvene its gas and oil measurement team, and schedule and complete the review of the implementation of its commingling agreement guidance, among other things. Interior generally concurred with GAO’s recommendations.

View [GAO-15-39](#). For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

OIL AND GAS RESOURCES

Interior’s Production Verification Efforts and Royalty Data Have Improved, but Further Actions Needed

What GAO Found

The Department of the Interior has made considerable progress in improving both the verification of oil and gas produced from federal leases and the reasonableness and completeness of royalty data. Since fiscal year 2009, Interior has implemented 28 of 36 GAO recommendations made in these areas; however, key challenges remain, including the following:

- Interior has not updated its regulations for onshore oil and gas measurement in over 25 years and, as a result, they do not reflect newer measurement technologies and standards adopted by industry, hampering Interior’s ability to have reasonable assurance that oil and gas are being measured accurately. According to agency officials, Interior is developing and plans to issue draft regulations in fiscal year 2015 and finalize them in fiscal year 2016. However, Interior has twice before unsuccessfully attempted to update these regulations. Interior officials noted that updating the regulations has been a lengthy process, in part, because the agency has been focused on updating other regulations. Until its regulations better reflect current measurement technologies and standards, Interior cannot provide reasonable assurance that companies have a consistent and sound basis from which to measure the production of oil and gas.
- Interior’s team of oil and gas measurement specialists—a team tasked with improving the consistency of onshore and offshore measurement policies and other ongoing responsibilities outlined in GAO recommendations—is no longer meeting as required by the team’s charter. Historically, there was limited coordination between Interior’s onshore and offshore measurement staff, which affected the consistency of its measurement regulations and policies. Interior officials said that the team provided a useful venue for discussing measurement issues, but it has not officially met since September 2011. By ensuring the team meets, Interior could increase communication among its staff with measurement expertise and better ensure consistent measurement policies.
- Interior issued new guidance outlining criteria for approving agreements that allow oil or gas produced from onshore federal leases to be commingled with oil or gas produced from other federal, state, or private leases before being measured but did not schedule or complete a review of its effectiveness after its implementation. In March 2010, GAO found that Interior staff were approving onshore commingling agreements inconsistently, and that the agreements were structured in a manner that made it difficult for staff to verify volumes of oil and gas produced. In June 2010, Interior committed to issuing revised guidance and then scheduling a review of its implementation after 1 year. In July 2013, Interior issued guidance that requires it to have the ability to verify that production is accurately measured and reported. By scheduling and completing the review, Interior would be better informed about the extent to which its staff are consistently applying the new guidance to commingling agreement requests and whether the guidance is effective and has corrected identified deficiencies or produced improvements. This would reduce the risk that the agency is continuing to approve commingling agreements that put federal royalties at risk.