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Highlights

Highlights of GAO-03-296, a report to Representative Nick J. Rahall, Ranking Minority Member, House Committee on Resources, and Representative Carolyn B. Maloney

Why GAO Did This Study

In fiscal year 2001, the federal government collected $7.5 billion in royalties from the sale of oil and gas produced on federal lands. Although most oil and gas companies pay royalties in cash, the Department of the Interior's Minerals Management Service (MMS) has the option to take a percentage of the oil and gas produced and either transfer this percentage to other federal agencies or to sell this percentage itself—known as "taking royalties in kind." GAO reviewed the extent to which MMS has taken royalties in kind since 1995, the reasons for taking royalties in kind, and MMS's progress in implementing management control over its Royalty-in-Kind Program.

What GAO Recommends

GAO recommends that MMS clarify its strategic objectives for the Royalty-in-Kind Program and link these objectives to statutory requirements. GAO also recommends that MMS gather key information to monitor and evaluate the program prior to further expansion of the program. In commenting on the draft report, the Department of the Interior generally agreed with GAO's observations and recommendations and emphasized MMS's future plans to improve management control over the Royalty-in-Kind Program.

www.gao.gov/cgi-bin/getrpt?GAO-03-296.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-6877 or wellsj@gao.gov.

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MINERAL REVENUES

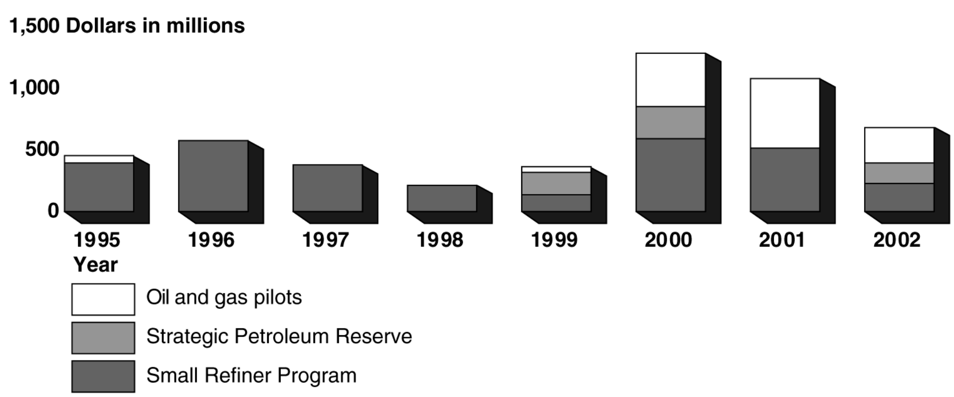
A More Systematic Evaluation of the Royalty-in-Kind Pilots Is Needed

What GAO Found

From January 1995 through September 2001, the Minerals Management Service (MMS) took, in kind, 178 million barrels of oil and 213 billion cubic feet of gas, or 32 percent of the federal government's royalty share of all oil and 3 percent of the federal government's royalty share of all gas produced on federal lands. MMS sold the majority of this oil—143 million barrels—to small refiners in accordance with long-standing legislation. MMS also took 29 million barrels of federal royalty oil to fill the Strategic Petroleum Reserve. MMS took the remaining 6 million barrels of oil in kind and all the gas in kind under a series of pilot projects to evaluate whether there are additional circumstances under which taking royalties in kind is in the best interest of the federal government.

MMS personnel have made progress in implementing some components of management control for its Royalty-in-Kind Program, such as addressing the risks associated with oil and gas sales and developing written procedures. However, MMS does not plan to complete and implement all management controls until 2004, when it will consider the Royalty-in-Kind pilots to have changed from a pilot stage to a fully operational stage and when it will have acquired additional systems support. To date, MMS has not developed clear strategic objectives linked to statutory requirements nor collected the necessary information to effectively monitor and evaluate the Royalty-in-Kind Program. Without clear objectives linked to statutory requirements and the collection of necessary information, MMS cannot systematically assess whether Royalty-in-Kind sales are administratively less costly, whether they generate fair market value or at least as much revenue as traditional cash royalty payments, and thus whether MMS should expand or contract the Royalty-in-Kind Program.

Estimated Value of Federal Royalty Oil and Gas Taken in Kind by Purpose, Calendar Years 1995 through 2001 and January through July 2002.



Source:GAO's analysis of MMS data.