

G A O
Accountability · Integrity · Reliability

Highlights

Highlights of [GAO-09-549](#), a report to congressional requesters

Why GAO Did This Study

In fiscal year 2008, the Department of Interior's Minerals Management Service (MMS) collected over \$12 billion in royalties from oil and gas production from federal lands and waters. Companies that produce this oil and gas self-report to MMS data on the amount of oil and gas they produced and sold, the value of this production, and the amount of royalties owed. Since 2004, GAO has noted systemic problems with these data and recommended improvements. GAO is providing: (1) a descriptive update on MMS's key efforts to improve the accuracy of oil and gas royalty data; (2) our assessment of the completeness and reasonableness of fiscal years 2006 and 2007 oil and gas royalty data—the latest data available; and (3) factors identified by oil and gas companies that affect their ability to accurately report royalties owed to the federal government.

What GAO Recommends

To prevent erroneous data from being entered into MMS databases and to check the quality of data already entered, GAO recommends that MMS design (1) an edit check to prevent payors from submitting a claim for processing allowances on gas that is not processed and (2) new edit checks to examine the net effect of adjustments to certain key royalty variables. To simplify auditing, GAO recommends that MMS royalty payors submit data on unit agreements and reasons for changes to original data submissions. In commenting on a draft of this report, Interior generally agreed with our findings and recommendations.

View [GAO-09-549](#) or [key components](#). For more information, contact Frank Rusco, (202) 512-3841, ruscof@gao.gov.

MINERAL REVENUES

MMS Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties

What GAO Found

MMS has several key efforts underway to improve the accuracy of the payor-reported data used to collect and verify royalties, but it is too soon to evaluate their effectiveness. MMS is in the process of implementing (1) GAO's past recommendations to help identify missing royalty reports and monitor payors' changes to royalty data; (2) recommendations from the Royalty Policy Committee—a group empanelled by the Secretary of the Interior to provide advice on managing federal and Indian leases and revenues—to improve edit checks, monitor the quality of natural gas, revise gas valuation regulations, and improve coordination with BLM; and (3) other efforts on adding specific edits for sales prices and identifying discrepancies in volumes between operators and payors.

While much of the royalty data we examined from fiscal years 2006 and 2007 are reasonable, we found significant instances where data were missing or appeared erroneous. For example, we examined gas leases in the Gulf of Mexico and found that, about 5.5 percent of the time, lease operators reported production, but royalty payors did not submit the corresponding royalty reports, potentially resulting in \$117 million in uncollected royalties. We also found that a small percentage of royalty payors reported negative royalty values, which cannot happen, potentially costing \$41 million in uncollected royalties. In addition, payors claimed processing allowances 2.3 percent of the time for unprocessed gas, potentially resulting in \$2 million in uncollected royalties. Furthermore, we found significant instances where payor-provided data on royalties paid and the volume and/or the value of the oil and gas produced appeared erroneous because they were outside of expected ranges.

Oil and gas company representatives reported that several factors affect their ability to accurately report royalties, including complex land ownership, administratively combining leases into units, ambiguity in federal regulations that establish gas prices, short time frames for filing royalty reports, and inaccuracies in MMS's internal databases.

Production Facilities on a Federal Lease in Colorado



Source: GAO.