

Five Year Compliance Business Plan



June 2008



MMS U.S. Department of the Interior
Minerals Management Service

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1. Gas production platform, Gulf of Mexico (BP)
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Associate Director's Message

The Minerals Revenue Management (MRM) Program is entrusted with the collection and disbursement of billions of dollars in Federal and Indian mineral lease revenues. These revenues benefit all Americans. The MRM's fiduciary responsibilities for the Nation's royalty assets have increased as a result of initiatives contained in the Energy Policy Act of 2005 and the Gulf of Mexico Energy Security Act of 2006. This expanded role in national energy initiatives will impact MRM on all operational fronts. The MRM is constantly challenged to improve our processes and procedures and to perform at the highest standard of quality and integrity.

In December 2005, MRM issued the *Strategic Business Plan 2007-2012* to position the Program to meet current and future program challenges and performance expectations. Designed on a foundation of partnership, stewardship, and customer service, the Plan outlines corporate values, guiding principles, and a strategic approach for continuous program improvement. The Plan includes strategic goals, business objectives, and operational strategies for six mission areas - Asset Management, Financial Management, Compliance, Indian Trust, Resource and Information Management, and Production Reporting. The mission areas form the strategic framework for assessment of operations, identification of requirements, and design of business blueprints designed to achieve our strategic vision of excellence in mineral revenue services.

I am pleased and excited to issue this *Five Year Compliance Business Plan*. It arrays a formidable suite of program objectives and management actions. I am confident that working together, the MRM staff and our stakeholders in royalty management - Congress, State and Tribal governments, the minerals industry, contractors, and partnering Federal agencies, we can meet these challenging expectations and continue to be a top tier royalty management program of which all Americans can be proud.

Gregory J. Gould
Associate Director
Minerals Revenue Management

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Minerals Management Service

Five-Year FY 2008-2012 Compliance Business Plan

June 2008

Executive Summary

Purpose

In December 2005 MRM issued the MRM Strategic Business Plan, to chart the course and direction of the MRM through FY 2012. The MRM Strategic Business Plan calls for the development and issuance of comprehensive business plans for ultimately six separate MRM strategic mission areas utilizing consensus – built MRM strategic guidance, business planning elements, and a phased approach.

The Compliance Business Plan (CBP) is the central framework for MRM's compliance strategies, measures, and organizational structures for 2008-2012. The primary strategic business goal of the Compliance Mission area is:

To ensure that Federal and Indian mineral revenues are timely and correctly reported and paid by the minerals industry in compliance with applicable laws, regulations, and lease terms.

This plan outlines the CBP business strategies, principles, objectives, and specific action items with implementation strategies and approaches.

Compliance Operational Strategies

The Strategic Business Plan identified the following operational strategies for the compliance mission area:

- Continue the 3-year compliance cycle during the planning period.
- Implement new risk management compliance strategies to scale the mineral revenue universe.
- Evaluate and implement alternative strategies to address different segments of the mineral revenue universe.
- Implement expedited compliance strategies for major consolidated payors.
- Evaluate alternative models for delegated/cooperative audit and compliance agreements.
- Pursue opportunities to more closely align MRM, Bureau of Land Management (BLM), and Offshore Minerals Management (OMM) compliance processes.

Compliance strategies are impacted by future regulatory changes, royalty-in-kind (RIK) expansion, benchmarking, and restructuring within the minerals industry. The CBP has addressed strategies to ensure the most efficient and effective compliance coverage for the future.

Plan Development Approach

This report is the culmination of the planning process and describes the Five-Year CBP. The plan outlines business principles, objectives, and specific action items that will guide compliance from Fiscal Years 2008 through 2012.

There are three distinct phases in the planning process: (1) Assessment Phase; (2) Blueprint Phase; and, (3) Strategic Business Development Phase. The CBP was the first of five mission areas to begin the assessment phase in January 2006.

Assessment Phase

Teams were organized with volunteers from throughout MRM and from states and Tribes with delegated and cooperative audit agreements. The teams identified and compiled information on business processes in the compliance mission area, including:

- Purpose of the process
- Procedures within the process
- Roles and responsibilities of employees in the process
- Key control points in the process
- Outputs of the process
- Process observations and recommendations

It was determined in the Assessment Phase that overall the current business model is working effectively. This statement is based on several observations, including: completing compliance within 3 years of the royalty payment on a significant percentage of the dollars paid (72.5 percent in Fiscal Year 2006), reviewing multiple months and years on a property, and reviewing all aspects of the royalty equation thereby increasing overall knowledge of a property.

Blueprint Phase

During the Blueprint Phase, the teams developed and assessed preferred alternative business strategies, conducted cost/benefit analyses, and formulated the future business constructs and design consistent with the strategic guidance set forth in this program-level plan. The design emphasized business models, best practices, best value business processes, organizational approaches, automated systems support and integration, internal and external reporting, and internal controls. The work teams:

- Defined business model changes and extensions.

- Conducted benchmarking with states, Tribes, industry, and other bureaus to identify best business practices.
- Designed and tested new/modified operational business processes including a compliance risk model.
- Began development of performance goals and measures around risk strategy.
- Provided future business process designs and infrastructures for development of CBP.

Strategic Business Development Phase (Implementation Phase)

This phase is led by senior executive sponsors and designated team leaders and addresses:

- Business principles, strategies, goals, and objectives.
- Performance goals, measures, and internal controls.
- Specific multi-year implementation actions and timelines.
- Information technology and systems support.
- Communications, outreach, and partnerships.

Applicable Strategic Business Goals and Objectives from December 2005 MRM Strategic Plan

The MRM compliance activity goal is to ensure that Federal and Indian mineral revenues are timely and correctly reported and paid by the minerals industry in compliance with applicable laws, regulations and lease terms. The CBP objectives are:

- Ensure substantial compliance for the Federal and Indian mineral lease universe.
- Implement efficient and effective contemporaneous compliance strategies.
- Conduct audits and reviews in full compliance with applicable standards and use best practices.
- Ensure timely and correct industry production and royalty reporting and payment for the Federal and Indian mineral lease universe.
- Obtain unqualified opinion on the MRM audit peer review.

High-Level Timeline for 5-Year Business Plan

Business Plan Implementation	Timeline				
	FY 2008 1 2 3 4	FY 2009 1 2 3 4	FY 2010 1 2 3 4	FY 2011 1 2 3 4	FY 2012 1 2 3 4
Risk Management and Cost Benefit					
Implement Risk-Based Pilot	■				
Provide Data to States and Tribes for Work Plans	■				
Develop and Modify Performance Metrics	■				
Expand Risk-Based Strategy; Build and Develop Historical Risk Data		■	■		
Refine Cost/Benefit Data/Methodology		■	■		
Integrate MRM, State, and Tribal Compliance Activities					
Integrate Work Plans, Timely Receipt and Processing of Annual Budgets	■				
Continue to Evaluate/Explore Options to Increase Functions Delegated to States and Tribes	■				
Continue to Pursue Additional Delegations and Cooperative Agreements	■	■	■	■	■
Identify Strategies to Align and Integrate Compliance Processes		■	■	■	■
Continue to Improve Delegated and Cooperative Agreements		■	■	■	■
Explore Developing Internal Audit Standards		■	■	■	■
Explore and Implement Alternative Funding and Business Models			■	■	■
Evaluate Sharing Resources Across State and Tribal Boundaries (Franchising)			■	■	■
Revenue Identification					
Continue to Coordinate with FM in Identifying Valid Missing OGOR's	■	■			
Focus on First Production to Identify Reporting and Payment Noncompliance	■	■			
Obtain Access to External Data Sources, On-Line Tools, Other Sources of Information		■	■	■	■
Evaluate Partnering with BLM Pilot Offices and OMM Offices		■	■	■	■
Evaluate Developing MMS Revenue Data Form (similar to Form 1099)			■	■	■
Major Consolidated Companies					
Evaluate Success of Mobile Compliance Team Pilot	■	■			
Establish, Evaluate, Refine Criteria for Deployment of Compliance Teams, e.g., Residencies and Mobile	■	■			
Initiate External Reporting of Company Compliance		■	■	■	■
Evaluate Viability of a Solid Minerals Multi-Disciplinary Team in St. Louis, MO		■	■	■	■
Information Management and Systems Support					
Refine CPT – Solids, Indian Pricing, Gas Plant et al	■	■			
Implement Adjustment Monitoring System	■	■			
Implement Risk-Based Model in MRMS		■	■	■	■
Track Compliance Interest in Financial System		■	■	■	■
Develop Single Integrated Tracking Tool for all Compliance Activities		■	■	■	■
Upgrade MRMS Verification and Validation Tools		■	■	■	■

Impacts to Organizational Structure, Regulations, and Information Technology (IT) Systems

There is minimal impact to the current organization structure with the exception of the Major Consolidated Companies component. The proposed changes affect supervisory oversight, criteria for residencies, and include establishing a pilot cross-organizational mobile compliance team and the consideration of establishing a small solid minerals office in St. Louis, Missouri.

Similarly, there is minimal impact on regulations (major valuation regulatory changes are planned in the Asset Management Business Plan). Specific actions which may require regulatory action include:

- considering increased delegated functions with states and Tribes
- evaluating alternative funding options for state and Tribal delegations
- supplementing revenue identification processes with an MMS revenue data form

The impacts to IT Systems include:

- improvements and modifications to the Compliance Process Tools (CPT)
- improvement in data exchange among states, Tribes, MRM, and other Federal agencies
- incorporating the risk strategy tool in the Mineral Revenue Management Support System (MRMSS)
- consolidation of various compliance management information systems and tracking tools

Summary of Major Implementation Components or Actions in the 5-Year Business Plan

The designated Compliance and Asset Management (CAM) manager(s) are accountable for timely and complete implementation of the plan. The CAM manager(s) will:

- Develop specific implementation actions and timelines.
- Benchmark with states, Tribes, other bureaus, and industry.
- Assign actions and specific accountability.
- Conduct outreach and internal and external communications.
- Implement improvement actions.
- Track and report on implementation status.
- Document and publish significant accomplishments.
- Provide status reports to employees, partners, customers, higher management, and other interested parties.

Compliance Mission Area

Description and Background

The compliance program is achieved through a nationwide MRM field audit and compliance structure in partnership with 11 states and 7 Tribes under delegated and cooperative agreements. The CAM offices are located in close proximity to the oil and gas industry and the individual Indian mineral owners and are organized around four major geographic or asset areas:

- Federal onshore oil and gas
- Indian oil and gas
- Solid minerals and geothermal
- Offshore oil and gas

The royalty equation consists of the volume, value, allowances, and royalty rate. In 2000, a new compliance and asset management process was implemented that uses audits and system-supported reviews to increase coverage and determine compliance on large segments of the mineral revenue universe. Because revenues are disbursed or distributed based on a lease, the audit and compliance activities shifted from payor-based to property-based. Due to resource constraints, it is not feasible for MRM to audit all companies or properties. Therefore, MRM relies on the compliance review process in addition to audits to review the royalty equation on a property.

Beginning in 2001, the primary performance goal for compliance is to ensure reasonable compliance on an increasing percentage of royalties paid within 3-years. In Fiscal Year 2006, MMS achieved this goal by ensuring reasonable compliance on 72.5 percent of the calendar year 2003 royalties reported and paid.

The CBP outlines areas of improvement, some of which were also identified in other reviews. These reviews include the *Office of the Inspector General Audit Report: Minerals Management Service's Compliance Review Process (OIG Report)*, December 2006, *Royalty Policy Committee's Subcommittee on Royalty Management Report* December 2007, and MRM Alternative Internal Control Reviews (AICRs). Each of the studies cited above had similar findings and validated our plans for improvement. The internal and external studies concluded that although a significant percentage of the royalties reported and paid were reviewed, MRM should use a risk-based approach for compliance focusing on more properties and payors. The studies recognized that shifting to a risk-based approach will reduce the focus on percentage of royalties reviewed. Early on in the CBP, MMS developed a risk methodology.

The MMS completed all of the action items identified in MRM's response to the OIG Report, the *Compliance Action Plan (CAP) to Strengthen Minerals Management Service Compliance Program Operations*, as of February 29, 2008. Many of the items completed directly impacted the CBP and are identified along with the RPC recommendations under the focus areas that address the recommendations.

Compliance Principles

The compliance corporate values and principles are:

- Commitment to meeting the highest professional standards.
- Commitment to meeting the highest standards of ethical conduct.
- Commitment to partnerships with states, Tribes, and other Department of the Interior (DOI) bureaus to assure open communications and coordination of compliance work.
- Commitment to excellence in customer service.
- Provide the Government and minerals industry with certainty, as early as possible, that royalty obligations have been fulfilled.
- Aggressively pursue best practices to evaluate and improve the efficiency and effectiveness of compliance operations.

Compliance Strategies

The compliance business model strategies and approaches are:

- Identification and stratification of the Federal and Indian mineral lease universe.
- Development of annual compliance work plans to address compliance scope and strategies for coverage of the mineral lease universe.
- Targeted and random audits and compliance reviews of mineral leases, producing properties, and royalty lessees and payors.
- Detection and collection of underpaid mineral revenues.
- Pursue enforcement actions to collect royalty underpayments and require compliance with reporting requirements.
- Promote voluntary compliance by the minerals industry.
- Complete compliance cycle in 3 years or less.
- Implement compliance performance goals and a system of audit internal quality controls.

Compliance Goals and Business Objectives

Goals

Ensure that Federal and Indian mineral revenues are timely and correctly reported and paid by the minerals industry in compliance with applicable laws, regulations, and lease terms.

The Government Performance and Results Act (GPRA) goal is to ensure reasonable compliance on an increasing percentage of revenue paid within 3 years of the payment date. To accomplish this goal, a strategy was implemented to focus on the largest producing properties [both RIK and royalty in value (RIV)] with a more detailed strategy for Indian leases. Revenue dollars determined to be in “reasonable compliance” is the primary measure for MRM compliance; however, the goal is moving towards reviewing an increasing percentage of properties and companies based on risk.

Business Objectives

Many of the compliance business objectives are being met or even exceeded. The business objectives are to:

- Achieve reasonable/substantial compliance for the Federal and Indian mineral lease universe.

Currently, reasonable compliance is measured through completion of compliance reviews, audits and verification of RIK properties. Achieving substantial compliance refers to coverage of a sufficient number of payors or properties to ensure compliance.

- Conduct mineral revenue audits and reviews in compliance with applicable standards utilizing best practices.

CAM has developed guidance, policies and procedures for both audits and compliance reviews during the last 4 years. Audits are conducted in accordance with generally accepted Government auditing standards (GAGAS). Some of the same standards are also applied to compliance reviews such as professional judgment, competence and supervisory reviews. GAGAS requirements for continuing professional education are required for auditors and compliance personnel. Through training, AICRs, and external peer reviews, best practices are identified and incorporated into policies and procedures.

- Achieve contemporaneous compliance strategies at less cost to industry and the Federal Government.

With the implementation of compliance reviews and property audits, MMS is achieving compliance within 3 years of the payment date. Reconciliation of RIK volumes is typically completed by the RIK office within 180 days. The compliance reviews are completed in less time than audits and usually cover 12 sales months. As knowledge of the properties reviewed for compliance has increased, compliance within 2 years is occurring in many areas.

- Ensure timely and correct industry production and royalty reporting and payment for the Federal and Indian mineral lease universe.

Through audits and compliance reviews, MRM continues to verify reporting and ensure reports and payments are received correctly the first time. MRM is making significant progress in developing and implementing clearer regulations that eliminate much uncertainty and ambiguity that previously resulted in major findings.

- Obtain unqualified opinion on the audit peer review.

In November 2005, an independent certified public accounting firm issued a clean audit opinion (“unqualified opinion”) of the MMS audit program with no material weaknesses, and no reportable conditions. The MMS continues to revise procedures and improve internal controls to assure the receipt of a clean audit opinion every 3 years.

Selection of Compliance Focus Areas

After a thorough review of the mission area mandates, the business plan operational strategies, and the observations and recommendations made during the assessment phase, the CBP team found that the following areas warranted further review:

- Risk Management and Cost Benefit.
 - Integrate MRM, State, and Tribal Compliance Activities.
 - Revenue Identification.
 - Major Consolidated Companies.
 - Information Management and Systems Support.
-

Focus Area: Risk Management and Cost Benefit

1. Risk Management and Cost Benefit Focus Area - Description

Overall Explanation of Area

This focus area addresses implementation of risk management strategies across the entire mineral revenue universe to identify high-risk properties and companies and determine the most efficient use of resources. By using the risk strategy developed during the blueprint phase and continuously improving the CAM cost data, more informed decisions are being made on available resources and time required to perform audits or compliance reviews. Additional random sampling of lower risk properties and other mandates will assure the risk management model is working effectively.

This focus area responds to the OIG Report as addressed in the CAP and Royalty Policy Committee (RPC) recommendations to:

- Establish and implement a pilot project to further develop and begin implementing risk-based compliance strategies (See Appendix: RPC 4-5, RPC 4-9, CAP IV-B-7).
- Evaluate alternatives to enhance MRM's current cost benefit analysis (See Appendix: RPC 4-2, 4-4, CAP IV-A-4).
- Develop performance measures (See Appendix: RPC 4-13, 4-15; CAP IV-C-2, IV-C-3, IV-C-4).
- Establish a "Compliance Strategy Council" to identify an MMS wide compliance strategy (See Appendix: RPC 4-1).

Relationship to Mission Area

Compliance Principles

- Commitment to partnerships with states, Tribes, and other Department of the Interior (DOI) bureaus to assure open communications and coordination of compliance work.
- Provide the Government and minerals industry with certainty, as early as possible, that royalty obligations have been fulfilled.
- Commitment to the statutory mandate of realizing fair market value for minerals removed from Federal and Indian lands.
- Aggressively pursue best practices to evaluate and improve the efficiency and effectiveness of compliance operations.

Compliance Strategies

- Identification and stratification of the Federal and Indian mineral lease universe.
- Development of annual compliance work plans to address compliance scope and strategies for coverage of the mineral lease universe.

- Targeted and random audits and compliance reviews of mineral leases, producing properties, and royalty lessees and payors.
- Detection and collection of underpaid mineral revenues.
- Promote voluntary compliance by the minerals industry.
- Complete compliance cycle in 3 years or less.
- Implement compliance performance goals and a system of audit internal quality controls.

Compliance Goals and Objectives

Ensure that Federal and Indian mineral revenues are timely and correctly reported and paid by the minerals industry in compliance with applicable laws, regulations, and lease terms.

The compliance objectives addressed in this focus area are:

- Ensure substantial compliance for the Federal and Indian mineral lease universe.
- Implement efficient and effective contemporaneous compliance strategies.

Processes Employed

The current performance measurement process considers only one risk factor which is royalty dollars. In early 2006, CAM contracted with a consultant to develop a risk methodology and then developed a risk strategy model in 2007. In FY 2008, MRM piloted the model which is being used to develop the CAM FY 2009 annual compliance strategy. Similarly, MMS enlisted a consultant to refine the cost benefit data for compliance. The study was completed in 2007 and recommendations were implemented beginning in FY 2008. Both the risk model and the cost benefit methodology will be reviewed annually to assess the effectiveness and determine any required changes.

The MRM briefed the states and Tribes with delegated and cooperative audit agreements on both the risk model and the cost-benefit methodology. The risk model is available for use by the states and Tribes in developing their annual work plans.

CAM continues to work extensively to establish, document, and test internal controls, many of which impact this focus area.

2. Risk Management and Cost Benefit Focus Area - Process or Component Specifics

The various CAM Managers are responsible for prioritizing and executing the detailed implementation steps. Developing and modifying the performance measures are addressed as a step in this implementation plan.

Business Plan Implementation	Timeline																			
	FY 2008				FY 2009				FY 2010				FY 2011				FY 2012			
Risk Management and Cost Benefit	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Implement Risk-Based Pilot																				
Provide Data to States and Tribes for Work Plans																				
Develop and Modify Performance Metrics																				
Expand Risk-Based Strategy; Build and Develop Historical Risk Data																				
Refine Cost/Benefit Data/Methodology																				

3. Risk Management and Cost Benefit Focus Area - Responsibility

The CAM Managers and staff are responsible for the implementation steps.

4. Risk Management and Cost Benefit Focus Area - Organization and Regulatory Impacts

There are potential organizational impacts to CAM. Based on the risk strategy, reallocation of resources across CAMs may be required. There are no identified regulatory impacts for this focus area.

5. Risk Management and Cost Benefit Focus Area - IT and System Support Impacts

Description of System Requirements

- Establish and integrate risk-based model into the Minerals Revenue Management Support System (MRMSS)
- Develop performance measures and tracking.
- Improve risk-based strategy tools.

Functional Areas Impacted

CAM, Financial Management (FM), states, BLM, OMM and Tribes are impacted.

Timing and Funding of Proposed Changes

Funding to implement the risk model as part of MRMSS was requested in the MMS FY 2009 budget and approval received from the Office of Management and Budget (OMB).

6. Risk Management and Cost Benefit Focus Area - Communication and Outreach

The MRM has informed managers, employees, and constituents throughout the planning and implementation processes. In addition, MRM managers, employees, and business partners have been fully engaged in all aspects of the operational business planning and will continue as participants through implementation.

Affected Groups

The following chart shows the organizations impacted by this focus area action plan and signifies their inclusion in MMS communication and outreach efforts.

Collaboration – Risk Management and Cost Benefit: Manager Oversight					
Organization	Item 1	Item 2	Item 3	Item 4	Item 5
AD			X	X	X
DAD			X	X	X
FM	X			X	
ITC	X			X	
OE				X	
RIK					
States	X	X	X	X	X
Tribes	X	X	X	X	X
BLM	X			X	
OMM	X			X	
Item Description					
1. Implement Risk-Based Pilot					
2. Provide Data to States and Tribes for Work Plans					
3. Develop and Modify Performance Metrics					
4. Expand Risk-Based Strategy; Build and Develop Historical Risk Data					
5. Refine Cost/Benefit Data/Methodology					

Communication and Outreach Activities

Below is a summary of communication sessions related to the compliance business plan, which were held with managers, employees, business partners, and other constituents throughout the business planning process.

Business Plan Communication Sessions				
Date	Title of Communication, Meeting or Workshop	Constituents Represented	Purpose and/or Topic(s) Covered	Operational Plan Involved
2006 - 2007	COPAS Bi-annual Meetings	Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2006 - 2007	STRAC Annual Meetings	States, Tribes	Update on Business Plan efforts.	Compliance
2006 - 2007	RPC Meetings	States, Tribes, and Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2007 Mar 27	State of Colorado Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Jun 18	State of Oklahoma Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 14	State of Wyoming Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 21	Securities and Exchange Commission Benchmark Meeting	SEC	Benchmark financial and compliance processes; receive overview of risk matrix.	Compliance
2007 Nov 27	Internal Revenue Service Benchmark Meeting	IRS	Benchmark audit and compliance processes. Assess options for tracking refunds and for sharing information.	Compliance

CAM will continue to benchmark with the Internal Revenue Service (IRS), states and Tribes throughout the implementation of the risk strategy and cost benefit focus area. Specific actions are already underway to compare risk strategy methodologies, performance measures, and establish an overall “Compliance Strategy Council”.

7. Risk Management and Cost Benefit Focus Area - Summary of Action Plan

Many of the actions outlined in this focus area are already underway. By utilizing a risk strategy with cost data, MRM will make more informed decisions on resources to perform new audits, compliance reviews, etc. The information developed in this focus area is able to provide justification for additional resources to address high risk areas, and effectiveness of performance measures in assuring company compliance.

Focus Area: Integrate MRM, State, and Tribal Compliance Activities

1. Integrate MRM, State, and Tribal Compliance Activities Focus Area - Description

Overall Explanation of Area

This focus area provides a framework for further enhancements in the integration of the compliance program across MRM, states and Tribes. The implementation of the recommendations will meet the goals of a consistent and comprehensive program for not only MRM but the states and Tribes that are accountable to their respective legislatures and Tribal councils. The states and Tribes with delegated and cooperative agreements are integral resources to ensure compliance on Federal leases inside the state borders and on Tribal leases. Their knowledge of unique marketing arrangements and industry practices is essential to ensuring royalties are properly reported and paid.

This focus area responds to the CAP and RPC recommendations to:

- Systematically review the allocation of resources across states and Tribes (See Appendix: RPC 4-3).
- Ensure that the states and Tribes have access to the proper compliance tools and data (See Appendix: CAP IV-B-8).
- Expand use of the risk-based approach across MMS (See Appendix: RPC 4-9).
- Focus audits and reviews on high risk issues (See Appendix: RPC 4-5).
- Establish a “Compliance Strategy Council” to identify an MMS wide compliance strategy (See Appendix: RPC 4-1).

Relationship to Mission Area

Compliance Principles

- Commitment to meeting the highest professional standards.
- Commitment to meeting the highest standards of ethical conduct.
- Commitment to partnerships with states, Tribes, and other DOI bureaus to assure open communications and coordination of compliance work.
- Commitment to excellence in customer service.
- Provide the Government and minerals industry with certainty, as early as possible, that royalty obligations have been fulfilled.
- Commitment to the statutory mandate of realizing fair market value for minerals removed from Federal and Indian lands.
- Aggressively pursue best practices to evaluate and improve the efficiency and effectiveness of compliance operations.

Compliance Strategies

- Development of annual compliance work plans to address compliance scope and strategies for coverage of the mineral lease universe.
- Targeted and random audits and compliance reviews of mineral leases, producing properties, and royalty lessees and payors.
- Detection and collection of underpaid mineral revenues.
- Pursue enforcement actions to collect royalty underpayments and require compliance with reporting requirements.
- Promote voluntary compliance by the minerals industry.
- Complete compliance cycle in 3 years or less.
- Implement compliance performance goals and a system of audit internal quality controls.

Compliance Goals and Objectives

Align and integrate MRM, state, and Tribal processes, standards and resources for an effective compliance program.

The compliance objectives addressed in this focus area are:

- Implement efficient and effective contemporaneous compliance strategies.
- Conduct audits and reviews in full compliance with applicable standards and use best practices.
- Ensure timely and correct industry production and royalty reporting and payment for the Federal and Indian mineral lease universe.

Processes Employed

The compliance program is achieved through a MRM field audit and compliance structure in partnership with 11 states and 7 Tribes under delegated and cooperative agreements. MRM, states, and Tribes independently develop work plans which include the properties and companies selected for either audits or compliance reviews. Currently, each organization uses different criteria in developing their work plans. However, after work plans are developed MRM and the states and Tribes work together to develop an annual consolidated compliance work plan. Our goal in the future is to jointly develop the consolidated work plan by using the CAM risk tool and information from the states and Tribes and by standardizing selection approaches. MRM is also interested in gaining efficiencies by working together to perform audits.

CAM continues to work extensively to establish, document, and test internal controls, many of which impact this focus area.

2. Integrate MRM, State, and Tribal Compliance Activities Focus Area - Process or Component Specifics

The various CAM Managers are responsible for prioritizing and executing the detailed implementation steps. Performance measures are addressed as a step in the implementation plan under the Risk Strategy and Cost Benefit Focus Area.

Business Plan Implementation	Timeline																			
	FY 2008				FY 2009				FY 2010				FY 2011				FY 2012			
Integrate MRM, State, and Tribal Compliance Activities	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Integrate Work Plans, Timely Receipt and Processing of Annual Budgets	█																			
Continue to Evaluate/Explore Options to Increase Functions Delegated to States and Tribes	█																			
Consider RSFA delegated functions	█																			
Continue to Pursue Additional Delegations and Cooperative Agreements	█																			
Identify Strategies to Align and Integrate Compliance Processes					█															
Establish common performance goals					█															
Consider state legislature and Tribal council requirements					█															
Use risk methodology					█															
Periodic review of system access at state and Tribal offices					█															
Continue to Improve Delegated and Cooperative Agreements					█															
Standardize statements of work					█															
Work with Contracting Officer, states and Tribes to enhance communication of required contract changes					█															
Explore Developing Internal Audit Standards					█															
Work with IRS, states, and Tribes in developing standards					█															
Explore and Implement Alternative Funding and Business Models									█											
Explore and evaluate business model options									█											
Implement alternative funding									█											
Consider states auditing Tribe or allotted properties as a delegated function									█											
Evaluate Sharing Resources Across State and Tribal Boundaries (Franchising)													█							

3. Integrate MRM, State, and Tribal Compliance Activities Focus Area - Responsibility

The CAM Managers and staff are responsible for the implementation steps.

4. Integrate MRM, State, and Tribal Compliance Activities Focus Area - Organization and Regulatory Impacts

There are potential organizational structure impacts if there is an increase in functions delegated to states and Tribes. Additional funding options and future changes to contracts may require organizational changes.

There are also potential regulatory impacts:

- Increasing delegated functions with states and Tribes.
- Alternative funding may require regulatory changes.

5. Integrate MRM, State, and Tribal Compliance Activities Focus Area - IT and System Support Impacts

MRM system modifications will impact the states and Tribes. An ongoing assessment of access to MRM systems by states and Tribes needs to occur to assure data they use in support of audits and compliance reviews is timely and accurately available. This

assessment must include a review of security restrictions to MRM data. A single tool to track all compliance activities including state and Tribal work plans and progress reviews will provide efficient and effective data to support the contracts and data needs for all.

6. Integrate MRM, State, and Tribal Compliance Activities Focus Area - Communication and Outreach

The MRM has informed managers, employees, and constituents throughout the planning and implementation processes. In addition, MRM managers, employees, and business partners were engaged in all aspects of the operational business planning and will continue to be strong participants through implementation.

Affected Groups

The following chart shows the organizations impacted by this focus area action plan and signifies their inclusion in MMS communication and outreach efforts.

Collaboration – Integrate MRM, State, and Tribal Compliance Activities: Manager Oversight								
Organization	Item 1	Item 2	Item 3	Item 4	Item 5	Item 6	Item 7	Item 8
AD		X	X	X	X	X	X	X
DAD		X	X	X	X	X	X	X
FM		X		X				
ITC		X						X
OE		X						
RIK								
States	X	X	X	X	X	X	X	X
Tribes	X	X	X	X	X	X	X	X
Item Description								
1. Integrate Work Plans, Timely Receipt and Processing of Annual Budget								
2. Continue to Evaluate/Explore Options to Increase Functions Delegated to States and Tribes								
3. Continue to Pursue Additional Delegations and Cooperative Agreements								
4. Identify Strategies to Align and Integrate Compliance Processes								
5. Continue to Improve Delegated and Cooperative Agreements								
6. Explore Developing Internal Audit Standards								
7. Explore and Implement Alternative Funding and Business Models								
8. Evaluate Sharing Resources Across State and Tribal Boundaries (Franchising)								

Communication and Outreach Activities

Below is a summary of communication sessions related to the compliance business plan, which were held with managers, employees, state and Tribal partners, and other constituents throughout the business planning process.

Business Plan Communication Sessions				
Date	Title of Communication, Meeting or Workshop	Constituents Represented	Purpose and/or Topic(s) Covered	Operational Plan Involved
2006 - 2007	COPAS Bi-annual Meetings	Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2006 - 2007	STRAC Annual Meetings	States, Tribes	Update on Business Plan efforts.	Compliance
2006 - 2007	RPC Meetings	States, Tribes, and Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2007 Mar 27	State of Colorado Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Jun 18	State of Oklahoma Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 14	State of Wyoming Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 21	Securities and Exchange Commission Benchmark Meeting	SEC	Benchmark financial and compliance processes; receive overview of risk matrix.	Compliance
2007 Nov 27	Internal Revenue Service Benchmark Meeting	IRS	Benchmark audit and compliance processes. Assess options for tracking refunds and for sharing information.	Compliance

CAM will continue to benchmark with the states and Tribes and other agencies that have similar programs throughout the implementation of this focus area. Specific actions are already underway to improve delegated and cooperative agreements, integrating work plans, and timely receipt and processing of budgets. The states and Tribes interests are critical in considering the goals of the new Compliance Strategy Council. Exploring the use of audit standards other than GAGAS will impact MRM, states and Tribes.

7. Integrate MRM, State, and Tribal Compliance Activities Focus Area - Summary of Action Plan

Addressing additional strategies to integrate all compliance activities will result in a more effective compliance program. Many states and Tribes have specific requirements they must meet to continue to receive resources; MRM needs to ensure they receive the support and information to meet those requirements. There are additional avenues that can be explored for funding and workload allocation. New models or strategies are necessary in obtaining and retaining a skilled workforce.

Focus Area: Revenue Identification

1. Revenue Identification Focus Area - Description

Overall Explanation of Area

This focus area will enhance compliance processes to more timely identify properties or sources of revenue on which royalties are due. Currently there are processes that identify when royalties are not received on properties or from companies by comparing the Oil and Gas Operations Report (OGOR) to the Form MMS-2014 Report of Sales and Royalty Remittance (Form MMS-2014), audits and compliance reviews, information from some state severance tax payments, etc. However, additional processes and data are available that will more timely identify when revenues are due such as on new leases. This focus area explores options for developing additional features to timely identify revenue due.

This focus area responds to the RPC recommendations to:

- Receive information, in electronic format, when a lease or well status changes (See Appendix: RPC 3-9).
- Obtain information concerning gas processing plants in order to better target audits and CR's (See Appendix: RPC 3-16, 3-17).
- Develop method to share information with BLM and OMM on production accountability issues (See Appendix: RPC 3-19).
- Obtain information such as BTU content of the gas that will help identify potential underpayments (See Appendix: RPC 3-1, 3-2, 3-3, 3-4, 3-6, 3-7).

Relationship to Mission Area

Compliance Principles

- Commitment to partnerships with states, Tribes, and other DOI bureaus to assure open communications and coordination of compliance work.
- Commitment to excellence in customer service.
- Provide the Government and minerals industry with certainty, as early as possible, that royalty obligations have been fulfilled.
- Commitment to the statutory mandate of realizing fair market value for minerals removed from Federal and Indian lands.
- Aggressively pursue best practices to evaluate and improve the efficiency and effectiveness of compliance operations.

Compliance Strategies

- Identification and stratification of the Federal and Indian mineral lease universe.
- Development of annual compliance work plans to address compliance scope and strategies for coverage of the mineral lease universe.
- Targeted and random audits and compliance reviews of mineral leases, producing properties, and royalty lessees and payors.
- Detection and collection of underpaid mineral revenues.
- Pursue enforcement actions to collect royalty underpayments and require compliance with reporting requirements.
- Promote voluntary compliance by the minerals industry.

Compliance Goals and Objectives

This supports the strategic goal of ensuring Federal and Indian mineral revenues are timely and correctly reported and paid by the minerals industry in compliance with applicable laws, regulations, and lease terms. The objectives include:

- Achieving contemporaneous compliance at less cost to the Federal Government and industry.
- Ensuring timely and correct industry production and royalty reporting and payment for the Federal and Indian mineral lease universe.

Processes Employed

The current process compares OGOR and Form MMS-2014 sales volumes to detect when royalties are not paid on a property or product, or are avoidably lost, etc. The process depends on the OGOR's accuracy and timeliness. Audits and compliance reviews detect non-payment but are generally up to 3-years after the production month. Through a cooperative effort with the states, it is sometimes possible to identify non payment of Federal royalties by reviewing state severance tax records. Through identifying possible risk factors, gathering and sharing more data from states and Tribes, and through outreach to industry and other Federal agencies, a more timely and comprehensive process of revenue identification will occur.

CAM continues to work extensively to establish, document, and test internal controls, many of which impact this focus area.

2. Revenue Identification Focus Area - Process or Component Specifics

The various CAM Managers are responsible for prioritizing and executing the detailed implementation steps. Performance measures are addressed as a step in the implementation plan under the Risk Strategy and Cost Benefit Focus Area.

Business Plan Implementation	Timeline																			
	FY 2008				FY 2009				FY 2010				FY 2011				FY 2012			
Revenue Identification	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Continue to Coordinate with FM in Identifying Valid Missing OGOR's																				
Refine business process. Plan, provide for information distribution and coordinate with FM and CAM																				
Determine frequency of and schedule system time to run process																				
Pursue enforcement actions																				
Focus on First Production to Identify Reporting and Payment Noncompliance																				
Develop system process with FM and coordinate with BIA, BLM, OMM, and CAM to identify production subject to royalty																				
Establish business process																				
Develop outreach plan																				
Pursue enforcement actions																				
Obtain Access to External Data Sources, On-Line Tools, Other Sources of Information																				
Identify state data sources, e.g., severance taxes and websites, and consult with states on use and feasibility of incorporating information into business process																				
Identify and evaluate usefulness of on-line tools and electronic bulletin boards																				
Evaluate use and relevancy of RIK processes, tools, and information																				
Coordinate, consult, and communicate with DOI bureaus and offices (BIA, BLM, OMM, OSM), states, Tribes, FM, and CAM organizations																				
Evaluate Partnering with BLM Pilot Offices and OMM Offices																				
Solicit input and recommendations from BLM, OMM, FM, and CAM on partnership objectives, scope, roles																				
Implement recommendations																				
Evaluate Developing MMS Revenue Data Form (similar to Form 1099)																				
Solicit input from risk modeling, DOI bureaus and offices (BIA, BLM, OMM, OSM), IRS, states, Tribes, FM, and CAM on form.																				
Conduct feasibility study on using an MMS revenue data form in the revenue identification process. Examine legal issues; regulatory requirements; technical and organization requirements; etc.																				

3. Revenue Identification Focus Area - Responsibility

The CAM Managers and staff are responsible for the implementation steps.

4. Revenue Identification Focus Area - Organization and Regulatory Impacts

There are no identified organizational structure impacts. There are potential regulatory impacts if an MMS revenue data form is developed.

5. Revenue Identification Focus Area - IT and System Support Impacts

Description of System Requirements

- Focus on first production to identify reporting and payment problems.
- Sharing of data with states, other on-line sources, etc. – security, storage, etc.
- Explore developing MMS revenue data form (similar to Form 1099).

Functional Areas Impacted

FM, RIK, states, Tribes and BLM/OMM.

Timing and Funding of Proposed Changes

Funding to address new processes for revenue identification is in the MMS FY 2010 budget.

6. Revenue Identification Focus Area - Communication and Outreach

Outreach and stakeholder involvement has played a vital role in the successful planning and implementation for the CBP. The MRM developed an Outreach and Communications Plan to promote full and open communications with internal and external stakeholders. Communication Goals include: increased understanding to build support for Plan implementation, solicit interest and input from business partners, customers and stakeholders in participating for various aspects of the business plan implementation, and periodic briefings and updates regarding the status of implementation of the Plan.

The MRM has informed managers, employees, and constituents throughout the planning and implementation processes. In addition, MRM managers, employees, and business partners have been fully engaged in all aspects of the operational business planning and will continue to be strong participants through implementation.

Affected Groups

The following chart shows the organizations impacted by this focus area action plan and signifies their inclusion in MMS communication and outreach efforts.

Collaboration – Revenue Identification: Manager Oversight					
Organization	Item 1	Item 2	Item 3	Item 4	Item 5
AD				X	X
DAD				X	X
FM	X	X		X	x
ITC	X	X	X		
OE	X	X			
RIK			X		
States		X	X		X
Tribes		X	X		X
BIA		X	X		X
BLM	X	X	X	X	X
OMM	X	X	X	X	X
OSM			X		X
Item Description					
1. Continue to Coordinate with FM in Identifying Missing OGORs					
2. Focus on First Production to Identify Reporting and Payment Noncompliance					
3. Obtain Access to External Data Sources, On-Line Tools, Other Sources of Information					
4. Evaluate Partnering with BLM Pilot Offices and OMM Offices					
5. Evaluate Developing MMS Revenue Data Form (similar to Form 1099)					

Communication and Outreach Activities

Below is a summary of communication sessions related to the compliance business plan, which were held with managers, employees, business partners, and other constituents throughout the business planning process.

Business Plan Communication Sessions				
Date	Title of Communication, Meeting or Workshop	Constituents Represented	Purpose and/or Topic(s) Covered	Operational Plan Involved
2006 - 2007	COPAS Bi-annual Meetings	Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2006 - 2007	STRAC Annual Meetings	States, Tribes	Update on Business Plan efforts.	Compliance
2006 - 2007	RPC Meetings	States, Tribes, and Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2007 Mar 27	State of Colorado Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Jun 18	State of Oklahoma Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 14	State of Wyoming Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 21	Securities and Exchange Commission Benchmark Meeting	SEC	Benchmark financial and compliance processes; receive overview of risk matrix.	Compliance
2007 Nov 27	Internal Revenue Service Benchmark Meeting	IRS	Benchmark audit and compliance processes. Assess options for tracking refunds and for sharing information.	Compliance

CAM will continue to benchmark with the IRS, states and Tribes throughout the implementation of this focus area. Implementing specific strategies for revenue identification will require consultation with states, Tribes, industry, third-party entities that may have data useful in identifying revenues and other DOI agencies.

7. Revenue Identification Focus Area - Summary of Action Plan

Although sharing data with states is challenging (may require specific memorandum of understanding, state legislative approval, etc), all parties will benefit. Exploring useful sources of on-line data and working with the surface management agencies will create a more efficient and effective compliance process.

Focus Area: Major Consolidated Companies

1. Major Consolidated Companies Focus Area - Description

Overall Explanation of Area

Energy companies continue to consolidate or acquire assets of other companies. This may result in the need for MRM to address specific compliance strategies for the company due to the number of Federal and Indian properties or revenue impact on the compliance universe. It is MRM's goal to enhance business relationships with the states and Tribes for a more collaborative, comprehensive, and consistent compliance program. In addition, MRM will focus on the best models for ensuring compliance for all companies.

This focus area responds to the RPC recommendation of completing the risk-based model (See Appendix RPC 4-9).

Relationship to Mission Area

Compliance Principles

- Commitment to meeting the highest professional standards.
- Commitment to meeting the highest standards of ethical conduct.
- Commitment to partnerships with states, Tribes, and other DOI bureaus to assure open communications and coordination of compliance work.
- Commitment to excellence in customer service.
- Provide the Government and minerals industry with certainty, as early as possible, that royalty obligations have been fulfilled.
- Commitment to the statutory mandate of realizing fair market value for minerals removed from Federal and Indian lands.
- Aggressively pursue best practices to evaluate and improve the efficiency and effectiveness of compliance operations.

Compliance Strategies

- Development of annual compliance work plans to address compliance scope and strategies for coverage of the mineral lease universe.
- Targeted and random audits and compliance reviews of mineral leases, producing properties, and royalty lessees and payors.
- Detection and collection of underpaid mineral revenues.
- Pursue enforcement actions to collect royalty underpayments and require compliance with reporting requirements.
- Promote voluntary compliance by the minerals industry.
- Complete compliance cycle in 3 years or less.

Compliance Goals and Objectives

The CBP “blueprint” phase recognizes the importance of developing additional strategies or models to:

- Improve initial or “voluntary” compliance e.g., reporting guidance, outreach sessions, incentives and enforcement actions.
- Coordinate with and expedite review of the major consolidated companies.

Processes Employed

The current process considers royalty dollars and location of company offices. Currently, residencies are staffed by only Offshore CAM. During the blueprint phase, the CBP team sent surveys to various CAM, FM, and other MRM representatives requesting information on criteria for residencies, rotation policies, and other alternatives for company interaction. Additionally, revised draft criteria (establishing and closing residencies) were developed and there are risk-strategy factors to address company compliance strategies. MRM has already established a cross-organizational pilot compliance team with ConocoPhillips consisting of representatives from each CAM that travel to the company as necessary but do not reside full-time at the company’s location. The surveys reflected a need for a solid mineral office in St. Louis where two major companies reside.

CAM continues to work extensively to establish, document, and test internal controls many of which impact this focus area.

2. Major Consolidated Companies Focus Area - Process or Component Specifics

The various CAM Managers are responsible for prioritizing and executing the detailed implementation steps. Performance measures are addressed as a step in the implementation plan under Risk Strategy and Cost Benefit.

Business Plan Implementation	Timeline																			
	FY 2008				FY 2009				FY 2010				FY 2011				FY 2012			
Major Consolidated Companies	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Evaluate Success of Mobile Compliance Team Pilot																				
Coordinate state and Tribal involvement																				
Monitor and adjust based on lessons learned																				
Document pilot results, what does and does not work																				
Determine potential companies for mobile team																				
Establish criteria for new teams based on pilot																				
Establish, Evaluate, and Refine Criteria for Deployment of Compliance Teams e.g., Residencies and Mobile																				
Refine and implement criteria for residencies																				
Determine if additional companies should be considered for additional oversight based on factors such as risk-based strategy																				
Utilize risk-based strategy with companies (residencies, compliance teams)																				
Expand "State of the Company" meetings (MMS, State, Tribes)																				
Establish process to provide feedback and timely issue resolution																				
Initiate External Reporting of Company Compliance																				
Post, share data about companies compliance																				
Evaluate Viability of a Solid Minerals Multi-Disciplinary Team in St. Louis, MO																				

3. Major Consolidated Company Focus Area - Responsibility

The CAM Managers and staff are responsible for the implementation steps.

4. Major Consolidated Companies Focus Area - Organization and Regulatory Impacts

- Organization/Team composition and locations will change based on the strategy enlisted and the representation needed to work with the company. The team may consist of representatives from other MMS organizations or DOI agencies. It will be necessary to establish responsibility among CAMs, FM, states, and Tribes and coordinate with industry.
- There are costs associated with establishing a solid minerals office in St. Louis Missouri.
- There are no regulatory impacts.

5. Major Consolidated Companies Focus Area - IT and System Support Impacts

There are no impacts to systems.

6. Major Consolidated Companies Focus Area - Communication and Outreach

Outreach and stakeholder involvement has played a vital role in successful planning and implementation for the MRM 2008-2012 Strategic Business Plans. The MRM developed an Outreach and Communications Plan to promote full and open communications with internal and external stakeholders. Communication goals include: increased understanding to build support for Plan implementation, solicit interest and input from business partners, customers and stakeholders in participating for various aspects of the business plan implementation, and periodic briefings and updates regarding the status of implementation of the Plan.

The MRM has informed managers, employees, and constituents throughout the planning and implementation processes. In addition, MRM managers, employees, and business partners have been fully engaged in all aspects of the operational business planning and will continue to be strong participants through implementation.

Affected Groups

The following chart shows the organizations impacted by this focus area action plan and signifies their inclusion in MMS communication and outreach efforts.

Collaboration – Major Consolidated Companies: Manager Oversight				
Organization	Item 1	Item 2	Item 3	Item 4
AD		X	X	X
DAD		X	X	X
FM	X	X	X	
ITC				
OE			X	
RIK		X		
States	X	X		X
Tribes	X	X		X
Item Description				
1. Evaluate Success of Mobile Compliance Team Pilot				
2. Establish, Evaluate, and Refine Criteria for Deployment of Compliance Teams e.g., Residencies and Mobile				
3. Initiate External Reporting of Company Compliance				
4. Evaluate Viability of a Solid Minerals Multi-Disciplinary Team in St. Louis, Missouri				

Communication and Outreach Activities

Below is a summary of communication sessions related to the CBP, which were held with managers, employees, business partners, and other constituents throughout the business planning process.

Business Plan Communication Sessions				
Date	Title of Communication, Meeting or Workshop	Constituents Represented	Purpose and/or Topic(s) Covered	Operational Plan Involved
2006 - 2007	COPAS Bi-annual Meetings	Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2006 - 2007	STRAC Annual Meetings	States, Tribes	Update on Business Plan efforts.	Compliance
2006 - 2007	RPC Meetings	States, Tribes, and Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2007 Mar 27	State of Colorado Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Jun 18	State of Oklahoma Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 14	State of Wyoming Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 21	Securities and Exchange Commission Benchmark Meeting	SEC	Benchmark financial and compliance processes; receive overview of risk matrix.	Compliance
2007 Nov 27	Internal Revenue Service Benchmark Meeting	IRS	Benchmark audit and compliance processes. Assess options for tracking refunds and for sharing information.	Compliance

CAM will continue to benchmark with the IRS, states and Tribes throughout the implementation of this focus area. Implementing specific strategies for companies will require consultation with industry, states and Tribes with delegated and cooperative agreements and in some cases other DOI agencies working with the same companies. Industry will continue to consolidate or decentralize and the strategies that MRM needs to

employ will change. Developing a process that more timely addresses these changes is critical to ensuring compliance.

7. Major Consolidated Companies Focus Area - Summary of Action Plan

Implementation of this focus area will provide a framework for an efficient and effective process for interacting with companies that have a significant impact on Federal and Indian royalties. Continual refinement of the process and strategies to address industry changes will permit MRM to coordinate issues and shift resources more timely. The proposal to establish a solid minerals St. Louis, Missouri office is predicated on the current headquarters of two major solid mineral companies.

Focus Area: Information Management and Systems Support

1. Information Management and Systems Support Focus Area - Description

Overall Explanation of Area

This focus area strives to provide greater efficiency in identifying, organizing, maintaining, accessing, and analyzing information for effective regulatory compliance. Effective information management and systems are critical to the efficiency of the compliance program. Developing an automated risk model, consolidating management tools, and continuous improvement of compliance tools will provide the framework for ensuring royalties are accurately reported and paid.

This focus area responds to the CAP and RPC recommendations to develop an integrated compliance tracking tool (See Appendix: RPC 4-10, 4-14, 4-17 and 18; and, CAP IV-A-1 and 2).

Relationship to Mission Area

Compliance Principles

- Commitment to partnerships with states, Tribes, and other DOI bureaus to assure open communications and coordination of compliance work.
- Commitment to excellence in customer service.
- Provide the Government and minerals industry with certainty, as early as possible, that royalty obligations have been fulfilled.
- Commitment to the statutory mandate of realizing fair market value for minerals removed from Federal and Indian lands.
- Aggressively pursue best practices to evaluate and improve the efficiency and effectiveness of compliance operations.

Compliance Strategies

- Identification and stratification of the Federal and Indian mineral lease universe.
- Development of annual compliance work plans to address compliance scope and strategies for coverage of the mineral lease universe.
- Targeted and random audits and compliance reviews of mineral leases, producing properties, and royalty lessees and payors.
- Detection and collection of underpaid mineral revenues.
- Complete compliance cycle in 3 years or less.
- Implement compliance performance goals and a system of audit internal quality controls.

Compliance Goals and Objectives

Develop a comprehensive strategy for future compliance systems and technology improvements. Ensure integrity of compliance data utilized in the system while providing timely and responsive access for all users.

The compliance objectives addressed in this focus area are:

- Ensure substantial compliance for the Federal and Indian mineral lease universe.
- Implement efficient and effective contemporaneous compliance strategies.
- Conduct audits and reviews in full compliance with applicable standards and use best practices.
- Ensure timely and correct industry production and royalty reporting and payment for the Federal and Indian mineral lease universe.

Processes Employed

Refinements and improvements to the CPT continue to provide a robust process for identifying variances, identifying volume discrepancies, and capturing data needed for reviews and audits. As with any system, additional requirements are being identified and plans for modifications are underway. During the blueprint phase, an adjustment line monitoring pilot was used to develop procedures and requirements for the system enhancement.

During the CBP assessment phase, MRM developed a risk-based methodology, and beginning in October 2007, implemented the risk-based prototype to further refine the data and develop revised performance goals. The need for a risk strategy was endorsed by the OIG in the audit report on compliance reviews. For FY 2009, the risk model results are being utilized to develop the compliance work plan and performance goals.

Currently, multiple tools are used to track compliance cases to capture the status, collections, estimated interest, performance data for the GPRA measure, and state and Tribal work plans. Developing a single, consolidated compliance management and tracking tool is a need identified by MRM and various external oversight groups. Also, in the blueprint phase numerous improvements to the tools and the procedures were implemented laying the groundwork for consolidation. Other requirements may also be identified during implementation.

CAM continues to work extensively to establish, document, and test internal controls many of which impact this focus area.

2. Information Management and Systems Support Focus Area - Process or Component Specifics

The various CAM Managers are responsible for prioritizing and executing the detailed implementation steps.

Business Plan Implementation	Timeline																			
	FY 2008				FY 2009				FY 2010				FY 2011				FY 2012			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Information Management and Systems Support																				
Refine CPT – Solids, Indian Pricing, Gas Plant et al																				
Coordinate, consult, and communicate with CAM, states, and Tribes																				
Continue functional improvements/fixes accepted through system change request																				
Develop Solid Minerals and Geothermal CPT (Phase I, II)																				
Enhance automated volume exception routine (Gas Plants etc.)																				
Enhance Indian Pricing Tool (Indian oil major portion)																				
Provide training, technical support to CAM, states, Tribes																				
Identify potential future enhancements, including capturing gas plant data for use in prioritizing gas plant audits/reviews																				
Implement Adjustment Monitoring System																				
Establish data retrieval and distribution parameters, e.g., frequency, content, layout																				
Define and grant CAM, State, Tribe access to data; address row level security																				
Document and incorporate into business process																				
Develop and apply data integrity reviews, e.g., monitor coverage																				
Implement Risk-Based Model in MRMS																				
Develop, deliver <i>automated</i> risk-based strategy tool																				
Coordinate, consult, and communicate with CAM, States, and Tribes																				
Integrate system changes into business process																				
Track Compliance Interest in Financial System																				
Participate with FM on redesign of interest module																				
Coordinate, consult, and communicate with CAM, states, and Tribes																				
Integrate system changes into business process																				
Develop Single Integrated Tracking Tool for all Compliance Activities																				
Integrate tracking tool to cover all compliance activities, e.g., CIM, PTT, GPRA, Work Plans tools																				
Coordinate, consult, and communicate with CAM, states, and Tribes																				
Establish parameters/procedures for access, content, maintenance, use of new functionality																				
Upgrade MRMS Verification and Validation Tools																				
Coordinate with FM, OE, states, Tribes and other agencies																				
Establish parameters and procedures for data content, maintenance, and use																				
Integrate tool into compliance business process; provide training and follow-up support to CAM/MMS, BIA, States, and Tribes																				

Performance Measures

GPRA performance measures for FY 2009 are being drafted which will report the percentage of payors and properties reviewed. Internally, CAM will develop procedures to track the number of payors and properties reviewed by risk category. During Fiscal Year 2007, the MRM initiated a re-assessment of the program under the OMB Performance Assessment Rating Tool. The plan outlined in the CBP and the efforts undertaken by CAM, especially in the areas of efficiency and risk-based measures, assisted with the MRM achieving a “moderately effective” rating in 2007 which is the second highest rating available. CAM continues to work closely with OMB in developing the 2009 performance measures.

3. Information Management and Systems Support Focus Area - Responsibility

The CAM Managers and staff are responsible for the implementation steps identified in 2.

4. Information Management and Systems Support - Organization and Regulatory Impacts

There are no identified organizational structure impacts. There are no identified regulatory impacts for this focus area.

5. Information Management and Systems Support Focus Area - IT and System Support Impacts

Description of System Requirements

- Refine CPT – deliver functional fixes/improvements.
- Implement adjustment monitoring system.
- Implement risk-based model in MRMSS.
- Define needs for compliance tracking interest with Financial Management.
- Develop single tool for tracking all compliance activities.
- Upgrade MRMSS verification and validation tools.

Functional Areas Impacted

FM, OE, BLM, BIA, OSM, OMM, states and Tribes are all impacted.

Timing and Funding of Proposed Changes

- Implement adjustment monitoring system. Funding is in place for FY 2008.
- Refine CPT – deliver functional fixes/improvements. Program funding is approved for Solids CPT for FY 2009 and FY 2010.
- Implement risk-based model in MRMSS. Funding requested and approved by OMB for FY 2009.
- Define needs for compliance interest with FM. Funding requested and approved by OMB for FM in FY 2009.
- Develop single tool for tracking all compliance activities. Program funding identified beginning in FY 2009.
- Upgrade MRMSS verification and validation tools. Funding requests submitted in FY 2010 budget.

6. Information Management and Systems Support Focus Area - Communication and Outreach

Outreach and stakeholder involvement have played a vital role in successful planning and implementation for the MRM 2008-2012 Strategic Business Plans. The MRM developed an Outreach and Communications Plan to promote full and open communications with internal and external stakeholders. Communication Goals include: increased understanding to build support for plan implementation, solicit interest and input from business partners, customers and stakeholders in participating for various aspects of the business plan implementation, and periodic briefings and updates regarding the status of implementation of the Plan.

The MRM has informed managers, employees, and constituents throughout the planning and implementation processes. In addition, MRM managers, employees, and business partners have been fully engaged in all aspects of the operational business planning and will continue to be strong participants through implementation.

Affected Groups

The following chart shows the organizations impacted by this focus area action plan and signifies their inclusion in MMS communication and outreach efforts.

Collaboration – Information Management and Systems Support: Manager Oversight						
Organization	Item 1	Item 2	Item 3	Item 4	Item 5	Item 6
AD			X		X	X
DAD	X		X	X		X
FM				X		X
ITC	X	X	X	X	X	X
OE						X
RIK						X
States	X	X	X	X	X	X
Tribes	X	X	X	X	X	X
BIA			X			X
BLM	X		X			X
OMM			X			X
OSM			X			X
Item Description						
1. Refine CPT – Solids, Indian Pricing, Gas Plant et al						
2. Implement Adjustment Monitoring System						
3. Implement Risk-Based Model in MRMS						
4. Track Compliance Interest in Financial System						
5. Develop Single Integrated Tracking Tool for all Compliance Activities						
6. Upgrade MRMS Verification and Validation Tools						

Communication and Outreach Activities

Below is a summary of communication sessions related to the compliance business plan, which were held with managers, employees, business partners, and other constituents throughout the business planning process.

Business Plan Communication Sessions				
Date	Title of Communication, Meeting or Workshop	Constituents Represented	Purpose and/or Topic(s) Covered	Operational Plan Involved
2006 - 2007	COPAS Bi-annual Meetings	Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2006 - 2007	STRAC Annual Meetings	States, Tribes	Update on Business Plan efforts.	Compliance
2006 - 2007	RPC Meetings	States, Tribes, and Oil and Gas Industry	Update on Business Plan efforts.	Compliance
2007 Mar 27	State of Colorado Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Jun 18	State of Oklahoma Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 14	State of Wyoming Outreach Meeting	State	Update on Business Plan efforts.	Compliance
2007 Aug 21	Securities and Exchange Commission Benchmark Meeting	SEC	Benchmark financial and compliance processes; receive overview of risk matrix.	Compliance
2007 Nov 27	Internal Revenue Service Benchmark Meeting	IRS	Benchmark audit and compliance processes. Assess options for tracking refunds and for sharing information.	Compliance

7. Information Management and Systems Support Focus Area - Summary of Action Plan

The Action Plan for this focus area identifies aggressive and comprehensive improvements to the overall information management and system requirements for ensuring compliance. Implementation of information management and systems is a cross-organizational effort. The actions identified in this focus area and steps already undertaken in compliance will provide more accurate information in determining resource allocations based on risks, costs of various compliance activities and more accurate information on collections and overall compliance. The IT and Systems Support Focus Area will permit as much access as possible for MRM partners.

Royalty Policy Committee Subcommittee Recommendations

3-1: MMS and BLM should develop a procedure to determine the potential BTU variability of produced natural gas on a by-reservoir or by-lease basis, and estimate the implications for royalty payments.

3-2: MMS and BLM should adjust BTU frequency requirements for sampling and reporting on a case-by-case basis, or consider other regulatory requirements.

3-3: MMS and BLM should establish consistent guidelines for requesting BTU information from gas producers, and should systematically examine the validity of that information.

3-4: MMS and BLM should establish procedures to systematically compare the BTU values reported on the OGORs with gas analysis reports (GARs) to determine whether BTU reporting is accurate.

3-6: MMS should amend Form MMS-2014 to record natural gas BTU values, which form the basis for required royalty payments. This will require adding a second column to the form: the new column will report BTU value, and the original column will still report volume times BTU value (total mmbTU).

3-7: MMS should modify the Gas and Liquid Verification Systems (GVS and LVS), or develop an equivalent, automated system to compare BTU values and oil quality data in submitted product quality statements to information in OGORs (see also recommendations under Electronic Data Submittals, Data Exchange, and Accounting Tools, beginning on page 12).

3-9: BLM should work with MMS's MRM division to develop and implement a system that electronically transmits information on lease establishment and any follow-up leasing actions affecting lease status.

Royalty Policy Committee Subcommittee Recommendations (continued)

3-16: MMS should reinstate periodic reporting of gas plant efficiency data by plant operators, similar to Gas Plant Operations Reports (GPORs). The reporting period should be consistent with established audit schedules.

3-17: MMS should establish a prioritized gas-plant compliance review or audit schedule to examine gas-plant efficiency. This schedule could be based on factors such as plant processing capacity, age of the plant and age of the efficiency data.

3-19: BLM and MMS should develop timelines and standards for communicating and providing feedback to each other on production accountability issues.

4-1: MMS should establish a "Compliance Strategy Council" to identify an MMS-wide compliance strategy. The Council should be established by June 2008. Membership of the Council should include senior MMS compliance managers. Outside membership, such as senior IRS staff experienced in risk-based compliance processes, should also be considered. The Council could consider a number of issues initially including:

4-2: MMS should systematically review staffing and budgetary needs required to implement the August 2007 consultant's report on compliance strategies. MMS should prepare a plan for tracking costs and benefits by audit/review type and by compliance office.

4-3: MMS 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.

4-4: MMS 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, MMS should evaluate the results from the audit and compliance program cost-benefit study and implement its recommendations as appropriate. During the next fiscal year, MMS 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. MMS should consider consulting with the IG and GAO regarding the sufficiency of these Plans.

Royalty Policy Committee Subcommittee Recommendations (continued)

4-5: MMS 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.

4-9: MMS should complete its risk-based compliance pilot project and develop a plan for implementing a risk-based compliance strategy on an MMS-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 FY 2008 and should address the offshore program.

4-13: MMS should develop a new set of GPRA 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). MMS should establish final goals and measures by the end of February 2008.

4-14: MMS 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.

4-15: MMS should evaluate the performance measures used by other entities. In particular, MMS should review the IRS "Balanced Measures" performance system.

4-17: MMS should eliminate duplicate data by consolidating several databases, including databases for the Compliance Information Management system (CIM), the Performance Tracking Tool (PTT), and the GPRA.

4-18: MMS should implement automatic updates by integrating the Compliance Information Management System (CIM) and the PTT information system rather than depending on manual data entry.

Compliance Action Plan In Response to the OIG Audit of Compliance Reviews

IV-A-1: Evaluate and enhance existing policies and procedures to ensure consistency in the entering and maintenance of data in and the use of CIM for compliance review tracking purposes. Establish additional controls to ensure these procedures are effective.

IV-A-2: Evaluate and expand existing GPRA procedures to include consistent instructions on the appropriate methods to update the GPRA database. Establish additional controls to ensure these procedures are effective.

IV-A-4: Evaluate alternatives to enhance MRM's current compliance cost/benefit analyses. Engage contractor to support the evaluation process.

IV-B-3: Develop new materiality or tolerance limits for pursuing potential underpayments.

IV-B-7: Establish and implement a pilot project to further develop and begin implementation of risk-based compliance strategies. Expert contractor support will be engaged to support the pilot design and evaluation of results.

IV-B-8: Ensure that state and tribal auditors have access to all necessary compliance review tools, including the CPT.

IV-C-2: Continue tracking separate compliance measures for audits, compliance reviews and royalty in kind compliance activity. Evaluate potential changes to measures based on the results of the pilot project to be conducted under **Action Element B-7** and the evaluation to be conducted under **Action Element A-4**.

IV-C-3: Evaluate potential for separate performance measures for companies and properties subjected to compliance coverage based on the results of the pilot project to be conducted under **Action Element B-7**.

IV-C-4: Establish efficiency measures for audits and compliance reviews based on the results of the evaluation conducted under **Action Element A-4**.