



NEWS RELEASE

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MMS Moves to Strengthen Compliance Effort

Comprehensive Plan Details Actions, Timelines

DENVER – Strengthened procedures, improved administrative controls and enhanced tracking systems represent just a few of the improvements that the Minerals Management Service (MMS) is initiating in response to an audit of its Compliance Review Process conducted by the Department of the Interior’s Office of Inspector General (OIG).

MMS officials pledged to act quickly on the recommendations contained in the OIG report to strengthen ongoing compliance efforts and help ensure that MMS continues to accurately and efficiently collect all royalties due to the Federal Government from energy production that occurs on Federal lands and the Outer Continental Shelf.

MMS pursues a vigorous audit and compliance review program that generated an annual average of more than \$125 million over the last 24 years. That’s a total of more than \$3 billion dollars that flowed to the American public as a result of MMS’s audit and compliance efforts. Without MMS’s diligence, that money would not have been recovered.

“We appreciate the work of the Inspector General’s Office,” said Johnnie Burton, Director of the Minerals Management Service, “and are now developing a comprehensive plan to address the recommendations made by the OIG.” MMS’s detailed improvement plan will be delivered to the OIG within 30 days and will include a detailed action plan and target completion dates.

Burton said she particularly agreed with the audit’s conclusion that MMS compliance reviews “can serve a useful role as part of the CAM (Compliance & Asset Management) Program and are a legitimate tool for evaluating the reasonableness of company-reported royalties.” She noted that compliance reviews allow a broader coverage of royalties while requiring fewer resources than audits.

While the OIG report acknowledged the value of compliance reviews, it made several recommendations to strengthen policies and procedures used in the process, to improve

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automated tracking and verification systems, and to provide access to state and Tribal auditors to automated tools used in the compliance review process. Burton said MMS had previously identified many of the same issues, and is on track to complete computer system improvements that will make the automated tools available to state and Tribal auditors in early 2007.

MMS will continue to use a coordinated audit strategy of compliance reviews in conjunction with more formal audits, and procedures consistent with the requirements and guidance of the Government Auditing Standards that provide reasonable assurance of detecting violations of laws, lease terms, and regulations. By using this coordinated strategy, in FY 2006 MMS completed audits and compliance reviews on 72.5 percent of revenues, up from 46 percent in FY 2003 and 10.5 percent in FY 2002. In its report, the Office of Inspector General noted that MMS has reviewed 20 percent of companies in the past 3 years, the same percentage of audits that the Internal Revenue Service performed on larger corporations in FY 2005.

During the past five years, MMS's minerals revenue program accounted for, substantiated, and disbursed royalties totaling \$36.8 billion. From 2002-2005, MMS and State and Tribal auditors completed 1,572 audits. That compares to 784 audits completed for the prior four year period.

According to Burton, compliance reviews are only one tool that MMS uses in its overall approach to ensure accurate payment of royalties. Compliance reviews are an analysis designed to determine the reasonableness of company-reported royalty and production data on properties. If any discrepancies are identified, companies are instructed to resolve the discrepancy, or a more formal audit or enforcement actions may be initiated.

Burton added that she was confident the additional improvements already implemented or planned will further strengthen MMS compliance efforts to ensure that all royalties due to the Federal Government are accurately and efficiently collected consistent with existing statutes and regulations.

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