



May 2019

FEDERAL OIL AND GAS ROYALTIES

Additional Actions Could Improve ONRR's Ability to Assess Its Royalty Collection Efforts

GAO Highlights

Highlights of [GAO-19-410](#), a report to congressional requesters

Why GAO Did This Study

Royalties paid on the sale of oil and gas extracted from leased federal lands and waters are a significant source of revenue for the federal government. However, Interior has faced challenges verifying the accuracy of royalty payments. In the 2000s, GAO issued reports highlighting weaknesses in Interior's royalty compliance program. In 2011, GAO added Interior's management of federal oil and gas resources to its High-Risk List, in part because its work showed Interior did not have assurance that it was collecting its share of revenue from oil and gas produced on federal leases. Interior has taken steps to operate more effectively.

GAO was asked to examine ONRR's federal oil and gas royalty compliance efforts. This report examines, among other objectives, the extent to which ONRR reported meeting its compliance goals for fiscal years 2010 through 2017, the most recent data available. GAO reviewed relevant laws, regulations, agency guidance, and Interior's annual performance plan and report and annual budget justifications for the period; analyzed ONRR compliance data for the period; and interviewed ONRR officials and state auditors who conducted work in coordination with ONRR.

What GAO Recommends

GAO is making seven recommendations, including that ONRR establish an accuracy goal that addresses coverage that aligns with its mission. Interior concurred with GAO's recommendations.

View [GAO-19-410](#). For more information, contact Frank Rusco at (202) 512-3841 or ruscof@gao.gov.

May 2019

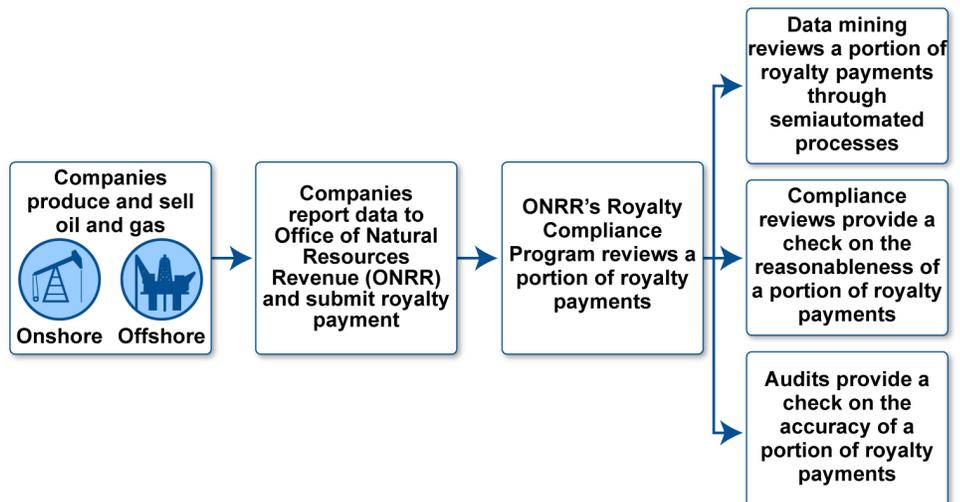
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What GAO Found

The Department of the Interior's (Interior) Office of Natural Resources Revenue (ONRR) reported that it met its annual performance goals for its royalty compliance program in 6 of the 8 years from fiscal years 2010 through 2017. Under this program, ONRR conducts three levels of compliance activities—audits, compliance reviews, and data mining—to help ensure that oil and gas royalty payments submitted by companies that produce oil and gas from federal leases are accurate and comply with federal laws and regulations (see figure). Specifically, GAO's analysis of Interior's annual budget justifications for fiscal years 2010 through 2017 found that ONRR reported meeting its compliance goals for 6 of the 8 fiscal years. According to ONRR officials, ONRR did not report meeting its compliance goals for 2 years because of a shift in the agency's goals that created a short-term misalignment of planned work and available resources. ONRR's fiscal year 2017 goals for its compliance program were (1) to obtain a return of \$2 of additional royalties for every dollar spent on compliance activities and (2) to collect a defined amount of additional royalties. ONRR's compliance goals generally aligned with the agency's requirement that resources should not be expended without an expected return. However, these goals may not align with the agency's mission to collect, account for, and verify royalty payments and other statutory requirements because the goals do not address accuracy—or the extent to which its compliance work is covering, for example, royalty payments. By establishing a goal that addresses accuracy, for example, by covering a portion of royalty payments with its compliance activities, ONRR could increase the extent to which it had reasonable assurance that its compliance program is fully accounting for federal oil and gas royalty payments.

The Process for Producing, Selling, and Paying Royalties for Oil and Gas on Leased Federal Lands



Source: GAO analysis of Department of the Interior ONRR documents. | GAO-19-410

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Abbreviations

BLM	Bureau of Land Management
CAM	Compliance Asset Management
CIM	Compliance Information Management system
FORGRMA	Federal Oil and Gas Royalty Management Act of 1982, as amended
GAS	Government Accounting Standards
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GVS	Gas Verification System
IIM	Individual Indian Money
Interior	Department of the Interior
IRS	Internal Revenue Service
IT	information technology
LVS	Liquid Verification System
OIG	Office of Inspector General
OMT	Operations Management Tool
ONRR	Office of Natural Resources Revenue
PTT	Performance Tracking Tool
ROI	return on investment
RPC	Royalty Policy Committee
RSFA	Federal Oil and Gas Royalty Simplification and Fairness Act of 1996
STRAC	State and Tribal Royalty Audit Committee
Treasury	Department of the Treasury
WAT	Workload Analysis Tool

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May 31, 2019

The Honorable Raúl Grijalva
Chairman
Committee on Natural Resources
House of Representatives

The Honorable Alan Lowenthal
Chairman
Subcommittee on Energy and Mineral Resources
Committee on Natural Resources
House of Representatives

Royalties that companies pay on the sale of oil and natural gas extracted from leased federal lands and waters constitute a significant source of revenue for the federal government, accounting for over \$5 billion in 2017. In 1982, Congress voted to pass the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), requiring, among other things, that the Department of the Interior (Interior) establish a comprehensive inspection, collection, and fiscal and production accounting and auditing system for these revenues.¹ In particular, the act requires Interior to establish such a system to provide the capability of accurately determining oil and gas royalties, among other moneys owed, and to collect and account for such amounts in a timely manner. To accomplish this, Interior tasks its Office of Natural Resources Revenue (ONRR) with collecting and verifying the accuracy of royalties paid by companies that produce oil and gas from over 26,000 federal leases.² Each month, these oil and gas companies self-report data to ONRR on the amount of oil and gas they produced and sold, the value of this production, and the amount of royalties that they owe to the federal government.

¹Pub. L. No. 97-451, § 101 (1983), codified at 30 U.S.C. § 1711.

²In 2010, Interior underwent a reorganization. As part of this reorganization, Interior eliminated the Minerals Management Service and created the Office of Natural Resources Revenue, ultimately along with two other bureaus that oversee offshore oil and gas activities. Specifically, Interior created ONRR on October 1, 2010. ONRR programs effectively represent those activities covered by the Minerals Management Service's Minerals Revenue Management program, which oversaw royalty payments that companies paid on the production and sale of oil and gas from federal leases. For the purposes of this report, we refer to the office responsible for this program as ONRR.

To ensure that the data provided to ONRR are accurate and all royalties are being paid, ONRR relies on its compliance program. Under this program, ONRR initiates compliance activities by selecting companies and properties for review to assess the accuracy of their royalty data and compliance with all relevant laws and regulations. To assess its compliance program's performance, ONRR established annual compliance goals that have changed several times over the last decade and include measures that identify the percentage of royalties that ONRR's compliance activities cover and the return on investment for those activities. ONRR's compliance program also directly coordinates with the members of the State and Tribal Royalty Audit Committee (STRAC),³ which have programs that review the accuracy of royalties paid for oil and gas extracted on federal lands within their respective states and receive a portion of such royalties.⁴

Over the past approximately 10 years, we, Interior's Office of Inspector General (OIG), and Interior's Royalty Policy Committee have raised concerns about whether ONRR is collecting all royalties that are owed to the federal government.⁵ In February 2011, in part because of the challenges identified in our past work, which indicated that Interior did not have reasonable assurance that it was collecting its share of revenue from oil and gas produced on federal lands, we added Interior's management of federal oil and gas resources to our list of programs at high risk for fraud, waste, abuse, and mismanagement.⁶

³STRAC comprises states and tribes that have entered into agreements with Interior to share oil and gas royalty information and conduct compliance work on federal and Indian lands. We did not include Indian oil and gas royalties or ONRR's role in collecting, disbursing, or assuring their accuracy in the scope of our work for this report because of the different regulatory structure that governs ONRR's execution of its Indian trust fund responsibilities.

⁴Revenues from onshore federal oil and gas leases are shared with the states in which such leases are located—generally, those states receive 50 percent of such revenues, except that 2 percent of the states' share (1 percent of the total) is retained by the Treasury to cover the administrative costs of the leasing program. Some revenues from offshore federal oil and gas leases are also shared with states, but the division of such shares varies.

⁵The Royalty Policy Committee is a group of federal, state, and nongovernmental officials who are chartered by the Secretary of the Interior to provide advice on royalty management issues and other mineral-related policies to the Secretary and other departmental officials responsible for managing mineral leasing activities.

⁶GAO, *High-Risk Series: An Update*, [GAO-11-278](#) (Washington, D.C.: February 2011).

You asked us to review issues related to ONRR's federal oil and gas royalty compliance efforts. This report examines the extent to which (1) ONRR reported meeting its compliance goals for fiscal years 2010 through 2017, (2) ONRR's process for selecting compliance cases aligned with the agency's compliance goals, and (3) STRAC members are satisfied with ONRR's efforts to coordinate with them and whether STRAC members' case selection processes align with ONRR's compliance goals.

To address all of these objectives, we reviewed ONRR's budget justifications, guidance, project work plans, and reports for fiscal years 2010 through 2017.⁷ We also interviewed ONRR officials in the agency's headquarters in Lakewood, Colorado, and at its offices at Interior in Washington, D.C. Additionally, we reviewed ONRR documentation regarding its efforts to implement recommendations from Interior's OIG and Interior's Subcommittee on Royalty Management. We did not assess whether Interior's actions were sufficient to close the recommendations as implemented but provide the OIG's status of recommendations for its report. We rely on Interior's status of recommendations information on the subcommittee's recommendations, as the subcommittee did not have a process to track their implementation.

To examine the extent to which ONRR reported meeting its compliance goals for fiscal years 2010 through 2017, we reviewed agency documents, including annual budget justifications, annual performance reports, and annual performance plans. We also reviewed fiscal years 2010 through 2017 agency data on compliance activities, including the types and numbers of compliance activities conducted. To assess the reliability of these data, we reviewed documentation on relevant databases and interviewed agency officials on how they entered and maintained the data they used to track the performance of the agency's compliance program. We found the data to be sufficiently reliable for the purpose of reporting ONRR's assessment of whether it met its annual compliance goals.

To determine the extent to which ONRR's process for selecting compliance cases aligns with the agency's compliance goals, we reviewed agency documents describing its process for compliance case selection. We also interviewed agency officials responsible for planning

⁷Data were not available for fiscal year 2018 at the time we were conducting our work.

the processes and considerations used in selecting compliance cases and reviewed examples of recent case selections from 2018. For the case selection examples, we requested at least two examples from ONRR of case selections that were made within the past year and were representative of their current selection process. We also obtained documents about the risk model that according to ONRR officials is used as part of the case selection process.⁸ We interviewed agency staff about the development of the risk model and its use in the case selection process.

To determine the extent to which STRAC members are satisfied with ONRR's efforts to coordinate with them and whether STRAC members' case selection processes align with ONRR's compliance goals, we asked the members about their satisfaction with ONRR's coordination efforts and reviewed the most recently signed agreements between the nine STRAC member states and ONRR to better understand ONRR's terms and conditions.⁹ We attended a STRAC meeting in Sacramento, California, in March 2018. In addition, we interviewed representatives from all nine STRAC member states. We asked the officials about their processes for compliance case selection and coordination with ONRR, among other topics. We conducted a content analysis of their responses to identify common trends. We also interviewed ONRR officials responsible for overseeing STRAC's compliance work. Additionally, we reviewed (1) the most recent agreements between STRAC members and ONRR to better understand the compliance work requirements and (2) STRAC annual work plans.

We conducted this performance audit from June 2017 to May 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that

⁸ONRR developed a quantitative model using past royalty data to produce scores for companies and properties based on their potential risk for royalty noncompliance and then uses those scores to inform case selection decisions.

⁹The nine STRAC member states are Alaska, California, Colorado, Montana, New Mexico, North Dakota, Oklahoma, Utah, and Wyoming. The cooperative agreements between ONRR and STRAC members are awarded under the authority of Section 205 of FOGPMA. While some tribes are members of STRAC, we did not include them as part of the scope of our work because of the different regulatory structure that governs ONRR's and STRAC members' execution of their Indian trust fund responsibilities.

the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Several bureaus within Interior are responsible for the leasing, permitting, and inspecting of mineral extraction activities on federal lands and waters. Interior's Bureau of Land Management (BLM) is responsible for onshore activities and manages approximately 700 million acres of subsurface mineral rights throughout the country, including the acreage it leases to companies for oil and gas development.¹⁰ At the end of fiscal year 2016, about 41,000 oil and gas leases accounted for approximately 28.2 million acres in 32 states, according to BLM data. For offshore oil and gas activities, the Bureau of Ocean Energy Management is generally responsible for leasing and resource planning and evaluation, among other functions, and the Bureau of Safety and Environmental Enforcement is generally responsible for permitting and inspecting as well as verifying production volumes on offshore leases, among other functions.¹¹ Under the Outer Continental Shelf Lands Act, as amended, Interior is responsible for leasing and managing approximately 1.71 billion offshore acres.¹²

To begin the leasing process, Interior holds auctions through which companies may secure the rights to federal leases that allow them to drill for oil and gas upon meeting certain conditions. Once a company obtains a lease, it may conduct further exploration and subsequently determine whether it would like to drill a well. If a company plans to drill, it must first secure a permit from Interior. To secure a permit to drill under an onshore lease, a company must submit an application for a drilling permit to the appropriate BLM field office. BLM officials then evaluate the company's proposal to ensure that it conforms to the relevant BLM land use plan for

¹⁰The Mineral Leasing Act of 1920, as amended, gives Interior responsibility for oil and gas leasing on federal and private lands where the federal government has retained mineral rights. 30 U.S.C. § 226. The Mineral Leasing Act for Acquired Lands of 1947 (30 U.S.C. § 351, et seq.) extended that authority to lands that the federal government acquired.

¹¹The Bureau of Safety and Environmental Enforcement is responsible for reviewing drilling permits, inspecting offshore drilling rigs and production platforms, and developing regulations and standards for offshore drilling.

¹²The outer continental shelf (submerged lands) is outside the territorial jurisdiction of all 50 states but within U.S. jurisdiction and control and consists of submerged federal lands, generally extending seaward from 3 to 200 nautical miles off the U.S. coastline.

the area as well as applicable laws and regulations, including those focused on protecting the environment. To secure a permit to drill on offshore leases, a company must submit an application for a drilling permit to the Bureau of Safety and Environmental Enforcement, where it is reviewed for completeness and whether all technical elements conform to applicable regulations.

Once a company secures a permit and begins producing, oil and gas is transported to market and sold. As part of this process, companies may elect to process the natural gas into various products before its sale. Under ONRR regulations, companies may deduct certain costs associated with transportation and natural gas processing from the royalties due. Companies can continue to produce oil and gas until the lease is no longer capable of producing in paying quantities, regardless of the length of the lease.¹³ To ensure compliance with applicable laws, regulations, and other requirements, both BLM and the Bureau of Safety and Environmental Enforcement have inspection and enforcement programs that are designed to verify that companies comply with all requirements at the lease site, including those related to measuring oil and gas volumes. The authority for inspecting wells and leases for this purpose is derived from FOGRMA. The act requires the Secretary of the Interior to develop guidelines that specify the coverage and frequency of inspections. Interior has delegated responsibilities for implementing the act to BLM for onshore leases and to the Bureau of Safety and Environmental Enforcement for offshore leases.

ONRR's Role in Collecting, Disbursing, and Verifying Royalties

ONRR's oversight of federal royalties includes collecting company-paid royalties, disbursing these royalties to appropriate accounts, and verifying the company-paid royalties through its compliance activities.

Collecting: Companies that obtain federal onshore or offshore oil and gas leases are typically obligated to pay royalties on any oil or gas they produce from the leases and then sell. As a condition of producing oil and gas under federal and Indian leases, companies are required to submit two key monthly reports to ONRR—one specifying the total production and disposition of oil and gas and the other stating the royalties due

¹³In some cases, several companies may form partnerships to explore and develop oil and gas leases, thereby sharing the risk, costs, and benefits. These companies often elect from among themselves a single company, called the operator, to manage the physical drilling of wells and the installation of production equipment.

based on production. However, because of various leasing and development arrangements made by companies, these two reports are often submitted by different companies. The companies physically developing the lease, referred to as the operators, are responsible for reporting the production volumes to ONRR in monthly production reports.¹⁴ The companies with a financial interest in the lease, referred to as the payors, are responsible for reporting the cash royalty owed on the federal and Indian oil and gas production in their monthly royalty reports.¹⁵ Each month, payors are to calculate the royalty payment owed to the federal government using the four key variables illustrated in the following equation:

Royalty payment = ((volume sold x sales price) less deductions) x royalty rate¹⁶

Companies are to submit monthly production and royalty reports via a web-based portal to ONRR's royalty information technology (IT) system. In addition to filing the royalty report with ONRR, companies typically make the actual cash royalty payment via an electronic fund transfer to an account at the Department of the Treasury (Treasury).¹⁷

Disbursing: Once ONRR reconciles the self-reported royalty payment data from the monthly royalty reports with the payments to Treasury, ONRR is to disburse the royalties from the Treasury account to the appropriate federal, state, tribal, or Individual Indian Money (IIM)

¹⁴Companies are required to self-report monthly production volumes to ONRR on Form 4054, Oil and Gas Operations Report (OGOR).

¹⁵Companies are required to self-report monthly royalty payments to ONRR on Form 2014, Report of Sales and Royalty Remittance Form.

¹⁶Companies report to ONRR on Form 2014 the volume sold (sales volume), the amount of revenue received from this sale (sales value), and the royalty payment due to ONRR (royalty value less deductions). The average sales price is calculated by dividing sales value by sales volume. The average royalty rate net of allowances is calculated by dividing royalty value less allowances by sales value.

¹⁷By law, onshore royalty rates must be set at 12.5 percent for noncompetitive leases and "not less than" 12.5 percent for competitive leases, although, according to ONRR officials, such rates generally do not vary from 12.5 percent. Offshore royalty rates generally must be "not less than" 12.5 percent, and according to ONRR officials, in practice these rates currently vary from 12.5 percent to 18.75 percent based on water depth.

accounts.¹⁸ All these transactions are to be recorded and stored in ONRR's IT system.

Verifying: ONRR is responsible for verifying royalties through its compliance program, which includes ensuring that the royalty revenues generated from the sale of oil and gas extracted from leased federal lands are accurately reported and paid. In conducting its compliance activities, ONRR is to assess the elements of the royalty equation: commodity price, volume of oil and gas, transportation and processing allowances, and royalty rate. ONRR also is to ensure that all relevant laws, regulations, and lease terms have been followed. ONRR has two key statutory requirements for its compliance program: FOGRMA and the Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA).¹⁹ FOGRMA requires that ONRR establish a comprehensive auditing system to provide the capability to accurately determine oil and gas royalties. RSFA directs ONRR not to conduct audit activities if it and the relevant state determine that the cost of conducting or requiring the audit exceeds the expected amount to be collected by the activity, based on the most current 12 months of activity. ONRR's Work Planning Group identifies which companies or leases will be subject to compliance activities. The three primary levels of compliance activities ONRR conducts are audits, compliance reviews, and data mining—each of which provides a varying degree of assurance that royalties are accurately paid.

- **Audits:** According to ONRR documents, an audit involves detailed examinations of companies' royalty payments and corresponding reporting to ONRR. As part of an audit, ONRR staff are to assess the accuracy and completeness of the companies' self-reported production and royalty data compared to third-party documents, such as sales contracts and oil and gas sales receipts from pipeline companies. According to ONRR documents, it is to design its audits to ensure that royalty payments and other obligations to ONRR are in substantial compliance with applicable lease terms, federal laws and regulations, and other policies.

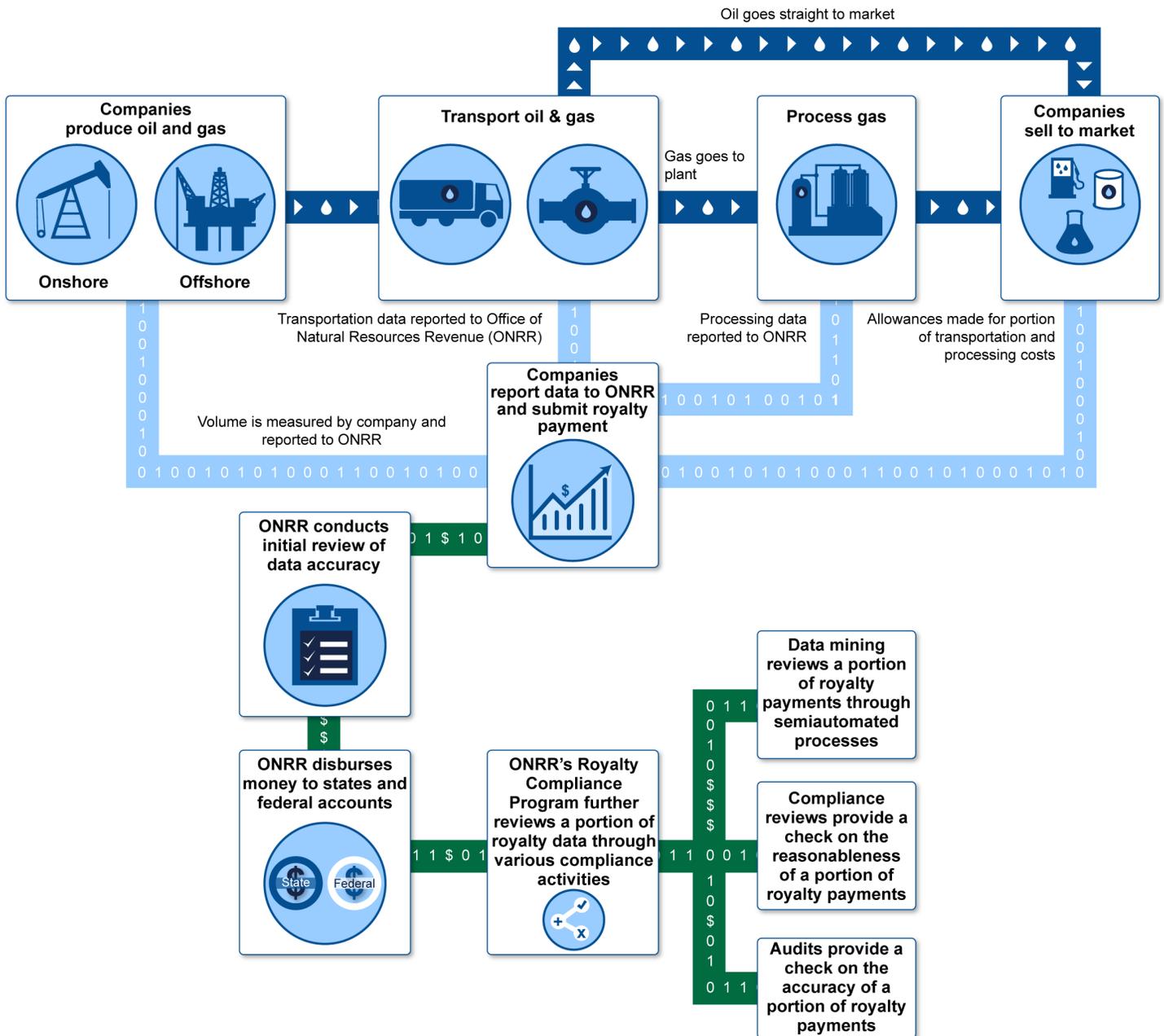
¹⁸An IIM account is an account held by Interior on behalf of an individual Indian who possesses an interest in, among other things, land or mineral resources held by the federal government in trust. Royalties generated from such trust resources are disbursed to the appropriate IIM account.

¹⁹Pub. L. No. 104-185, § 4 (1996), codified at 30 U.S.C. § 1724.

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- **Compliance reviews:** ONRR describes compliance reviews as an analysis designed to determine the reasonableness of company-reported production and royalty data. In contrast to audits, compliance reviews are quicker, more limited checks on the accuracy and completeness of companies' self-reported data and do not include systematically examining the underlying source documentation used to generate the self-reported data.
 - **Data mining:** ONRR began its data mining program in 2011 and officially organized it within the compliance program beginning in fiscal year 2018. Data mining is a partially automated activity to identify and resolve data errors prior to audits and compliance reviews. According to ONRR officials, data mining examines large sets of company-reported data for certain common errors, such as irregularities in the volume of oil or gas extracted. Officials stated that data mining generally identifies obvious data errors that ONRR staff work with companies to correct.

The process companies are to follow to produce oil and gas from federal leases, bring it to market, transmit required data to Interior, and pay royalties is outlined in figure 1.

Figure 1: The Process for Producing, Selling, and Paying Royalties for Oil and Gas on Leased Federal Lands



Source: GAO analysis of Department of the Interior ONRR documents. | GAO-19-410

The State and Tribal Royalty Audit Committee

FOGRMA authorizes the Secretary of the Interior to enter into cooperative agreements with states to share oil and gas royalty management information and carry out inspection, audit, investigation, and enforcement activities on federal and Indian lands. Currently, the nine states that are members of STRAC have delegated authority to conduct compliance activities for federal lands in their respective state. These agreements form the framework of ONRR's relationship with states for mineral revenue compliance activities. A governor or other appropriate official with delegation authority may request that Interior enter into a cooperative agreement with a state by sending a letter to the Director of ONRR. States may also elect to end these agreements at their discretion with a 120-day notice. States have a vested interest in ensuring that all royalties are paid accurately because states receive a portion of the royalties that the federal government collects, including additional collections resulting from compliance activities identifying underpayment. ONRR also reimburses states for the costs of performing approved and eligible compliance activities, including compliance activities under the cooperative agreement.

State audit offices that have entered into agreements with ONRR are to submit yearly work plans identifying the compliance activities they propose to conduct in the next fiscal year, which ONRR is to review and approve.²⁰ Member states can conduct both audits and compliance reviews, and ONRR requires that the state auditors follow the procedures established in generally accepted government auditing standards and ONRR's audit and compliance review manuals.²¹ To ensure that compliance activities are conducted in accordance with generally accepted government auditing standards and relevant ONRR manuals, states are to undergo an external peer review every 3 years, during which they are assessed on their adherence to the standards and manuals and whether they provided corrective actions to any identified problems.

²⁰According to ONRR's STRAC agreements, the agency will review each participating state and Indian tribal program to determine whether it is achieving satisfactory performance, including progress toward milestones, timely completion of audits, or compliance reviews; adhering to records management system standards; requesting accurate costs for reimbursement; adhering to ONRR's Audit Manual and Compliance Review Manual; and maintaining accurate and complete equipment inventory.

²¹GAO issues the generally accepted government auditing standards, which apply to both financial and performance audits of government agencies. See GAO, *Government Auditing Standards: 2011 Revision*, [GAO-12-331G](#) (Washington, D.C.: December 2011).

Performance Management Information and Controls

A key practice in results-oriented management for federal agencies is establishing agency-wide, long-term strategic goals. The Government Performance and Results Act of 1993 (GPRA),²² which was significantly enhanced by the GPRA Modernization Act of 2010 (GPRAMA),²³ requires federal agencies, among other things, to develop strategic plans with long-term, outcome-oriented goals; annual goals linked to achieving the long-term goals; and annual reports on the results achieved, as assessed through the use of performance measures and targets. Federal departments and agencies must comply with these requirements and are to follow associated Office of Management and Budget guidance when developing their agency-wide strategic plans. We have reported that these requirements also can serve as leading practices for strategic planning at lower levels within federal agencies, such as planning for individual divisions, programs, or initiatives.²⁴ These leading practices include defining the mission and goals of an agency or a specific program and developing and using performance measures that allow an agency to track its progress toward its mission and goals.²⁵

ONRR issued a fiscal year 2017 strategic priorities document that contains the agency's mission statement: "to collect, account for, and verify natural resource and energy revenues due to states, American Indians, and the U.S. Treasury." ONRR stated in the document that it planned to achieve Interior's strategic goals to (1) timely disburse 98 percent of federal and Indian revenues, (2) close 85 percent of Interior's OIG and GAO recommendations targeted for implementation in fiscal year 2017,²⁶ and (3) report results of ONRR's supporting performance measures for Interior's strategic goals on total ONRR compliance

²²Pub. L. No. 103-62, 107 Stat. 285 (Aug. 3, 1993).

²³Pub. L. No. 111-352, 124 Stat. 3866 (Jan. 4, 2011).

²⁴GAO, *Environmental Justice: EPA Needs to Take Additional Actions to Help Ensure Effective Implementation*, [GAO-12-77](#) (Washington, D.C.: Oct. 6, 2011).

²⁵As our prior work has shown, mission statements explain why the agency—or a specific program—exists, what it does, and how it does it. Strategic goals explain the purpose of agency programs and the results—including outcomes—that they intend to achieve. Performance measures help agencies make resource decisions, provide managers information on which to base their organizational and management decisions, and create incentives to influence organizational and individual behavior.

²⁶To achieve this goal, ONRR was to close 17 of the 19 recommendations identified for completion in fiscal year 2017.

collections and a 3-year average compliance return on investment. ONRR also stated that it planned to create an ONRR strategic plan.

History of Oil and Gas Royalty Oversight Challenges

In the 1970s and early 1980s, we and Interior's OIG reported on Interior's management of the oil and gas revenue collection system. Interior's OIG issued five reports critical of the program from 1969 through 1977 that raised concerns about royalty collections.²⁷ In 1981, we reported that Interior was not collecting potentially hundreds of millions in royalties due from federal oil and gas leases.²⁸ In response, in 1981, the Secretary of the Interior established the Commission on Fiscal Accountability of the Nation's Energy Resources, also known as the Linowes Commission, to investigate allegations of irregularities in royalty payments, among other issues. The Linowes Commission raised a number of concerns, and its 1982 report stated that management of royalties for the nation's energy resources had been a failure for more than 20 years.²⁹ The report found that because the federal government had not adequately managed this multibillion-dollar enterprise, the oil and gas industry was not paying all the royalties it rightly owed. The report cited a range of problems, including the failure to verify data that companies reported as well as late payments and underpayments.

Following this report, Interior and Congress took actions aimed at improving revenue collection, including reorganizing oil and gas revenue collections under a new bureau within Interior, passing FOGRMA in 1982, and passing RSFA in 1996. In December 2006, Interior's OIG analyzed ONRR's compliance processes and issued a report that made several recommendations to improve these processes and the agency's systems for tracking them.³⁰ The report identified deficiencies with how ONRR maintained compliance-related information and recommended changes for how ONRR measures its compliance activities' performance. In 2007,

²⁷Energy and Materials Program, Office of Technology Assessment, U.S. Congress, *The Royalty Management Program's Auditing and Financial System: Technical Issues (Background Paper)* (July 1990).

²⁸GAO, *Oil and Gas Royalty Collections: Longstanding Problems Costing Millions*, [GAO/AFMD-82-6](#) (Washington, D.C.: Oct. 29, 1981).

²⁹Commission on Fiscal Accountability of the Nation's Energy Resources, *Fiscal Accountability of the Nation's Energy Resources* (Washington, D.C.: January 1982)

³⁰Department of the Interior, Office of Inspector General, *Minerals Management Service's Compliance Review Process, C-IN-MMS-0006-2006* (Washington, D.C.: December 2006).

Interior's Subcommittee on Royalty Management—a subcommittee of the Royalty Policy Committee—issued a report that reiterated several of the findings from Interior's OIG report on ONRR and further stated that several aspects of royalty management activities required prompt and, in some cases, significant management attention.³¹ In particular, the report included over 100 recommendations for improving Interior's management of oil and gas resources, including recommendations related to audit, compliance, and enforcement. Appendix I provides a list of the subcommittee's recommendations and the status of their implementation, according to Interior documents and interviews with Interior officials.

We identified several challenges with Interior's management of federal oil and gas in the 2000s.³² In February 2011, in part because of the challenges identified in our past work, we added Interior's management of federal oil and gas resources to our list of program areas at high risk for fraud, waste, abuse, and mismanagement.³³ In the March 2019 update of our High-Risk List, we found that Interior had made progress improving its management of federal oil and gas resources. However, additional steps are needed to improve Interior's royalty determination and collection.³⁴

Recent ONRR Initiatives

ONRR, according to officials, has begun implementing several initiatives that seek to make the agency operate more effectively. In March 2017, ONRR initiated Boldly Go, an effort to assess its organizational structure and identify and implement potential improvements. According to ONRR officials, this initiative was in response to March 2017 comments from the Secretary of the Interior, in which he said the department, in general,

³¹Department of the Interior, Royalty Policy Committee, Subcommittee on Royalty Management, *Report to the Royalty Policy Committee: Mineral Revenue Collection from Federal and Indian Lands and the Outer Continental Shelf* (Washington, D.C.: 2007).

³²See GAO, *Oil and Gas Royalties: The Federal System for Collecting Oil and Gas Revenues Needs Comprehensive Reassessment*, [GAO-08-691](#) (Washington, D.C.: Sept. 3, 2008); *Oil and Gas Management: Interior's Oil and Gas Production Verification Efforts Do Not Provide Reasonable Assurance of Accurate Measurement of Production Volumes*, [GAO-10-313](#) (Washington, D.C.: Mar. 15, 2010); and *Federal Oil and Gas Leases: Opportunities Exist to Capture Vented and Flared Natural Gas, Which Would Increase Royalty Payments and Reduce Greenhouse Gases*, [GAO-11-34](#) (Washington, D.C.: Oct. 29, 2010).

³³[GAO-11-278](#).

³⁴GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

should undergo a “bold restructuring.” ONRR officials said that the Boldly Go organizational restructuring was implemented in October 2017 and included several changes to how ONRR conducts its compliance work. Before the reorganization, audits and compliance reviews were part of the same management group—referred to as the Audit and Compliance Management group. After the reorganization, audits and compliance reviews are managed separately.³⁵ Audits now have their own management group, referred to as Audit Management. According to ONRR officials, the new Audit Management group conducts audits of multiple companies and properties and will attempt to identify more systemic misreporting issues common to those companies and properties.³⁶

ONRR staff who conduct compliance reviews were moved into the same management group as the data mining staff in the new Compliance Management group. According to ONRR officials, the merger occurred because both groups use similar data sources to conduct less in-depth checks of the royalty data than audits. Additionally, officials stated that putting these activities under the same management could assist in better targeting companies for similar compliance issues. Prior to the reorganization, identifying and selecting cases for audits and compliance reviews was a function of the Audit and Compliance Management group. After the reorganization, this function was moved to a new Analytics and Risk Management group that is also tasked with using data analytics methods, such as computerized analysis of spatial and geographic data, to better identify noncompliant royalty payments.

ONRR is also in the process of implementing a new electronic compliance case management and work paper tool referred to as the Operations and Management Tool (OMT). According to ONRR documents, OMT is to combine multiple systems into one and is intended to serve a variety of functions. ONRR documents state that OMT is designed to be a single standardized system that reduces manual data entry, creates a single system of record for ONRR case data, offers error

³⁵According to ONRR officials, a small number of compliance reviews would still be performed by auditors in the Audit Management group. These compliance reviews would address highly technical areas in which auditors have unique expertise, such as reviews of royalties paid for geothermal plants on leased federal lands.

³⁶Within the Audit Management group, ONRR also created an Indian and State Audit group to establish a single point of contact between states, tribes, and ONRR and improve coordination of audit work.

checks to eliminate data entry errors, and provides greater transparency for outside auditors.³⁷ One ONRR official stated that the agency plans to have ONRR's data mining, compliance review, and audit teams all using OMT to manage their compliance work in 2019. According to some ONRR and state audit officials, ONRR piloted OMT's electronic compliance case management system in North Dakota in 2018, and ONRR expects to offer OMT as an option to other STRAC partners for their audit and compliance review case management needs.

Finally, the agency introduced a new auditor training curriculum in April 2018. Shortly after new auditors are hired, they are expected to begin ONRR's training program, and according to ONRR's training manual, they are expected to complete the training within 2 years of their hire dates. According to ONRR officials, courses will also be available to existing audit staff upon request.

ONRR Reported Generally Meeting Annual Royalty Program Compliance Goals, but Its Goals May Not Align with the Agency's Mission

ONRR reported generally meeting its annual royalty compliance goals for fiscal years 2010 through 2017.³⁸ To meet its compliance goals, ONRR used all three levels of compliance activities—audits, compliance reviews, and data mining—each of which provides a different level of assurance. However, ONRR's compliance goals may not align with the agency's mission to ensure the accuracy of royalty payments and other statutory requirements.

³⁷In 2012, according to ONRR officials, ONRR assembled a team and stated developing the requirements for OMT in response to recommendations from Interior's Subcommittee on Royalty and OIG that encouraged ONRR to consolidate, manage, and automate its compliance work. In April 2014, ONRR's team issued a vision document for OMT and called for an electronic system that would include a single integrated system for managing and tracking compliance work assignments, storing electronic work papers to reduce dependence on hard copy documents, and automating compliance risk analysis.

³⁸In this report, annual compliance goals refer to those identified in Interior's budget justifications and annual performance plan and reports as a performance measures to support the Interior's strategic plan. ONRR also has supporting goals that are included in Interior's annual budget justifications, referred to as bureau-specific goals and exhibit 300 goals. We refer to these goals in the report as bureau-specific goals. Strategic plan goals are higher-level goals linked directly to Interior's strategic plan, while bureau-specific goals are lower-level goals that generally support the strategic plan but are developed at the bureau level.

ONRR Reported Generally Meeting Compliance Goals and Revised Its Goals Multiple Times

ONRR reported generally meeting its annual compliance goals—those from Interior’s strategic plan and bureau-specific goals—for its royalty compliance program for fiscal years 2010 through 2017, and the agency made multiple revisions to its goals during this period.³⁹ Our analysis of Interior’s annual budget justifications for fiscal years 2010 through 2017 found that ONRR reported meeting its compliance goals for 6 of the 8 fiscal years we reviewed (see table 1). According to ONRR officials we interviewed, the 2 years when the agency did not report meeting its compliance goals largely resulted from a shift in the focus of its goals that created a short-term misalignment of planned work and available resources.⁴⁰

Table 1: Office of Natural Resources Revenue Reporting on Achieving Compliance Performance Goals, Fiscal Years 2010–2017

	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Goal met	Yes	Yes	Yes	Yes	No	No	Yes	Yes

Legend: FY = fiscal year.

Source: GAO analysis of the Department of the Interior’s budget justifications for fiscal years 2010 through 2017. | GAO-19-410

During fiscal years 2010 through 2017, ONRR revised its annual compliance goals multiple times. These included both compliance goals supporting Interior’s strategic plans covering fiscal years 2007 through 2018 and bureau-specific goals. In the revisions to its compliance goals, ONRR generally shifted from goals focused on the extent to which its compliance program was ensuring the accuracy of royalty payments to those focused on the efficiency of the program. ONRR’s accuracy goals, which included conducting compliance activities to cover a specific percentage of royalties, companies, or properties, helped it assess the extent to which it was ensuring the accuracy of royalty payments. That is, by measuring the portion of, for example, royalties subject to compliance

³⁹Because ONRR does not distinguish between federal, Indian, or solid mineral assignments when establishing or meeting goals, we were unable to distinguish ONRR’s ability to solely meet federal oil and gas annual compliance goals. However, according to ONRR officials we interviewed, federal oil and gas revenues constitute the majority of revenue collections, so ONRR’s overall performance in meeting its annual compliance goals is indicative of its performance for federal royalty compliance.

⁴⁰The shift in focus was from conducting compliance activities on unique mineral royalty companies to payors and operators. According to an ONRR official, a unique mineral company may include several operating units. So the shift in focus to payors and operators resulted in more entities to review.

activities, it was able to quantify the percentage of royalties that were reasonably correct or accurate. ONRR's efficiency goals, which included conducting compliance activities to obtain a certain return on investment and additional amount of royalty collections, helped it assess whether resources spent on compliance activities were used cost effectively. According to ONRR officials, these revisions were made in an effort to continually improve its compliance performance. Table 2 identifies ONRR's annual compliance goals for fiscal years 2010 through 2017 and establishes two categories for these goals corresponding to ONRR's requirements under FOGRMA and the RSFA.⁴¹ Appendix II provides more detailed information on ONRR's annual compliance goals and the agency's reported compliance program performance.

⁴¹In table 2, we categorize those goals focused on coverage, accuracy, or both in royalty collection as potentially responsive to the direction in FOGRMA § 101(a) that ONRR establish a comprehensive auditing system to provide the capability to accurately determine oil and gas royalties. In contrast, we categorize those goals focused on efficiency, particularly on return on investment from compliance activities, in collection of royalties as potentially responsive to the direction in RSFA § 4 that ONRR not conduct audit activities if it and the relevant state determine that the cost of conducting or requiring the audit exceeds the expected amount to be collected by the activity. However, this categorization is not intended to suggest that ONRR established any particular goal expressly in response to these legal requirements.

Table 2: Office of Natural Resources Revenue Compliance Goals, Fiscal Years 2010–2017

Fiscal year	Goal category	FOGRMA	RSFA	Compliance goal	Goal target revised from prior year ^a
2010	Accuracy	X	—	Conduct compliance activities on specified percentage of companies (coverage)	N/A
2010	Accuracy	X	—	Conduct compliance activities on specified percentage of properties (coverage)	N/A
2010	Efficiency	—	X	Generate specified return on investment from compliance activities	N/A
2011	Accuracy	X	—	Conduct compliance activities on specified percentage of companies (coverage)	Yes
2011	Efficiency	—	X	Generate specified return on investment from compliance activities	Yes
2012	Accuracy	X	—	Conduct compliance activities on specified percentage of companies (coverage)	No
2012	Efficiency	—	X	Generate specified return on investment from compliance activities	Yes
2013	Accuracy	X	—	Conduct compliance activities on specified percentage of companies (coverage)	Yes
2013	Efficiency	—	X	Generate specified return on investment from compliance activities	No
2014	Accuracy	X	—	Conduct compliance activities on specified percentage of payors and operators (coverage)	Yes
2014	Efficiency	—	X	Generate specified return on investment from compliance activities	No
2015	Accuracy	X	—	Conduct compliance activities on specified percentage of payors and operators (coverage)	Yes
2015	Efficiency	—	X	Generate specified return on investment from compliance activities	Yes
2016	Efficiency	—	X	Generate specified return on investment from compliance activities	Yes
2016	Efficiency	—	—	Generate specified amount in total additional royalties	No
2017	Efficiency	—	X	Generate specified return on investment from compliance activities	Yes
2017	Efficiency	—	—	Generate specified amount in total additional royalties	Yes

Legend: FOGRMA = Federal Oil and Gas Royalty Management Act of 1982, as amended; N/A = not applicable; RSFA = Federal Oil and Gas Royalty Simplification and Fairness Act of 1996; — = does not apply.

Source: GAO analysis of the Department of the Interior's budget justifications for fiscal years 2010 through 2017. | GAO-19-410

^aThe goal target is the specific number assigned to the percentage of coverage, rate of return on investment, or total additional royalties goal for the year.

While it is within ONRR's purview to revise its compliance goals or targets, frequent changes may complicate management's ability to assess performance over time because consistent goals are needed as a baseline from which to assess performance. For example, for the time period we reviewed, ONRR revised its compliance goals or goal targets nearly every year. This makes it difficult to assess, for example, how variations in resource allocations to and among its compliance activities may have affected the compliance program's performance. The following are the types of compliance goals that ONRR used and revised for the period:

Royalty coverage goal. Prior to fiscal year 2010, one of ONRR's compliance goals was to conduct compliance activities on a specified percentage of royalties within 3 years of the date it received payment. In December 2006, Interior's OIG issued an audit report that found, among other things, that the royalty compliance coverage goal had reduced the number of companies and properties subject to compliance work.⁴² The report stated that ONRR should consider modifying its compliance program strategy to ensure appropriate coverage of properties and companies within a reasonable time frame even if this resulted in a reduction in the overall percentage of dollars covered and recommended that ONRR develop separate performance measures for companies and properties subjected to compliance coverage. ONRR concurred with the recommendation and developed an implementation action plan. For fiscal year 2010, ONRR eliminated its royalty coverage goal in response to the OIG recommendation.

Company/operator/payor and property coverage goals. For fiscal year 2010, ONRR revised its compliance goals to address company and property coverage, or conducting compliance activities—including audits and compliance reviews—on a certain percentage of companies and properties. ONRR's fiscal year 2010 budget justification stated that the new compliance goals would reflect the cumulative percentage of unique companies and properties covered by audits, compliance reviews, or the

⁴²Department of the Interior, Office of Inspector General, *Minerals Management Service's Compliance Review Process*.

royalty-in-kind compliance strategy.⁴³ For fiscal year 2010, ONRR's company coverage goal was to cumulatively conduct compliance activities on 57.6 percent of companies that paid royalties from fiscal years 2008 through 2012. ONRR's property coverage goal was to cumulatively conduct compliance activities for 35 percent of properties where oil and gas had been extracted and sold from fiscal years 2008 through 2012.

For fiscal year 2011, ONRR revised its compliance goals, eliminating the property coverage goal. ONRR also revised its company coverage goal to cumulatively conduct compliance activities on 66 percent of companies that paid royalties for fiscal years 2011 through 2016. ONRR further revised this goal for fiscal year 2014 to consider operators and payors instead of companies. In fiscal year 2014 ONRR established a compliance goal of conducting compliance activities on 90 percent of operators and payors but dropped the goal to 52 percent for fiscal year 2015. The goal for covering a percentage of operators and payors was eliminated beginning in fiscal year 2016, which left ONRR without a compliance goal addressing its coverage of royalty payments. Agency officials we interviewed told us that they eliminated ONRR's company coverage goal because they concluded that the compliance program was reviewing too many companies and properties with smaller royalty payments, which officials deemed an inefficient use of limited compliance resources. ONRR officials added that budgetary constraints and the complexity of company bankruptcies and consolidation in the oil and gas industry also contributed to the goal's elimination.

Additionally, in 2008, ONRR established a data mining program to examine large sets of operator-reported data to identify royalty and reporting errors, such as when the production volumes that payors and operators reported for the same lease did not match. This work led to additional royalty collections, but ONRR did not consider these results when calculating its annual performance measure for company and property coverage. According to officials, data mining was the

⁴³The royalty-in-kind program allowed companies to compensate the government for producing oil and gas "in kind" (royalty payments made in oil or gas). Interior initiated a phased termination of this program in September 2009. See GAO, *Royalty-In-Kind Program: MMS Does Not Provide Reasonable Assurance It Receives Its Share of Gas, Resulting in Millions in Forgone Revenue*, [GAO-09-744](#) (Washington, D.C.: Aug. 14, 2009).

responsibility of ONRR's Royalty Reporting group and was not considered compliance work.

Return on investment goal. ONRR has had a goal for return on investment for fiscal years 2010 through 2017 that measured the efficiency of the compliance work that all of its program areas performed. However, Interior elevated this goal from a bureau-specific goal to a strategic plan goal for fiscal year 2017. This goal is a ratio of costs to collections for compliance activities—and is to assess whether ONRR collected additional royalties for every additional dollar the agency spends on compliance reviews, audits, and data mining.⁴⁴ To account for variations in collections and oil and gas prices, ONRR is to calculate its performance on return on investment based on the royalties from the previous 3 years. For example, the return on investment the agency reported for fiscal year 2017 was based on revenues collected from fiscal years 2014, 2015, and 2016. According to ONRR officials, the goal for fiscal year 2017—to collect an additional \$2 in royalties for every \$1 spent on compliance activities—was developed based on trends from prior years. Achieving this return on investment would indicate that ONRR met its goal.

Total additional royalty collections goal. In fiscal year 2016, ONRR developed a bureau-specific goal for total additional royalties collected from compliance reviews, audits, and data mining. The goal for fiscal year 2016 was to collect an additional \$110 million from compliance activities. In the following fiscal year, 2017, ONRR elevated this goal to a strategic plan goal and kept the amount the same, at \$110 million in additional royalties.

ONRR Used All Levels of Compliance Activities to Generally Meet Goals

To generally meet its compliance goals during fiscal years 2010 through 2017, ONRR used all levels of its compliance activities: audits, compliance reviews, and data mining. The number of audits completed annually generally remained the same for fiscal years 2010 through 2017, declining slightly from 162 in 2010 to 153 in 2017. During the same time period, the number of completed compliance reviews decreased, declining from 1,233 in 2010 to 683 in 2017 (see fig. 2). During this time frame, ONRR's Data Mining group increased the number of exceptions

⁴⁴ONRR calculates return on investment by dividing additional collected royalties by the directly associated staff labor costs.

resolved to address instances of incorrectly reported data from 4,323 in 2010 to over 26,000 in 2017.

Figure 2: Office of Natural Resources Revenue (ONRR) Completed Audits and Compliance Reviews, Fiscal Years 2010–2017



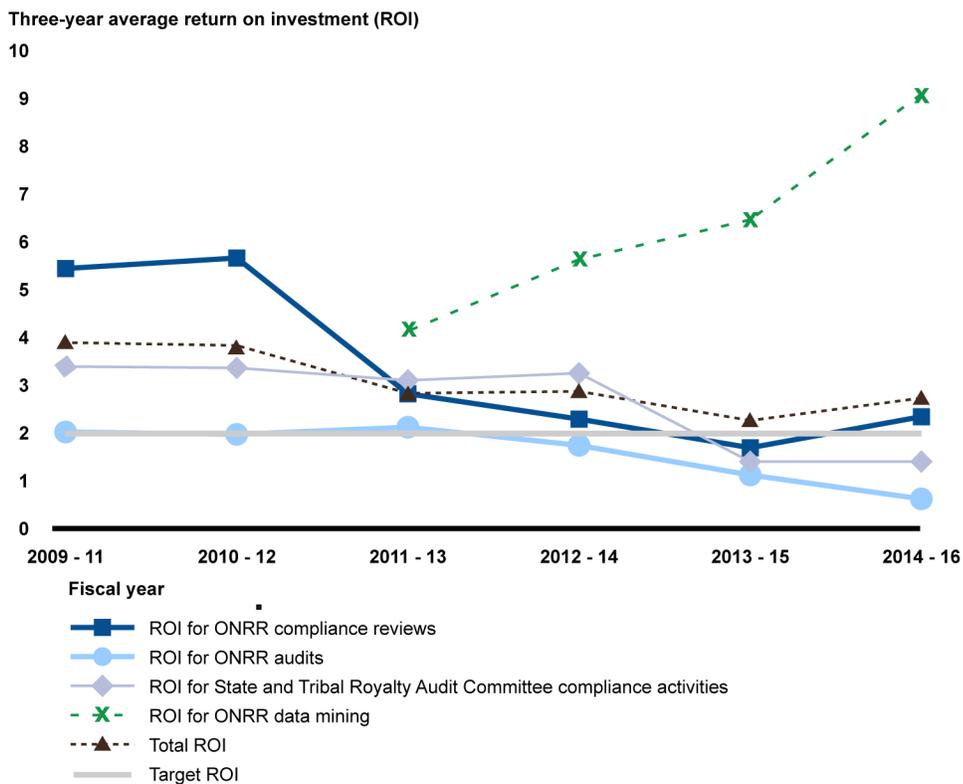
Source: GAO analysis of Department of the Interior ONRR data. | GAO-19-410

Note: For fiscal year 2015, ONRR adjusted how it calculated the number of closed audits. Prior to 2015, ONRR counted all the subcases that constituted an audit. For example, a single audit might have 10 sub-cases and would be counted as 10 audits. Starting in fiscal year 2015, ONRR stopped counting sub-cases, so an audit with sub-cases would be counted as a single audit.

Our analysis of ONRR’s data on compliance activities showed that adding data mining financial results in 2011 was associated with a decrease in the return on investment for ONRR’s other compliance activities. Prior to including data mining, compliance reviews earned a 6 to1 return on investment, STRAC compliance work earned about a 4 to1 return on investment, and audits earned a 2 to1 return on investment. By the end of fiscal year 2017, data mining proved to be far more cost-effective for royalty compliance, with a return on investment of 9 to1. During the same time, return on investment declined for all compliance reviews (including

STRAC compliance work) and all audits (see fig. 3).⁴⁵ According to ONRR officials, the reason for this decline was that data mining was identifying royalties that might otherwise have been identified through audits or compliance reviews. Additionally, ONRR officials we interviewed stated that data mining has been more cost-effective than audits or compliance reviews in identifying additional royalties. Officials we interviewed stated that data mining often identifies more simple reporting errors.

Figure 3: Return on Investment (ROI) for the Office of Natural Resources Revenue’s (ONRR) Completed Compliance Activities, Measured in 3-Year Time Periods from Fiscal Year 2009 through Fiscal Year 2016



Source: GAO analysis of Department of the Interior ONRR data. | GAO-19-410

Note: The figure presents the data pertinent to fiscal years 2010 through 2017. Because ONRR calculates its ROI on a 3-year basis, the data include fiscal year 2009 and exclude fiscal year 2017.

⁴⁵As part of ONRR’s Boldly Go reorganization, ONRR moved the data mining group from its Royalty Reporting group to its Compliance group on October 1, 2017.

Return on investment is an indicator of the efficiency of ONRR's compliance program. As long as ONRR is collecting more royalties through its compliance activities than it is spending on identifying those royalties, the federal government will obtain additional revenues. According to ONRR officials we interviewed, the agency does not calculate the potential additional royalty revenues that would be generated if it conducted additional compliance activities. However, ONRR officials said they do calculate the effect of reduced funding on compliance activities. For example, ONRR stated in its fiscal year 2018 budget justification document that reductions in its budget for compliance work would directly result in reductions to additional royalty collections.

ONRR's Goals May Not Align with Agency Mission and Statutory Requirements to Account for Royalty Payments

ONRR's fiscal year 2017 compliance goals, the most recent compliance goals we reviewed, may be useful for assessing certain aspects of ONRR's performance but may not be effectively aligned with the agency's stated mission or fulfill other statutory requirements. ONRR's 2017 strategic priorities document states that the agency's mission is to collect, account for, and verify energy revenues. Additionally, statutory requirements under RSFA direct ONRR not to conduct audit activities if it and the relevant state determine that the cost of conducting or requiring the audit exceeds the expected amount to be collected by the activity, based on the most current 12 months of activity. ONRR's fiscal year 2017 return on investment compliance goal helps the agency comply with RSFA by assessing whether the agency's compliance program is cost-effective.

Moreover, ONRR's statutory requirements under FOGDIA require that it establish a comprehensive auditing system to provide the capability to accurately determine oil and gas royalties, among other requirements. However, ONRR's fiscal year 2017 compliance goals do not sufficiently address its mission or FOGDIA requirements, in part, because its goals do not address accuracy—or consider the extent to which its compliance work is covering, for example, royalty payments. While ONRR previously had coverage goals, agency officials told us that they eliminated their company and property coverage goals because they concluded the compliance program was reviewing too many companies and properties with smaller royalty payments. ONRR officials told us that this was deemed an inefficient use of limited compliance resources. However, it is difficult for ONRR to provide reasonable assurance that it is accurately collecting royalties when it does not have data on the extent to which, for example, royalties or companies were subject to compliance activities. According to agency officials we interviewed, ONRR stopped tracking

these data when ONRR eliminated its coverage goals for fiscal year 2016. As a result, ONRR could be determining that it is meeting its current annual compliance goals but potentially doing so by examining a small percentage of royalties or companies. For example, ONRR may be able to achieve a 2 to 1 return on investment, but only conduct compliance activities on 10 percent of the approximately \$5 billion in royalties paid in calendar year 2017. This raises questions about the extent to which ONRR can provide reasonable assurance that its compliance program is assessing the accuracy of oil and gas royalty payments because it does not have a goal for, or data on, the amount of royalties subject to compliance activities.

Finally, because ONRR no longer has a coverage goal—which helps it assess the extent to which it has ensured the accuracy of royalty payments—it does not track the amount of royalties subject to its differing level of compliance activities. ONRR has established a compliance program with three activities—audits, compliance reviews, and data mining—each of which offers varying levels of assurance for determining the accuracy of royalty payments. However, the extent to which its compliance program allows ONRR to accurately determine and collect royalty payments is unclear because the agency does not track each compliance activity’s contribution toward a coverage goal. Interior’s OIG reported a similar finding in December 2006.⁴⁶ In its report, the OIG found that ONRR’s compliance goal for coverage of royalties was misleading because it weighed audits and compliance reviews equally, although the two compliance activities provided differing levels of assurance about whether royalties were accurately paid. The OIG recommended that ONRR should revise the compliance goal to account for each compliance activity separately. While ONRR did not concur with establishing a goal for each of the compliance activities, it agreed to internally track separate measures for them. According to ONRR documentation, the agency took steps to identify what amount of royalties was covered by audits or compliance reviews but did not report this information. When ONRR eliminated its coverage goals for fiscal year 2016, it no longer tracked information on the extent to which royalty payments were subject to its different levels of compliance activities. By establishing a coverage goal (e.g., identifying the number of companies or percentage of royalties subject to compliance activities over a set period of time) that aligns with

⁴⁶Department of the Interior, Office of Inspector General, *Minerals Management Service’s Compliance Review Process*.

the agency's mission and tracking the extent to which each of its compliance activities contributes toward this goal, ONRR would have greater assurance that its compliance program has the capability to accurately determine oil and gas royalties.

ONRR's Process to Select Compliance Cases Is Not Documented and May Not Align with Compliance Goals

ONRR's process to select compliance cases for audits and compliance reviews is not documented. Additionally, the agency does not have performance measures for determining whether its case selection process aligns with the agency's compliance goals. Finally, while ONRR has a risk model to assist in selecting compliance cases, it has not analyzed the effect the risk model has had on its selection process.

ONRR Does Not Have a Documented Case Selection Process for Audits and Compliance Reviews

ONRR does not have a documented case selection process with procedures for how to select cases. According to ONRR officials, ONRR's Work Planning Group reviews royalty information on federal oil and gas leases and selects leases from specific companies or properties to undergo either an audit or a compliance review.⁴⁷ These officials also stated that while the process for selecting cases for audits and compliance reviews differs, the agency has no written procedures for either compliance activity on how cases should be selected.

For audits, ONRR officials we interviewed told us that cases are generally selected based on research from ONRR's recently established Analytics and Risk Management group, which includes the relocated Work Planning Group and other offices that analyze particular aspects of the oil and gas industry, such as pricing. According to these officials, the work planners or analytics staff review a variety of royalty payment and oil and gas production information to identify trends and outliers that may indicate potential royalty noncompliance. The officials told us that they also consider other factors in their selection decisions, such as whether a

⁴⁷ ONRR officials told us that they have a documented selection process for cases to undergo data mining which is done separately by officials within the Compliance Management group. To select data mining cases, data mining officials generate a list of leases that are automatically flagged because of certain anomalies in the royalty data that the company submitted to ONRR. For example, a lease will be flagged if the company reports different volumes of oil and gas extracted to ONRR or BLM. The list of potential data mining cases is prioritized so that those cases on tribal land and those with the largest data anomalies are started first.

company was new—and therefore may be unfamiliar with how to correctly report royalties—or had undergone a change in ownership—which can lead to reporting errors. Additional factors that ONRR officials told us they considered were referrals by ONRR staff based on recently completed compliance activity on a specific company or property and the risk scores for the relevant companies and properties generated from the agency’s compliance risk model.⁴⁸

For compliance reviews, ONRR officials we interviewed told us that the Work Planning Group includes information from a Go/No-go analysis, which they said allows ONRR to make a decision early in the process to cost effectively decide whether to initiate a compliance review. According to ONRR officials, the use of the Go/No-go analysis began in fiscal year 2015 as means to better ensure that the compliance activities they select will identify a finding of royalty noncompliance.⁴⁹ According to the officials, the Work Planning Group then compares the list of companies and properties to other sources of information, such as the findings of recently completed work and ONRR’s royalty compliance risk model, to select cases based on the group’s professional judgment. Overall, ONRR officials we interviewed said that the Work Planning Group maintains a small pool of cases for either an audit or compliance review for when staff become available after completing other work.

ONRR officials said that as there was no requirement that they develop documented procedures for case selection, they rely on the experience and training of members of the Work Planning Group to review the available information and select cases based on requests from the Audit Management and Compliance Management groups. Under federal standards for internal control, management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity’s objectives, including the documentation of the internal

⁴⁸Other factors that ONRR officials considered included the amount of royalty reduction allowances that companies have claimed from either transportation or processing costs, the existence of an agreement between multiple companies for oil and gas extraction at a particular property, and referrals from other federal government agencies or states.

⁴⁹The Go/No-go analysis is built into ONRR’s OMT, and is calculated by identifying the average price for oil or gas produced from a property, then using that average price to calculate a value for the variance in price or production volume that ONRR has identified for a particular lease or leases. According to ONRR officials, if the value of the variance identified exceeds a certain threshold, then officials will decide to move forward with the compliance review. These officials also stated that ONRR management establishes the threshold each year.

control system. Documentation provides a means to retain organizational knowledge and mitigate the risk of consolidating that knowledge to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.⁵⁰ By developing a documented case selection process that includes procedures for how to select compliance cases, ONRR could better ensure that it retains the organizational knowledge needed to carry out the process effectively and can defend it to external parties.

ONRR Does Not Have Performance Measures for Determining Whether the Way Such Cases Are Selected Contributes to Overall Compliance Goals

ONRR does not have performance measures for determining the extent to which cases selected align with the agency's compliance goals. ONRR's Work Planning Group is responsible for selecting cases—that is, companies or properties—to undergo a compliance review or audit. As mentioned previously, ONRR's fiscal year 2017 goals for its compliance program are to achieve a specified return on investment and total amount of additional royalties collected from the cases it selects to undergo compliance activities. However, according to ONRR officials we interviewed, these goals are not considered when selecting cases. Rather, these officials told us that the Work Planning Group attempts to select cases for compliance activities that are the most likely to result in a finding of royalty noncompliance. A finding of noncompliance for a company can result from a variety of circumstances, such as reporting an incorrect volume of oil or gas sold or claiming allowances for transportation and processing costs above established limits. ONRR officials stated that the agency's IT system tracks whether a completed compliance case resulted in a finding, but the agency does not regularly assess the percentage of completed cases that produce findings.

Prior to 2015, ONRR had performance measures for determining the extent to which cases selected aligned with its compliance goals but stopped using these measures after it made changes to the goals. Prior to fiscal year 2010, for example, ONRR had a goal for conducting compliance activities on a certain percentage of royalties within 3 years from the date it received payment. To support this goal, ONRR sought to select companies with relatively high royalty dollar amounts. ONRR then assessed its performance toward achieving this goal by reviewing all completed audits and compliance reviews over a 3-year period and

⁵⁰GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

calculating the percentage of total royalties paid over this period from completed compliance cases. For example, in fiscal year 2008, ONRR reported that compliance cases covered 69 percent of royalties received in calendar year 2004.

However, as we noted previously, the 2006 OIG report found that the focus on coverage of royalties resulted in ONRR providing limited coverage of its universe of companies and properties.⁵¹ Additionally, ONRR officials we interviewed confirmed that selecting cases with higher royalty amounts to achieve the royalty coverage goal resulted in more limited coverage of companies because the goal directed ONRR toward repeatedly selecting many of the same large companies each year for compliance activities.

In response to the recommendations in the OIG's report as well as ONRR's own recognition of the reduced company coverage resulting from its selection of companies that pay high royalties, ONRR transitioned to a new performance measure for case selection along with a new compliance goal in fiscal year 2010. ONRR's new performance measure assessed the number of unique companies and properties for selected compliance activities. This new performance measure, according to ONRR officials, was driven by ONRR's new compliance goal for cumulatively covering a certain percentage of unique companies and properties over a 3-year period.

According to ONRR officials, after the company and property coverage goal was in place for approximately 5 years, officials determined that this goal and corresponding performance measure was driving the compliance case selection process to select too many companies and properties with smaller royalty payments, which they deemed an inefficient use of limited compliance resources. As a result, ONRR officials told us that the agency decided to change its compliance goal in fiscal year 2015 to focus on return on investment and total additional dollars collected. However, ONRR did not establish a corresponding performance measure for its compliance case selection process that would determine the extent to which cases selected contributed to ONRR's compliance goals.

⁵¹Department of the Interior, Office of Inspector General, *Minerals Management Service's Compliance Review Process*.

As stated previously, we have reported that the requirements in GPRA and GRPAMA for establishing performance metrics serve as leading practices for divisions, programs, and initiatives. Performance measures help agencies make resource decisions, provide managers information on which to base their organizational and management decisions, and create powerful incentives to influence organizational and individual behavior. Furthermore, successful performance measures are aligned with division and agency-wide goals and missions. According to ONRR officials we interviewed, they have not established performance measures for determining whether the way such cases are selected aligns with the agency's compliance goals because there is no specific requirement to do so. By developing performance measures (e.g., establishing a specified percentage of compliance cases that identify findings of royalty noncompliance or total additional royalties) that assess whether the agency is selecting cases that are helping it achieve its compliance goals, ONRR would be able to better monitor its performance in achieving its goals and whether changes to its selection process affect its performance.

ONRR Has Not Analyzed the Effectiveness of Its Risk Model on Case Selection

ONRR has developed a model that assesses the risk of noncompliance for companies and properties. Officials from the Work Planning Group use this model to inform their compliance case selections. However, it is unclear whether use of the model has improved case selection because ONRR has not analyzed the model's effect on such selections.

ONRR began a pilot program in 2006 to analyze the risk factors for royalty noncompliance, which included developing a quantitative risk model. In December 2006, Interior's OIG recommended that ONRR consider additional factors that may indicate a risk of noncompliant royalty payments when making case selection decisions. In addition to the factors that ONRR was using to select cases to help achieve its compliance goals, such as cases with high royalty dollars, the OIG recommended that ONRR incorporate other risk factors, including companies or properties having a history of underreported royalties and falsely reported information to other federal agencies, such as the Environmental Protection Agency. In December 2007, Interior's Subcommittee on Royalty Management reiterated the importance of using a risk-based process for compliance and made a number of related

recommendations to ONRR.⁵² Among these were that ONRR should fully implement the quantitative model it was developing as part of its pilot program. Additionally, the subcommittee recommended that ONRR evaluate its risk model's performance and then establish a process to continually validate and update the model to ensure that it remains effective.

In response to these recommendations, ONRR worked with a contractor from 2006 through 2012 to develop an initial risk model. This model evaluated the risk of royalty noncompliance for each lease based on four characteristics: the type of lease, the specific location of the lease, the region of the country the lease was in, and the type of commodity extracted. The model looked at a number of indicators of risk, which were grouped into four overall risk drivers: complexity of the oil and gas market, complexity of regulations, commodity-specific practices, and transparency of the market. According to officials from the Work Planning Group we interviewed, they used the risk scores generated from this model to help inform the list of compliance cases to be reviewed the following year. These officials told us that they stopped using the scores from this model around 2012 for two reasons. First, the model allowed for the scores to be manually weighted based on the judgment of those selecting the compliance cases, and this weighting process was believed to have eventually hurt the accuracy of the risk scores. Second, agency officials determined that the risk scores the model was producing did not correlate closely with cases resulting in significant findings.

In 2013, ONRR tasked a different contractor with developing a new set of risk models.⁵³ According to an initial development document, ONRR requested separate risk models for companies and properties that would determine the propensity for a company to submit an incorrect royalty payment using historical royalty compliance data that ONRR and third-party sources provided.⁵⁴ The contractor produced two risk models, one that assigned a risk score to companies and one to properties. The risk

⁵²Department of the Interior, Royalty Policy Committee, Subcommittee on Royalty Management, *Report to the Royalty Policy Committee: Mineral Revenue Collection from Federal and Indian Lands and the Outer Continental Shelf*.

⁵³The contractor selected for this work was already developing the OMT database and case management system. ONRR requested that the new risk models be integrated into OMT.

⁵⁴Department of the Interior, *MRMSS Upgrade Project: Create Risk Model Use Case Document* (Washington, D.C.: May 31, 2013).

scores—which ranged from 0 to 100—attempted to quantify the risk of royalty noncompliance. The initial models were completed in 2014, and ONRR began including the risk scores from these models in the data that the Work Planning Group reviewed during the case selection process. Documents from the contractor show that the models then went through an initial validation process using the results of cases that the contractor selected when the models were instituted in 2014 and completed cases from 2012 onward.

According to documents summarizing the contractor’s efforts, the validation showed a correlation between higher risk scores on the company model and cases that resulted in findings and additional royalty revenues. However, the contractor reported that higher risk scores on the property model did not correlate with either findings or additional royalty revenues. The documents we reviewed also included a number of recommendations to ONRR to improve its risk modeling, including adding third-party and commercial data sources, adding data sources from within ONRR and other oil and gas bureaus within Interior, and attempting to redefine property risk and building a new property risk model. However, according to officials we interviewed, they have not yet acted on any of these recommendations. ONRR requested that the contractor update the models with data from recent royalty reporting and completed compliance cases, which it did in both 2015 and 2018 but does not do either regularly or periodically.

According to ONRR officials, the Work Planning Group currently considers the risk scores based on the company model when selecting cases but does not consider the risk scores based on the property model, as the group considers those scores less reliable. ONRR officials told us that they do not believe that their current risk approach is entirely effective and are considering having staff from the Analytics and Risk Management group develop a risk model for the agency. To date, ONRR has not analyzed how the use of the risk scores has affected case selection or findings of royalty noncompliance and is therefore unable to identify whether its risk model is effective. As a result, the agency does not have sufficient information to make a decision on whether to continue using the model as it exists today, consider potential improvements, or discontinue the model in favor of another approach.

Federal standards for internal control state that management should design control activities to achieve objectives and respond to risks, such as by comparing actual performance to planned or expected results and analyzing significant differences. By periodically analyzing whether the

risk model is effectively identifying potential royalty noncompliance and whether the model's results are being effectively used to assist in case selection, and making changes to the model (e.g., updating it) or developing a new model based on this analysis, ONRR would be better able to determine how to proceed with using risk analysis to inform its case selections.

STRAC Members Reported They Are Satisfied with ONRR Coordination but Do Not Have Documented Processes, and Compliance Activities in Their Work Plans Do Not Align with ONRR Goals

STRAC Officials Expressed Satisfaction with ONRR's Coordination on Royalty Compliance

STRAC officials we interviewed from the nine member states that had agreements with ONRR for conducting royalty compliance generally expressed satisfaction with ONRR's coordination of compliance activities, including both the frequency of interaction as well as support for budget and training.

STRAC officials from all nine member states generally expressed satisfaction with the frequency of interaction between STRAC and ONRR. STRAC officials stated that this interaction occurred primarily through three mechanisms. First, ONRR and STRAC hold semiannual in-person meetings. At these meetings, STRAC officials said that attendees discuss a range of topics. For example, at the March 2018 STRAC meeting in Sacramento, California, which we attended, there were two training sessions as well as a session on updates to ONRR's IT systems. Second, ONRR and STRAC hold quarterly teleconferences. These teleconferences, according to STRAC officials, are opportunities for both ONRR and STRAC to highlight any significant or systematic issues that they may be identifying in their compliance activities. Third, ONRR

assigned agency points of contact to each STRAC member state for technical questions. The STRAC officials stated that ONRR has been responsive when they have reached out with questions or concerns. Overall, STRAC officials from seven of the nine member states said that coordination with ONRR had improved over the past approximately 10 years. STRAC officials from two of the member states attributed this improvement to ONRR leadership's concerted effort to work more effectively with STRAC.

Additionally, STRAC officials from the majority of member states generally expressed satisfaction with the support ONRR has provided STRAC member states with respect to resources and training. STRAC officials from seven of nine member states told us that the current contracted budget was sufficient to conduct oversight of their states' federal oil and gas royalties. STRAC officials from two member states stated that the budget was insufficient. One official stated that the budget did not allow the state to review all of the federal properties for which it was responsible. The officials from the other state indicated that a larger budget would allow the state to hire additional auditors. According to these officials, additional auditors could help the state conduct compliance activities on more royalty payors and in particular small royalty payors that may not be as familiar with the requirements for federal royalty payments.

STRAC officials from several member states said that the flat budget that ONRR provided over the past several years may lead to changes in their federal royalty compliance activities. For example, one official stated that without additional funding in the future, the state may have to move more experienced and higher paid auditors to state royalty compliance activities, thus leaving less experienced and lower paid auditors to conduct federal royalty compliance activities. Another official stated that the state had offered less training and reduced the amount of funds for travel to address potential budget shortfalls. Additionally, another official stated that flat budgets could make it difficult to offer staff merit pay increases.

Finally, officials from seven of the nine STRAC member states said ONRR provided sufficient training on policies, procedures, and IT systems used to conduct compliance activities on federal oil and gas royalties. A STRAC official from one member state said that ONRR's training had improved recently, while another official said that support had

improved. However, STRAC officials from three member states expressed uncertainty about ONRR's training for companies.⁵⁵ These officials stated that they would like to understand the content of the training so they would better understand how ONRR is training companies to report royalties.

STRAC Members' Processes for Selecting Compliance Cases Are Not Documented

None of the nine STRAC member states had documented case selection processes. Specifically, officials from all nine STRAC member states we interviewed said that either they did not have, or were unable to provide, documented procedures for the processes they used to select federal oil and gas compliance cases. Rather, STRAC officials stated that they relied on a variety of factors to select cases for compliance reviews. Staff expertise about companies and properties was the factor that all nine STRAC officials identified as key for case selection. For example, one official stated that she had over 10 years of experience and therefore knew what companies or properties to review. Another official stated that because staff also work on state tax audits, they can use knowledge from that work to help identify compliance cases. Another factor officials identified as assisting in the case selection process was ONRR's company and property risk scores, though they were given varying degrees of consideration. Other factors officials identified included referrals from BLM or ONRR, and risk scores generated from their own models.

Under federal standards for internal control, management should establish an organization structure, assign responsibility, and delegate authority to achieve the entity's objectives, including the documentation of the internal control system. Documentation provides a means to retain organizational knowledge and mitigate the risk of consolidating that knowledge to a few personnel, as well as a means to communicate that knowledge as needed to external parties, such as external auditors.⁵⁶ Because STRAC members do not have a documented process, ONRR cannot, for example, assess whether STRAC members are selecting compliance cases in a manner that aligns with ONRR's compliance goals or that future STRAC members will know how to select compliance cases. In the agreements between the nine STRAC members and ONRR, the

⁵⁵ONRR officials stated that it provides both royalty and production reporting training to interested companies, on a semiregular basis, although such training is not required.

⁵⁶[GAO-14-704G](#).

agency includes terms and conditions that the members agree to, but ONRR does not require STRAC members to have documented procedures for compliance case selection. By including in ONRR's future agreements with STRAC members requirements to develop a documented case selection process, including procedures for how to select compliance cases and how to document which factors were considered in selection decisions, ONRR could better assess whether members select cases that align with the agency's compliance goals.

STRAC Compliance Activities Described in Work Plans Do Not Align with ONRR Goals

We reviewed STRAC members' annual work plans to determine whether the compliance activities discussed aligned with ONRR compliance goals. STRAC member agreements from eight of the nine STRAC members included language that the "state will contribute to ONRR's GPRA goals and thereby the performance goals of this Agreement by performing audits, compliance reviews and other investigations in coordination with ONRR. The yearly performance goals are listed on the state's annual work plan."⁵⁷ However, when we reviewed the STRAC members' corresponding annual work plans, we found no information on how the members' compliance activities contributed to ONRR's goals. For example, several of the STRAC members' work plans included information on the leases and properties selected for compliance activities but did not include information on how those selections would contribute to ONRR's compliance goals.

In addition, the majority of STRAC officials from member states said they did not consider ONRR's compliance goals for return on investment or total additional royalty collections when selecting compliance cases. When we asked STRAC members about their goals, three of nine STRAC member states noted that they had compliance program goals. For example, one STRAC member's goal was to "maximize revenue to the state" and "implement on behalf of ONRR and the state, a constantly improving and efficient royalty audit program." Another member's goal was to "protect the US Citizens' Federal Mineral Interest within the boundaries of the state by ensuring that a fair value, as established by the federal regulations, is received." Officials from the other six STRAC members told us that their states do not have goals for federal oil and gas royalty compliance activities because ONRR does not require that they do

⁵⁷The agreements with the nine STRAC members were in effect for different time periods but generally included 2016 through 2019.

so. For STRAC members that did not have compliance goals, officials provided examples of informal goals—or goals that were not documented. For example, one STRAC official reported that the state’s goal was to try to audit 50 percent of royalties paid to the state every 2 years. Another STRAC official stated the state tries to review major market areas in the state once every 7 years. When we compared STRAC officials’ responses on their goals to ONRR’s broader compliance goals for return on investment and total additional royalty collections, we found that the majority of states’ compliance goals did not align with ONRR’s goals.

Federal standards for internal control state that management should define objectives clearly to enable the identification of risk and define risk tolerances, such as by defining objectives in alignment with the organization’s mission, strategic plan, and performance goals.⁵⁸ In requiring eight of the nine STRAC members to conduct compliance activities consistent with the agency’s compliance goals, ONRR was following these standards. However, ONRR approved the STRAC members’ work plans, although those work plans did not specify how the described members’ compliance activities would contribute to ONRR’s goals as the agency stated they would in the agreements between the seven of the nine STRAC members and ONRR. By requiring STRAC members to describe in their annual work plans how their compliance activities would align with ONRR’s current compliance goals, ONRR would have better assurance that activities were aligned with its compliance goals.

Finally, ONRR does not track STRAC member states’ contributions against its annual compliance goals. ONRR has the data available to track these contributions because the results of STRAC members’ compliance activities are retained in ONRR’s IT system. For example, we obtained reports on the aggregate overall return on investment of STRAC members and reviewed individual data entries from STRAC members’ work that included a data field for revenue collections. According to regulations, if a state accepts delegated authority, it is to assist ONRR in meeting the requirements of GPRA as well as in developing and endeavoring to comply with ONRR’s Strategic Plan and Performance Measurements.⁵⁹ Because ONRR does not track STRAC member states’ contributions toward its annual compliance goals, the agency has limited

⁵⁸[GAO-14-704G](#).

⁵⁹30 C.F.R. § 1227.200.

information for assessing whether the funding they are providing to STRAC members is achieving its goals. ONRR officials we interviewed stated that they do not track states' contributions to ONRR's overall compliance goals as there is no requirement to do so. However, by tracking the performance of each state and its contribution toward ONRR's compliance goals, ONRR could better assess the effectiveness of states' performance in supporting the agency's mission of ensuring accurate royalty payments.

Conclusions

ONRR is taking steps intended to improve its royalty compliance program and better verify that all royalties paid on the sale of oil and gas extracted from leased federal lands are accurate. These steps include reorganizing the management structure of its compliance program, implementing new systems for managing compliance cases electronically, and instituting a training curriculum for newly hired auditors. However, although ONRR reported generally meeting its compliance goals for fiscal years 2010 through 2017, its current goals may not align with the agency's mission or other statutory requirements. For example, ONRR's fiscal year 2017 compliance goals do not sufficiently address its mission to collect, account for, and verify revenues, in part, because its goals do not address accuracy, such as through a coverage goal. Establishing a coverage goal (e.g., identifying the number of companies or percentage of royalties subject to compliance activities over a set period) that aligns with the agency's mission, and tracking the extent to which each of its compliance activities contributes to this goal, would provide ONRR more reasonable assurance that its compliance program is assessing the extent to which oil and gas royalty payments are accurate. Furthermore, ONRR's audits, compliance reviews, and data mining efforts each provide a different level of assurance that royalties are accurately paid, but the agency does not measure how each of the compliance activities contributes to the FOGRMA requirement to establish a system with the capability to accurately determine and collect royalties in a timely manner. By tracking the extent to which each of its compliance activities contributed to any future coverage goal, ONRR would have greater assurance that its compliance program has the capability to accurately determine oil and gas royalties.

In addition, ONRR's compliance program relies on its Work Planning Group, which is responsible for reviewing information on companies and properties to select cases for audits or compliance reviews. The Work Planning Group, however, does not have a documented case selection process. By developing a documented case selection process that

includes procedures for how to select compliance cases, ONRR could better ensure that it retains the organizational knowledge needed to effectively select compliance cases and defend the process in external reviews. In addition, ONRR does not have performance measures to determine the extent to which cases selected align with ONRR's compliance goals. By developing performance measures (e.g., establishing a specified percentage of compliance cases that identify findings of royalty noncompliance or total additional royalties) that assess whether the agency is selecting cases that are helping it achieve its compliance goals, ONRR would be able to better monitor its performance in achieving its goals and whether changes to its selection process affect performance.

Moreover, since 2006, ONRR has worked to develop a model to assess the risk of royalty noncompliance for use in its compliance case selection process. After several iterations with two contractors, ONRR began using the risk scores from its model to assist with case selection in 2014. However, according to ONRR officials, the agency is considering discontinuing the use of its current model in favor of one that is internally developed. ONRR has not analyzed how the use of the risk scores has affected case selection or findings of royalty noncompliance and is therefore unable to identify whether its risk model is effective. By periodically analyzing whether the risk model is effectively identifying potential royalty noncompliance and whether the model's results are being effectively used to assist in case selection and making changes to the model (e.g., updating it) or developing a new model based on this analysis, ONRR would be better able to determine how to proceed with using risk analysis to inform its case selections.

Furthermore, none of the nine STRAC members had documented case selection processes. In the agreements between the nine STRAC members and ONRR, the agency includes terms and conditions that the members agree to, but ONRR does not require STRAC members to have documented procedures for compliance case selection. By including requirements in ONRR's agreements with STRAC members to develop a documented case selection process, including procedures for how to select compliance cases and how to document which factors were considered in selection decisions, ONRR could better assess whether members select cases that align with the agency's compliance goals. Additionally, ONRR does not require that STRAC members specify how their compliance activities included in annual work plans contribute to ONRR's compliance goals, although those goals appear on the work plans. ONRR approved the work plans but did not specify how the

members' compliance activities would contribute to its goals as the agency stated they would in the agreements between eight of the nine STRAC members and ONRR. By requiring STRAC members to describe in their annual work plans how their compliance activities would align with ONRR's current compliance goals, the agency would have better assurance that activities were aligned with its performance goals. Lastly, ONRR does not track STRAC members' contributions toward its annual compliance goals though it has the data to do so. By tracking the performance of each state and its contribution toward ONRR's compliance goals, ONRR could better assess the effectiveness of states' performance in supporting its mission of ensuring accurately royalty payments.

Recommendations for Executive Action

We are making a total of seven recommendations to ONRR. Specifically:

- The Director of ONRR should establish an accuracy goal (e.g., identifying the number of companies or percentage of royalties subject to compliance activities over a set period of time) that aligns with the agency's mission of collecting, accounting for, and verifying royalty payments. In doing so, ONRR should track the extent to which each compliance activity (audits, compliance reviews, and data mining) contributes toward achieving this goal. (Recommendation 1)
- The Director of ONRR should develop a documented case selection process that includes procedures for how to select all compliance cases. (Recommendation 2)
- The Director of ONRR should develop performance measures (e.g., having a specified percentage of compliance cases identify findings of royalty noncompliance or total additional royalties) that assess whether the cases the agency is selecting are helping it achieve its compliance goals. (Recommendation 3)
- The Director of ONRR should periodically analyze whether the risk model is effectively identifying potential royalty noncompliance and whether the model's results are being effectively used to assist in case selection, and should use this analysis to make changes to the model (e.g., updating it) or develop a new model. (Recommendation 4)
- The Director of ONRR should include requirements in ONRR's agreements with STRAC members to develop a documented case selection process, including procedures for how to select compliance cases and how to document which factors were considered in selection decisions. (Recommendation 5)

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- The Director of ONRR should require STRAC members to describe in their annual work plans how their compliance activities would align with ONRR's current compliance goals. (Recommendation 6)
 - The Director of ONRR should track the performance of the compliance work of each state STRAC member and the contribution that each state makes to ONRR's compliance goals. (Recommendation 7)

Agency Comments

We provided a draft of this report to Interior for review and comment. Interior concurred with all seven recommendations. Agency comments are reproduced in appendix III.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the appropriate congressional committees, the Secretary of the Interior, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3841 or ruscof@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff members who made major contributions to this report are listed in appendix IV.



Frank Rusco
Director, Natural Resources and Environment

Appendix I: Status of Royalty Policy Committee's Subcommittee on Royalty Management

We reviewed and summarized recommendation closure documentation that the Department of the Interior (Interior) provided for royalty compliance recommendations made to the department by the Royalty Policy Committee's Subcommittee on Royalty Management in 2007 and Interior's Office of Inspector General (OIG) in 2006.¹ For the subcommittee recommendations, Interior officials told us that the subcommittee did not assess the implementation of its recommendations. As a result, we present information that Interior provided on its decision about the status of the recommendations and a summary of actions taken. (See table 3.) For the OIG recommendations, we present the status of recommendations according to the OIG and a summary of the actions according to Interior. (See table 4.) We did not independently assess the implementation of the recommendations.

Table 3: Status of the Subcommittee on Royalty Management's Recommendations per Interior

Recommendation	Description	Status per Interior	Actions per Interior documentation
4.1	ONRR should establish a Compliance Strategy Council to identify an ONRR-wide compliance strategy. The council should be established by June 2008. Membership of the council should include senior ONRR compliance managers. Outside membership, such as senior Internal Revenue Service (IRS) staff experienced in risk-based compliance processes, should also be considered.	Completed	ONRR met with IRS and states/tribes and established the Compliance Strategy Council, with a charter signed on March 4, 2009. The council had multiple responsibilities, including (1) determining the allocation of resources to ensure the most efficient cost-benefit ratio to the government, (2) approving the overall ONRR strategic priorities to ensure compliance across the federal and Indian mineral lease universe, and (3) establishing performance guidelines and measures to govern overall compliance strategy.
4.2	ONRR should systematically review staffing and budgetary needs required to implement the August 2007 consultant's report on compliance strategies. ONRR should prepare a plan for tracking costs and benefits by audit/review type and by compliance office.	Completed	ONRR calculated the staff needs for each compliance office by the different types of audits and compliance reviews. Documentation states that ONRR will do this annually to ensure adequate resources are available to implement the risk-based compliance process.

¹In 2010, Interior underwent a reorganization. As part of this reorganization, Interior eliminated the Minerals Management Service and created the Office of Natural Resources Revenue (ONRR), ultimately along with two other bureaus that oversee offshore oil and gas activities. Specifically, ONRR was created on October 1, 2010. ONRR programs effectively represent those activities covered by the Minerals Revenue Management program, which formerly existed within the Minerals Management Service. For the purposes of this report, we refer to the office responsible for this program as ONRR.

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Recommendation	Description	Status per Interior	Actions per Interior documentation
4.3	ONRR should systematically review the allocation of compliance resources across states and tribes. This review should include an examination of the staffing and budgets for other Federal agencies engaged in similar activities.	Completed	<p>ONRR applied a "business case" for objectively sizing the 202/205 grant program. ONRR reduced its overall staffing by improving efficiency while increasing 202/205 funding. ONRR will use benchmarks, including annual mineral revenues, number of producing leases, and number of strategy properties.</p> <p>Going forward, contracts will contain performance requirements for quantitative measures similar to those in ONRR's Government Performance and Results Act (GPRA) measures, which relate to conducting sufficient audit and compliance review work to ensure "reasonable compliance" for specified percentages of the revenues.</p>
4.4	ONRR should commit to an ongoing effort to evaluate the relative benefits and costs associated with different compliance tools. This effort should include appropriate investments in data gathering and analysis. As a starting point, ONRR should evaluate the results from the audit and compliance program cost-benefit study and implement its recommendations as appropriate. During the next fiscal year, ONRR should develop a plan to ensure that the appropriate compliance data will be collected and analyzed on an ongoing basis to assist in ensuring that the best mix of compliance tools is being applied. ONRR should consider consulting with Interior's Inspector General and GAO regarding the sufficiency of these plans.	Completed	<p>ONRR created the Workload Analysis Tool (WAT), which creates a single information technology (IT) solution for all of the compliance organizations to use. The WAT is a set of analysis tools that will allow managers to create a preliminary work plan using risk scores, resource availability, estimated completion times, thresholds, and historical activity.</p> <p>ONRR then plans to create an automated compliance system that includes the risk-based automated compliance tool, workload analysis tool, consolidated work planning process, workload assignment tool, electronic work papers, compliance information management tracking tool, and compliance performance tracking tool.</p>

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Recommendation	Description	Status per Interior	Actions per Interior documentation
4.5	ONRR should assess the use of more targeted audits/reviews that focus on high-risk issues and determine the extent to which a more flexible approach to audits is feasible (along the lines of the IRS model). In particular, the IRS employs a suite of enforcement approaches ranging from compliance checks to limited- or full-scope field audits.	Completed	Interior compared its program with that of IRS and found that they each employed many of the same strategies (e.g., up-front edit checks, limited-scope vs. full-scope reviews). ONRR stated that with its new tools, it identifies high-risk payors and properties and then conducts a cost-benefit analysis to determine the most efficient tool in its suite (full-scope/limited-issue audit or full-scope/limited compliance review). Additionally, all federal and Indian oil and gas and coal payors and properties received a risk rating through the risk model for fiscal year 2009. Additionally, there are procedures in place to annually review the risk model for any refinements (risk strategy procedures effective March 1, 2008, sent via email to employees).
4.6	ONRR should initiate a pilot test of a royalty noncompliance "whistleblower" program, similar to the program administered by the IRS, as authorized under Section 7623 of the Internal Revenue Code. A short-term step could be setting up a hot line, and posting signs at Federal and Indian facilities listing a telephone number for reporting theft of Federal minerals to ONRR. A longer-term effort would require authorization by Congress and could permit ONRR to pay a reward from additional noninterest royalties collected. The reward would be a portion of the additional revenues collected as a result of receiving information leading to the identification of Federal or Indian mineral royalty non-compliance.	Completed	ONRR did not establish a hotline, in part, because of the existence of a well-established effective hotline operated by Interior's Office of Inspector General (OIG). The Bureau of Land Management (BLM) and ONRR will strategically place notices that include the existing OIG hotline contact information at certain federal and Indian facilities.
4.7	ONRR should evaluate the extent to which additional flexibility with accounting standards and requirements might reduce costs without compromising the integrity of the compliance process. ONRR should consult with the IRS in this evaluation.	Completed	ONRR (1) asked an external peer review accounting firm about utility of Government Accounting Standards (GAS), (2) examined IRS standards, and (3) solicited feedback from states and tribes. ONRR determined that use of GAS was appropriate.
4.8	ONRR should require electronic submission of all relevant information.	Nonconcur – not fully implemented	ONRR did not fully implement this recommendation because of existing adequate internal controls and compliance with a recent GAO recommendation to obtain third-party documents, among other reasons.

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Recommendation	Description	Status per Interior	Actions per Interior documentation
4.9	ONRR should complete its risk-based compliance pilot project and develop a plan for implementing a risk-based compliance strategy on an ONRR-wide basis, using an incremental approach to ensure that essential data and related management information systems are validated and ready for wider application. The first phase of this effort should be completed by the end of fiscal year 2008 and should address the offshore program.	Completed	ONRR states the fiscal year 2009 work plan is based primarily on the results of the risk model. Risk model results were generated ONRR-wide in April 2008, and Compliance Asset Management (CAM) began developing the fiscal year 2009 work plan with the results. ONRR also developed a Request for Information on December 31 2009, for the Operations Management Tool (OMT).
4.10	ONRR should enhance its tracking system to include the following information for every audit and compliance review: identification of the company/property/location; who performed work (staff, office, etc.); the type of work that was done (type of audit/review, information collected, reviewed, analyzed, etc.); why the work was initiated (mandate, risk factors, random sample, etc.); results (royalties recovered, penalties, etc.); and time and resources spent.	Completed	With the assistance of a contractor, ONRR completed a systems procurement document to create a single, consolidated tracking system—OMT. OMT will consist of the following: Dashboard Module, Work Planning Module, Electronic Work Paper Module, Reports and Queries Module, Risk Assessment Module, Assignment Module, and Compliance Program Tool.
4.11	ONRR should keep GAO and Interior's OIG informed on the progress of the pilot project and resultant proposals.	Completed	ONRR transitioned from a revenue-based compliance strategy to a risk-based strategy based in part on recommendations from the OIG and the subcommittee). It sent information to both the OIG and GAO.
4.12	The RPC should continue to monitor the pilot, resultant proposals, implementation of improvements, and impacts on the compliance program.	Completed	ONRR briefed RPC on the pilot, resultant proposals, implementation of improvements, and impacts on the compliance program.
4.13	ONRR should develop a new set of Government Performance and Results Act goals and measures based on the recently completed analysis of the benefits and costs of different compliance tools and the risk-based compliance process pilot (a risk-based pilot is scheduled for completion in February 2008). ONRR should establish final goals and measures by the end of February 2008.	Completed	CAM developed new measures around the number of unique properties and companies reviewed for compliance. Final goals were approved by the Office of Management and Budget and implemented with the ONRR fiscal year 2009 Audit and Compliance Work Plan.

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Recommendation	Description	Status per Interior	Actions per Interior documentation
4.14	ONRR should automate the data entry process for all compliance management information systems and establish a schedule for completing this effort, with a completion date of not later than June 2009. This will keep data current, improve data quality and consistency, and improve the reliability of the information used in decision-making and performance tracking and evaluation.	Completed	ONRR stated that this related to improving its current tracking system, ONRR, with the assistance of a contractor, completed the system requirements document that identifies the changes/enhancements necessary to upgrade its current tracking system. This is part of the OMT initiative.
4.15	ONRR should evaluate the performance measures used by other entities. In particular, ONRR should review the IRS "Balanced Measures" performance system.	Completed	ONRR held a teleconference with IRS to discuss balanced performance measures.
4.16	ONRR should place a high priority on improving the processes and procedures associated with calculating interest on royalty payments. These issues should be addressed as soon as possible.	Completed	ONRR emphasized the importance of eliminating the backlog. As result of ONRR initiatives, as of September 10, 2007, 90 percent of the bill backlog had been eliminated, and ONRR expected to eliminate the backlog completely by September 2007.
4.17	ONRR should eliminate duplicate data by consolidating several databases, including databases for CIM and PTT, and GPRA.	Completed	ONRR, with the assistance of a contractor, completed the system requirements document that identifies the changes/enhancements necessary to upgrade its current tracking system. This is part of the OMT initiative.
4.18	ONRR should implement automatic updates by integrating the Compliance Information Management System (CIM) and the Performance Tracking Tool information system (PTT) rather than depending on manual data entry.	Completed	ONRR, with the assistance of a contractor, completed the system requirements document that identifies the changes/enhancements necessary to upgrade its current tracking system. This is part of the OMT initiative.
4.19	ONRR should define and use consistent procedures for all compliance reviews.	Completed	ONRR revised and implemented its compliance review manual.
4.20	ONRR should consult with the Inspector General on the draft procedures in the updated manuals.	Completed	ONRR completed the final draft of the compliance manual and provided it to the OIG for review and comment.
4.21	ONRR should require electronic submission of all offshore run tickets for input to Liquid Verification System (LVS) and Gas Verification System (GVS).	Completed	ONRR established a new GVS internal control process.

**Appendix I: Status of Royalty Policy
Committee's Subcommittee on Royalty
Management**

Recommendation	Description	Status per Interior	Actions per Interior documentation
4.22	BLM should evaluate implementing equivalent systems onshore for electronic submission of run tickets. BLM can accept electronic run tickets now, but the many small operators onshore may render a requirement for electronic submission impractical. Adapting LVS and GVS to onshore production may supplement existing systems.	Completed	BLM evaluated the systems and made recommendations tailored to the onshore production environment.
4.23	BLM should integrate business process improvements and information management planning via improved coordination with ONRR.	Completed	BLM and ONRR established the Production Coordination Committee, which then established the Enterprise Architecture Working Group.
4.26	By the end of fiscal year 2008, ONRR should publish proposed revisions to the gas valuation regulations and guidelines to address the cost-bundling issue and to facilitate the calculation of gas transportation and gas processing deductions. ONRR should consider incorporating into the proposed revisions the use of market indices for gas valuation in the context of non-arm's length transactions in lieu of the benchmarks that have been employed since 1988.	Completed	In July 2016, ONRR issued the Valuation Rule, amending, among others, the regulations for oil and gas valuation from onshore and offshore federal leases. Lawsuits challenging that Valuation Rule were filed before its provisions went into effect. In February 2017, ONRR issued a notice postponing the effective date of the Valuation Rule pending resolution of that litigation. However, before that resolution, in August 2017 ONRR issued a final rule repealing the Valuation Rule in its entirety and reinstating the prior valuation regulations. Then, in March 2019, in litigation challenging that repeal, the U.S. District Court for the Northern District of California vacated the repeal rule. There may be further litigation in this area.

Legend: Interior = Department of the Interior; ONRR = Office of Natural Resources Revenue.

Source: GAO summary of Interior's recommendation closure documentation. | GAO-19-410

Note: Department of the Interior, Royalty Policy Committee, Subcommittee on Royalty Management, Report to the Royalty Policy Committee: Mineral Revenue Collection from Federal and Indian Lands and the Outer Continental Shelf (Washington, D.C.: Dec. 17, 2007).

**Appendix I: Status of Royalty Policy
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Table 4: Status of Interior's Office of Inspector General Recommendations per ONRR

Recommendation	Description	Status per OIG	Actions per ONRR documentation
1	Develop and implement a plan to provide reliable data for managing and reporting on Compliance Asset Management (CAM) program operations	Completed	ONRR developed and completed an action plan with policies for consistency in data entry and maintenance. This guidance was communicated to employees via a memorandum.
1a	Plan should include addressing the data reliability issues in the Compliance Information Management system (CIM), Government Performance and Results Act (GPRA) databases, Liquid Verification System (LVS), and Gas Verification System (GVS)	Completed	A memorandum was issued September 25, 2007, providing employees with guidance on improving data reliability in LVS and GVS.
1b	Plan should include consolidating systems, where appropriate	Completed	This portion of the recommendation was not directly addressed in the recommendation closure documentation that Interior provided.
2	Strengthen the compliance review process by:	Completed	—
2a	Including additional procedures to provide greater assurance concerning the reasonableness of the following:	Completed	ONRR issued changes to its Compliance Review and Audit Manuals, but these were not included in the recommendation closure documentation because of confidentiality issues. It is unclear if these changes directly addressed source documentation.
2aii	Volumes, by requesting actual source documents for at least one test month, or using inspection and enforcement data or production data from LVS and GVS	Completed	ONRR issued changes to its Compliance Review and Audit Manual, but these were not included in the recommendation closure documentation because of confidentiality issues. It is unclear if these changes directly addressed source documentation.
2aiii	Allowances by requesting actual source documents for at least one test month, or using online sources (such as TariffMaster, the Federal Energy Regulatory Commission, and PI Grid) or compiling historical trends	Completed	ONRR issued changes to its Compliance Review and Audit Manual, but these were not included in the recommendation closure documentation because of confidentiality issues. It is unclear if these changes directly addressed source documentation.
2b	Documenting the rationale for determining thresholds for pursuing potential underpayments	Completed	ONRR developed an Issue Identification Sheet that required employees to provide a reason for recommending a specific case. These were provided to staff to begin using on April 1, 2008.
2c	Developing additional guidance for audit referrals and by tracking referral actions	Completed	ONRR stated that it issued several changes to its compliance manual, but it is unclear if any changes specifically addressed this issue.

**Appendix I: Status of Royalty Policy
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Recommendation	Description	Status per OIG	Actions per ONRR documentation
2d	Notifying companies undergoing compliance reviews to give greater visibility of the CAM program and to deter them from inaccurately reporting royalties	Completed	ONRR established and implemented new procedures for providing annual notification to companies that may be included in planned compliance reviews.
2e	Improving adherence to quality control procedures	Completed	ONRR stated that it completed an Alternative Internal Control Review, but it is unclear if this specifically relates to the issue of quality control.
2f	Using risk-based criteria for selecting companies for CAM program coverage	Completed	ONRR developed a risk-based compliance approach using expert contractors. The contractors delivered a risk-based compliance tool, which was deployed on March 1, 2008.
2g	Ensuring that state and tribal auditors have access to all necessary compliance review tools, including the Compliance Program Tool	Completed	ONRR ensured that state and tribal auditors have access to necessary compliance review tools and provided training at 10 locations.
3	Revise performance measures to better reflect CAM program operations; specifically, ONRR should:	Completed	—
3a	Eliminate the compliance index performance measures	Completed	ONRR requested and received approval from Interior and the Office of Management and Budget to discontinue reporting the compliance index performance measure.
3b	Separate the compliance coverage measure for audits, compliance reviews, and royalty in-kind compliance activity	Completed	ONRR developed procedures in the Performance Tracking Tool to record compliance revenue coverage by these three categories. This change was shared with staff and implemented on October 1, 2007.
3c	Develop separate performance measures for companies and properties subject to compliance coverage	Completed	ONRR developed two separate performance measures, one for companies and one for properties.
3d	Develop performance measures to monitor the efficiency of audits and compliance reviews	Completed	ONRR developed a performance measure to monitor the efficiency of audits and compliance reviews.

Legend: Interior = Department of the Interior; OIG = Office of Inspector General; ONRR: Office of Natural Resources Revenue; — = ONRR documentation did not indicate what actions were taken.

Source: GAO summary of Interior's recommendation closure documentation. | GAO-19-410

Note: Department of the Interior, Office of Inspector General, Minerals Management Service's Compliance Review Process, C-IN-MMS-0006-2006 (Washington, D.C.: December 2006).

Appendix II: ONRR's Annual Compliance Goals and Performance

See table 5 for detailed information on the Office of Natural Resources Revenue's (ONRR) performance goals, including goal type, goal, fiscal year goal, fiscal year performance, and long-term target for performance goal.

Table 5: Office of Natural Resources Revenue (ONRR) Compliance Performance Goals, Fiscal Years 2010–2017

Fiscal year	Goal type	Goal	Fiscal year performance goal	Actual fiscal year performance	Goal met	Long-term performance goal target
2010	Strategic plan	Cumulative percentage of unique mineral royalty companies covered by compliance activities (fiscal years 2008–2012)	53.0%	60.5%	Yes	57.6% by 2012
2010	Strategic plan	Cumulative percentage of unique mineral royalty properties covered by compliance activities (fiscal years 2008–2012)	29.0%	Discontinued	N/A	35.0% by 2012
2010	Bureau	Return on investment	\$4.75	\$6.83	Yes	\$4.75 by 2012
2011	Strategic plan	Cumulative percentage of unique mineral royalty companies covered by compliance activities (fiscal years 2011–2016)	21.0%	48.5%	Yes	66.0% by 2016
2011	Bureau	Return on investment	\$4.75	\$5.06	Yes	\$4.75 by 2016
2012	Strategic plan	Cumulative percentage of unique mineral royalty companies covered by compliance activities (fiscal years 2011-2016)	54.0%	57.8%	Yes	66.0% by 2016
2012	Bureau	Return on investment	\$3.75	\$3.89	Yes	\$3.75 by 2016
2013	Strategic plan	Cumulative percentage of companies' compliance coverage	62.0%	Discontinued	N/A	To be determined
2013	Bureau	Return on investment	\$3.75	\$3.83	Yes	\$3.75 by 2016
2014	Strategic plan	Cumulative percentage of Payors and operators covered by compliance activities	90.0%	69.4%	No	90.0% by 2017
2014	Bureau	Return on investment	\$3.75	\$2.64	No	\$3.75 by 2017
2015	Strategic plan	Cumulative percentage of payors and operators covered by compliance activities	52.0%	Discontinued	N/A	To be determined for 2018
2015	Bureau	Return on investment	\$3.75	\$2.26	No	To be determined for 2018
2016	Bureau	Return on investment	\$2.00	\$2.74	Yes	\$2.00 by 2019
2016	Bureau	Total annual compliance collections	\$110 million	\$164.4 million	Yes	\$110 million annually by 2019

**Appendix II: ONRR's Annual Compliance Goals
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Fiscal year	Goal type	Goal	Fiscal year performance goal	Actual fiscal year performance	Goal met	Long-term performance goal target
2017	Strategic plan	Return on investment	\$2.00	\$2.67	Yes	To be determined by 2019
2017	Strategic plan	Total annual compliance collections	\$110 million	\$136.1 million	Yes	To be determined by 2019

Legend: N/A = not applicable.

Source: GAO analysis of ONRR annual budget justifications. | GAO-19-410

Appendix III: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE SECRETARY
Washington, DC 20240

MAY 21 2019

Mr. Frank Rusco
Director, Natural Resources and Environment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Rusco:

Thank you for providing the Department of the Interior (Department) the opportunity to review and comment on the draft Government Accountability Office (GAO) report entitled, *FEDERAL OIL AND GAS ROYALTIES: Additional Actions Could Improve ONRR's Ability to Assess Its Royalty Collection Efforts* (GAO-19-410). We appreciate GAO's review of the Department's Office of Natural Resources Revenue's (ONRR) efforts to comply with the Federal Oil and Gas Royalty Management Act (FOGRMA).

In the report, GAO issued the Department seven recommendations to address its findings. Below is a summary of actions planned or taken to address the implementation of the recommendations.

Recommendation 1: The Director of ONRR should establish an accuracy goal (e.g., identifying the number of companies or percentage of royalties subject to compliance activities over a set period of time) that aligns with the agency's mission of collecting, accounting for, and verifying royalty payments. In doing so, ONRR should track the extent to which each compliance activity (audits, compliance reviews, and data mining) contributes toward achieving this goal.

Response: Concur. ONRR acknowledges the importance of establishing more robust performance metrics for its compliance activities and welcomes the opportunity to view compliance coverage in a new light. An accuracy goal using coverage requires a reasonable ability to predict the number of companies or amount of royalties ONRR is to review. The industries under ONRR's regulatory oversight are highly cyclical. Macroeconomic factors outside of ONRR's control, such as commodity prices, can cause rapid changes to the size of the regulated industry. As such, forecasting the total number in a coverage universe for any future time period is problematic. Furthermore, the Department's Office of the Inspector General encouraged ONRR not to rely solely on royalty coverage for measuring the performance of compliance activities. To implement this recommendation, ONRR will first establish a base line and then create an internal performance goal or goals that utilize coverage. ONRR agrees to

track the extent to which each compliance activity contributes towards the established internal goal or goals.

Recommendation 2: The Director of ONRR should develop a documented case selection process that includes procedures for how to select all compliance cases.

Response: Concur. While ONRR does not have a documented case selection process for all compliance cases, it does use standard procedures for selecting and assigning cases. For audits, ONRR reviews a variety of company reported royalty and production data to identify trends and outliers that may indicate potential noncompliance. For compliance reviews, ONRR examines anomalous royalty value variances from the Go/No-go analysis performed in the Operations Management Tool. For data mining activities, ONRR prioritizes cases based on the degree of volume variance. Across the compliance activities, ONRR also considers other factors, such as whether a company is new or has undergone a change in ownership, the results of recently completed compliance activities, risk model scores, and referrals. ONRR agrees to establish a documented case selection process that includes procedures for how to select all compliance case types and establish internal controls.

Recommendation 3: The Director of ONRR should develop performance measures (e.g., having a specified percentage of compliance cases identify findings of royalty noncompliance or total additional royalties) that assess whether the cases the agency is selecting are helping it achieve its compliance goals.

Response: Concur. Using the standard procedures for selecting and assigning cases, ONRR attempts to select compliance activities cases that are the most likely to result in a royalty noncompliance finding within established materiality thresholds. For example, in compliance with the Royalty Simplification and Fairness Act (RSFA), ONRR cannot assign an audit or compliance review where the potential return on investment falls below the annual materiality threshold for an audit or compliance review. Following implementation of Recommendation 1, ONRR will develop performance measures that assess whether the agency is selecting cases that are helping it achieve its compliance goals. Additionally, ONRR will establish appropriate internal controls and develop a plan to regularly assess the performance measures.

Recommendation 4: The Director of ONRR should periodically analyze whether the risk model is effectively identifying potential royalty noncompliance and whether the model's results are being effectively used to assist in case selection and use this analysis to make changes to the model (e.g., updating it) or develop a new model.

Response: Concur. ONRR developed a risk model to assess the risk of noncompliance for companies and properties and inform compliance case selection. ONRR is currently evaluating the existing risk model to determine whether the application of risk scores has improved case selection. Upon completion of this initial evaluation of the model's effectiveness, ONRR will decide whether to continue using the model as it exists today, make improvements to the risk model, or develop a new risk model all together. Additionally, ONRR will develop a plan to regularly assess the effectiveness of the risk model and establish appropriate internal controls.

Recommendation 5: The Director of ONRR should include requirements in ONRR's agreements with the State and Tribal Royalty Audit Committee (STRAC) members to develop a documented case selection process, including procedures for how to select compliance cases and how to document which factors were considered in selection decisions.

Response: Concur. ONRR will work with individual STRAC members to modify their agreements to include and document a case selection process for annual work plans. The process will include procedures used by the member organization in addition to the factors used for compliance case selection.

Recommendation 6: The Director of ONRR should require STRAC members to describe in their annual work plans how their compliance activities would align with ONRR's current compliance goals.

Response: Concur. Annual work plans and budgets for STRAC members are approved via agreement modifications issued by the Agreements Officer. ONRR will work with individual STRAC members to modify their annual work plan submissions to include information on how the STRAC member's compliance efforts align with ONRR's compliance goals. Additionally, we will include a confirmation statement to the Agreements Officer regarding the STRAC members' alignment with the ONRR compliance goals.

Recommendation 7: The Director of ONRR should track the performance of the compliance work of each state STRAC member and contribution that each state makes to ONRR's compliance goals.

Response: Concur. ONRR manages state caseloads annually during the work plan and budget approval process and quarterly through the voucher payment process. State case completions are included in ONRR's quarterly Government Performance and Results Act reports. ONRR will supplement its current internal tracking to show levels of progression and provide the state with feedback on its annual contribution towards ONRR's compliance goals.

If you have any questions or need additional information about this response, please contact Greg Gould, ONRR Director at (303) 231-3429.

Sincerely,



Scott J. Cameron
Principal Deputy Assistant Secretary
for Policy, Management and Budget

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

Frank Rusco, (202) 512-3841 or ruscof@gao.gov

Staff Acknowledgments

In addition to the contact named above, Christine Kehr (Assistant Director), Glenn C. Fischer (Analyst-in-Charge), Tim Bober, John Delicath, Sarah Detweiler, Wil Gerard, Cindy Gilbert, Michael Kendix, Eli Lewine, Ben Licht, Anne Stevens, and Sara Sullivan made important contributions to this report.

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