



BUDGET The United States
Department of the Interior
JUSTIFICATIONS

and Performance Information
Fiscal Year 2020

**OFFICE OF THE
SECRETARY**

**DEPARTMENT-WIDE
PROGRAMS**

NOTICE: These budget justifications are prepared for the Interior, Environment and Related Agencies Appropriations Subcommittees. Approval for release of the justifications prior to their printing in the public record of the Subcommittee hearings may be obtained through the Office of Budget of the Department of the Interior.



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**DEPARTMENT OF THE INTERIOR
OFFICE OF THE SECRETARY**

FISCAL YEAR 2020 BUDGET JUSTIFICATIONS

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**DEPARTMENT OF THE INTERIOR
DEPARTMENT-WIDE PROGRAMS****Appropriation Language Sheet****Office of Natural Resources Revenue**

For necessary expenses for management of the collection and disbursement of royalties, fees, and other mineral revenue proceeds, and for grants and cooperative agreements, as authorized by law, \$147,330,000, to remain available until September 30, 2021; of which \$50,651,000 shall remain available until expended for the purpose of mineral revenue management activities: Provided, That notwithstanding any other provision of law, \$15,000 shall be available for refunds of overpayments in connection with certain Indian leases in which the Secretary concurred with the claimed refund due, to pay amounts owed to Indian allottees or tribes, or to correct prior unrecoverable erroneous payments.

Note.—A full-year 2019 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2019 (Division C of P.L. 115–245, as amended). The amounts included for 2019 reflect the annualized level provided by the continuing resolution.

**DEPARTMENT OF THE INTERIOR
DEPARTMENT-WIDE PROGRAMS**

**Appropriation Language Citations
Appropriation: Office of Natural Resources Revenue**

Appropriation language and citations:

1. For necessary expenses for management of the collection and disbursement of royalties, fees, and other mineral revenue proceeds,

This language provides authority to use appropriated funds provided for the Office of the Secretary to carry out the mission of the Office of Natural Resources Revenue (ONRR), including the collection and disbursement of royalties, fees and other mineral revenue proceeds.

2. and for grants and cooperative agreements, as authorized by law,

This language provides grants and cooperative agreement authority to the Office of the Secretary to carry out minerals revenue collection and management activities such as the State and Tribal Audit Program.

3. \$147,330,000, to remain available until September 30, 2021;

The Department proposes the majority of funding for the Office of Natural Resources Revenue account to remain available until September 30, 2021.

4. of which \$50,651,000 shall remain available until expended for the purpose of mineral revenue management activities:

The Department proposes \$50,651,000 of funding for the Office of Natural Resources Revenue account to continue to partially fund ONRR's mineral revenue management activities with no-year funding. This type of funding allows ONRR a valuable degree of flexibility to support multi-year information management system contracts and State and tribal cooperative audit agreements.

5. Provided, That notwithstanding any other provision of law, \$15,000 under this heading shall be available for refunds of overpayments in connection with certain Indian leases in which the Secretary concurred with the claimed refund due, to pay amounts owed to Indian allottees or tribes, or to correct prior unrecoverable erroneous payments.

The budget request reflects the continuation of ONRR's existing authority within the Office of Natural Resources Revenue account regarding refunds of Indian lease overpayments.

Department-wide Programs - Office of Natural Resources Revenue
Budget At A Glance
(Dollars in Thousands)

	2018 Actual	2019 CR Baseline	Fixed Costs	Internal Transfers	Program Changes	2020 Request
Appropriation: Office of Natural Resources Revenue						
Natural Resources Revenue	137,757	137,757	-279	+0	+9,852	147,330
Fixed Costs			[-279]			
Minerals Revenue Management Support System Modernization					[+8,891]	
Audit and Compliance Activities					[+961]	
TOTAL, OFFICE OF NATURAL RESOURCES REVENUE	137,757	137,757	-279	+0	+9,852	147,330

Department-wide Programs - Office of Natural Resources Revenue
Summary of Requirements
(Dollars in Thousands)

	2018 Actual		2019 CR Baseline		Fixed Costs & Related (+/-)	Internal Transfers (+/-)		Program Changes (+/-)		2020 Request		Change from 2019	
	Amount	FTE	Amount	Amount	Amount	FTE	Amount	FTE	Amount	FTE	Amount	FTE	Amount
Appropriation: Office of Natural Resources Revenue													
Natural Resources Revenue	137,757	622	137,757		-279	+0	+0	+0	+9,852	622	147,330	+0	+9,573
Total, Office of Natural Resources Revenue	137,757	622	137,757		-279	+0	+0	+0	+9,852	622	147,330	+0	+9,573

Office of Natural Resources Revenue
Justification of Fixed Costs and Internal Realignments
(Dollars In Thousands)

Fixed Cost Changes and Projections	2019 Change	2019 to 2020 Change
<p>Change in Number of Paid Days This column reflects changes in pay associated with the change in the number of paid days between the 2019 and 2020.</p>	+299	+306
<p>Pay Raise The 2020 request reflects a pay freeze for civilian employees.</p>	+394	+0
<p>Employer Share of Federal Employee Retirement System The change reflects the directed 2.3% increase in the employer contribution to the Federal Employee Retirement System.</p>	+0	+172
<p>Departmental Working Capital Fund The change reflects expected changes in the charges for centrally billed Department services and other services through the Working Capital Fund. These charges are detailed in the Budget Justification for Departmental Management.</p>	+538	-675
<p>Worker's Compensation Payments The amounts reflect projected changes in the costs of compensating injured employees and dependents of employees who suffer accidental deaths while on duty. Costs for the 2020 will reimburse the Department of Labor, Federal Employees Compensation Fund, pursuant to 5 U.S.C. 8147(b) as amended by Public Law 94-273.</p>	-49	+12
<p>Unemployment Compensation Payments The amounts reflect projected changes in the costs of unemployment compensation claims to be paid to the Department of Labor, Federal Employees Compensation Account, in the Unemployment Trust Fund, pursuant to Public Law 96-499.</p>	+0	+0
<p>Rental Payments The amounts reflect changes in the costs payable to General Services Administration (GSA) and others for office and non-office space as estimated by GSA, as well as the rental costs of other currently occupied space. These costs include building security; in the case of GSA space, these are paid to Department of Homeland Security (DHS). Costs of mandatory office relocations, i.e. relocations in cases where due to external events there is no alternative but to vacate the currently occupied space, are also included.</p>	+96	-94

Activity: Office of Natural Resources Revenue

	2018 Actual	2019 CR Baseline	2020 Fixed Costs & Related Changes (+/-)	2020 Internal Transfers (+/-)	2020 Program Changes (+/-)	2020 Budget Request	Change from 2019 (+/-)
Office of Natural Resources Revenue							
2 Year Fund	96,030	96,030	-279	0	+928	96,679	+649
No Year Fund	41,727	41,727	0	0	+8,924	50,651	+8,924
Total							
(\$000)	137,757	137,757	-279	0	+9,852	147,330	+9,573
FTE	594	622	0	0	0	622	0

Summary of Program Changes

The 2020 budget request for the Office of Natural Resources Revenue (ONRR) is \$147.3 million. Included in this request is a much needed \$8.9 million investment in modernizing ONRR’s information technology (IT) system, and a \$1.0 million increase to audit and compliance activities.

Request Component	(\$000)	FTE
IT Modernization	+8,891	+0
Audit and Compliance Activities	+ 961	+0
Total Program Changes	+9,852	+0

Justification of Program Changes

IT Modernization (+\$8,891,000 / +0 FTE): ONRR is requesting \$8.9 million in FY 2020 to begin a multi-year effort to fully modernize its core system to increase the reliability, accuracy and efficiency of its data processes, and potentially increase mineral revenue collections. The modernization effort will provide the capacity, flexibility and agility to deploy new technologies as they become available and will also allow ONRR to reduce long-term operations and maintenance costs. This request directly aligns with the Administration’s and the Secretary’s strategic imperative of modernizing key system processes and underlying technology to increase productivity and security.

ONRR relies on an aging and increasingly inefficient mixed-financial system, the Minerals Revenue Management Support System (MRMSS), to provide the backbone for all of its mission-critical functions from mineral revenue collection, accounting and disbursement to ensuring accurate reporting and compliance for Federal and Indian mineral leases. Antiquated manual processes and offline tools outside the MRMSS continue to put core ONRR activities at risk. The current system requires thousands of labor hours to manually validate, aggregate, and process duplicative data. As one example, since the current system does not allow uploads and

data exchanges needed to accommodate other DOI bureaus such as the Bureau of Land Management and Bureau of Ocean Energy Management, ONRR must make numerous manual edits to reference data or manually validate it directly with those bureaus in order to ensure accuracy. These manual interventions introduce the risk of error, and as new regulations such as Phase 2 revenue sharing under the Gulf of Mexico Energy Security Act (GOMESA) of 2006 are promulgated, processes and validation become increasingly complex and therefore prone to error.

Since its initial implementation nearly two decades ago, regulatory changes, increased security concerns, and unique business requirements have led to a highly customized, complex, process-layered system. In spite of this customization, ONRR still must currently use multiple inefficient manual processes to meet its mission requirements. Over time, this complexity and customization has made the MRMSS operation and sustainment increasingly challenging and costly. Operation of the MRMSS currently represents roughly 20 percent of ONRR's annual budget. ONRR's projections indicate that MRMSS costs will continue to rise becoming unsustainable in the long term.

An Analysis of Alternatives performed by Booz Allen Hamilton and the Department's Interior Business Center, indicates that a modernized system would be much more flexible and agile than the MRMSS while also being less costly to operate and maintain. Using industry benchmarks and vendor research, the analysis concluded that by moving to a modernized system platform, ONRR could expect a return on investment of 13 percent, including potential acquisition and implementation costs.

By modernizing the MRMSS, ONRR can reasonably expect to decrease Federal labor costs; reduce system complexity; and generate cost savings and efficiencies in IT operations, development, and maintenance. MRMSS modernization will ultimately improve the accuracy of revenue reporting between industry, ONRR, and revenue recipients including States, Tribes, and the U.S. Treasury. Modernizing and shifting to a modular system design also will allow ONRR to select the best technologies for each of the five core components of the system. Vendor research shows that platform modernization could decrease costs across the board while resulting in more streamlined processes, greater efficiency, and overall resource or labor savings.

This modernization effort would begin in FY 2020 with an \$8.9 million increase to ONRR's base funding for requirements discovery and business process redesign, which are necessary to ensure the creation of an efficient system that meets all of ONRR's needs. Included in this modernization is the utilization of the Energy Information Repository, where data from DOI energy bureaus and offices share a common data warehouse for exchanging data that supports each group's mission. This is a partnership with the DOI Business Integration Office, ONRR, and the Bureau of Land Management, which will be expanded to include the Bureau of Safety and Environmental Enforcement, the Office of the Special Trustee for American Indians, and the Bureau of Indian Affairs.

Without modernizing, ONRR will continue the inefficient, manual processes necessary to meet its mission requirements, and the Department will be forced to continue to invest in an outdated

system that is increasingly expensive to sustain as inevitable future operations and software updates require significantly more testing, development, and support.

Audit and Compliance Activities (+\$961,000 / +0 FTE): The request will enable ONRR to collect an estimated \$100 million annually in compliance revenues. The budget request maintains ONRR's current level of support for Osage trust accounting activities, and allows ONRR to expand implementation of the accounting, audit, compliance, and valuation functions upon regulation finalization.

Program Overview

For the benefit of all Americans, the ONRR collects, accounts for, and verifies natural resource and energy revenues due to States, American Indians, Alaska Natives and the U.S. Treasury. In 2018, ONRR disbursed over \$8.93 billion to the U.S.

Treasury, various State and American Indian accounts, and special use accounts, such as the Reclamation Fund. Every American

benefits from the revenues generated from mineral resources, either directly through payments to Tribes and Individual Indian Mineral Owners (IIMOs) or indirectly through payments to the Historic Preservation Fund, the Land and Water Conservation Fund, the Reclamation Fund, States, and the General Fund of the U.S. Treasury.

Our Mission

For the benefit of all Americans, ONRR collects, accounts for, and verifies natural resource and energy revenues due to States, American Indians, and the U.S. Treasury

Our Vision

Excellence in natural resources revenue management

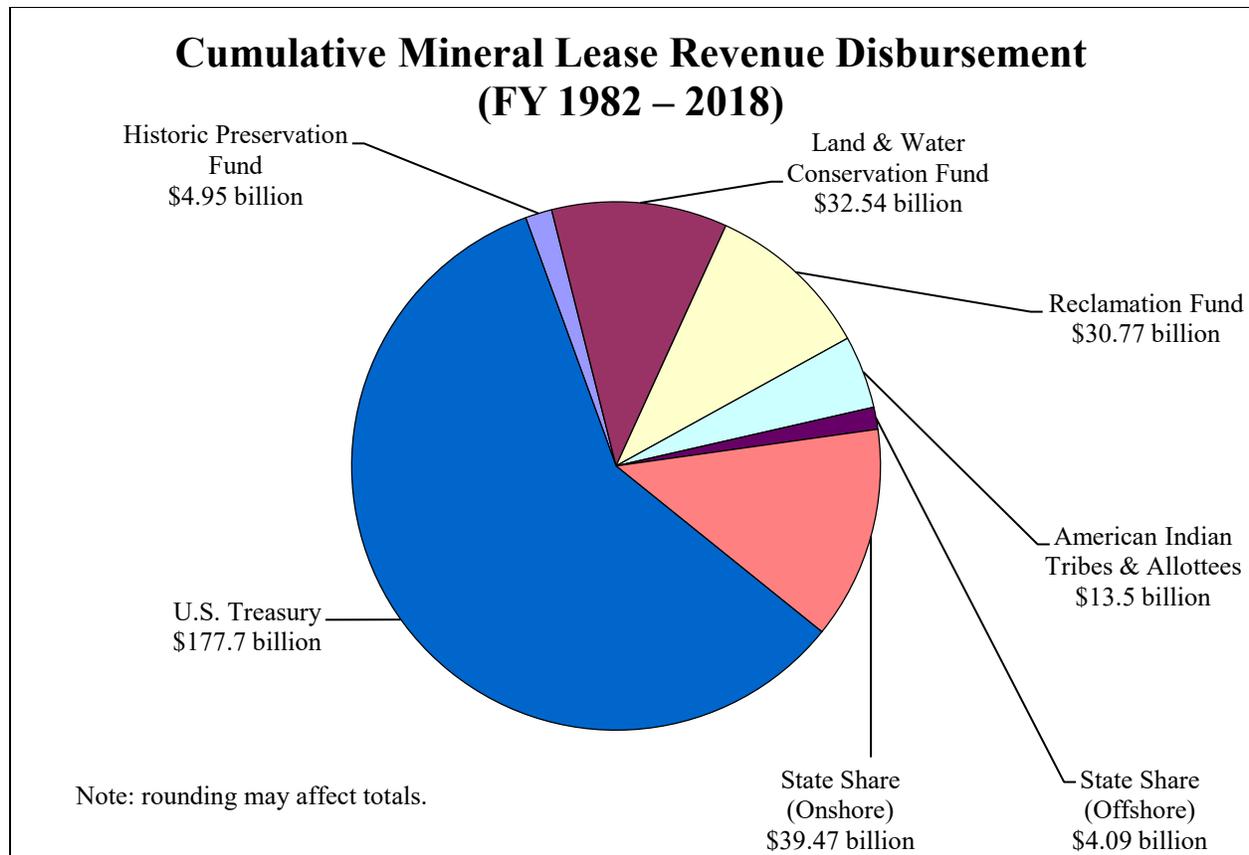
The beneficiaries of disbursements in 2018 included:

- ***U.S. Taxpayers — \$3.51 Billion***
Mineral leasing revenues are one of the Federal Government's largest sources of non-tax receipts, funding various government functions and programs through the General Fund of the U.S. Treasury.
- ***States — \$1.78 Billion***
Mineral revenues disbursed to States can be a significant element of a State's financial resource picture, providing funding for local schools, roads, libraries, public buildings, and general operations, as the States deem necessary.
- ***Western Water Users — \$1.22 Billion***
Mineral revenue receipts support the U.S. Bureau of Reclamation's water resource development and maintenance work in the western United States. Spending from the account is subject to appropriation.
- ***American Indian Tribes and Indian Mineral Owners — \$1.02 Billion***
Monies collected from mineral leases on Indian lands are distributed regularly to tribal governments or IIMOs. These funds provide direct and tangible benefits to thousands within the American Indian community, often as a major source of primary income.

- ***Conservation and Recreation Programs — \$970 Million***
ONRR transfers over \$900 million annually to the Land and Water Conservation Fund (LWCF) to be used as a resource for Federal, State, and local governments to help acquire, develop, and improve outdoor recreation areas. Most spending from the account is currently subject to annual appropriation.
- ***Historic Preservation — \$150 Million***
ONRR annually transfers \$150 million to the National Historic Preservation Fund (HPF) as “seed money” to preserve and protect our Nation’s irreplaceable heritage for current and future generations. This fund is administered to help save the historic buildings, neighborhoods, and landscapes that form our communities and enrich our lives.
- ***Other Funds — \$280 Million***
Includes funds directed back to Federal agencies that administer these lands to help cover operational costs. (Included in the cumulative U.S. Treasury disbursement figure.)

The Federal government has collected revenues from mineral production on Federal onshore lands since 1920; on American Indian lands since 1925; and on Federal offshore lands since 1953. In 1982, the Federal Oil and Gas Royalty Management Act called upon the Department to establish a comprehensive, consolidated system for the collection, accounting, and disbursement of these revenues. Since that time, Interior has provided over \$303 billion to Federal, State, and American Indian recipients through this program. Approximately 59 percent of all annual collections have gone to the General Fund of the U.S. Treasury, 22 percent to special purpose funds, 14 percent to States, and almost 4 percent to the American Indian community.

Special purpose funds, including the LWCF, the Historic Preservation Fund, and the Reclamation Fund, have received \$68.3 billion in ONRR-collected mineral revenues since 1982 as shown in the figure below.



ONRR was established within the Office of the Secretary under the Assistant Secretary for Policy, Management and Budget (AS-PMB) on October 1, 2010, as part of the reorganization of the former Minerals Management Service. Placement in AS-PMB positioned ONRR to leverage its revenue-collection expertise to serve a leadership role in Department-wide collaboration and implementation of key initiatives to provide reasonable assurance the Department is collecting every dollar due.

In support of its mission, ONRR conducts work in three key program areas:

- Revenue, Reporting, and Compliance Management.** These activities ensure that all revenues from Federal and Indian leases are efficiently, effectively, and accurately collected, accounted for, and disbursed in a timely manner. This program’s activities also include efforts to ensure accurate reporting of production volumes.
- Audit Management.** These activities ensure the Nation’s Federal and Indian mineral revenues are accurately reported and paid. Federal and Indian compliance assurance activities represent a large and critical part of the operational strategy, ensuring that companies are in compliance with applicable laws, regulations, and lease terms. This program’s activities also include the administration of cooperative agreements with States and Tribes.
- Coordination, Enforcement, Valuation, and Appeals.** These activities ensure consistency and oversight in valuation regulations and determinations; market research and information gathering; production meter verification; and enforcement actions and

appeals. This program's activities also include outreach sessions with American Indian beneficiaries and resolution of their royalty-related inquiries.

ONRR exists in a dynamic environment, and since inception has continuously evolved in response to Congressional mandates and significant energy industry changes. ONRR continues to seek innovative improvements and operational efficiencies to best pursue our mission and to serve the American people. In order to improve the management and oversight of revenue collection and disbursement activities, ONRR institutionalized an employee-driven continuous improvement process to help adapt to change effectively and promote innovation and employee engagement.

To ensure effective controls over program operations and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act, ONRR conducts assessments of internal controls consistent with applicable laws and regulations, such as the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Controls*. The objectives of these assessments are to ensure ONRR programs achieve intended results and follow laws and regulations; verify resources are used consistent with the mission and protected from waste, fraud, and mismanagement; and ensure reliable and timely information is maintained, reported, and used for decision-making.

In February 2011, the U.S. Government Accountability Office (GAO) added Interior's Management of Federal Oil and Gas Resources to its High-Risk List. ONRR has or seeks to implement all GAO recommendations, including supporting its partners within the Department and their efforts to close the remaining recommendations. ONRR values the continued oversight received from the GAO, the Office of the Inspector General (OIG), and other external oversight organizations. ONRR has consistently received clean opinions on regular peer reviews of audit functions and when independent firms perform annual audits of mineral revenue custodial accounts.

ONRR Strategic Priorities

ONRR is engaged in several organization-wide priority efforts to support the accomplishment of its mission and vision, including the following:

Capitalizing on our Diverse Strengths: ONRR is committed to achieving the Department's diversity and inclusion goals, fostering an environment that is open and accepting of individual differences, and maximizing employee potential. Our dedication to educating and integrating diversity and inclusion throughout the culture allows ONRR to recruit and retain a diverse population of employees while engaging our employees and ensuring a wide range of perspectives and diverse viewpoints.



Information Technology: As we plan in FY 2020 to upgrade an increasingly obsolescent MRMSS, our legacy information systems continue to play a key role in ONRR’s collection and disbursement of the Nation’s mineral revenues. The Minerals Revenue Management Support System (MRMSS) is critical to ONRR’s ability to account for and disburse mineral revenues in a timely fashion. Partial upgrades to the system’s hardware and software were completed in 2018 and additional upgrades will be completed in 2019, including an enhancement that will automate the calculations for the GOMESA phase II implementation of sharing Gulf of Mexico revenues

with States, counties, parishes, etc.

Also, ONRR is completing the final phases of implementing a new component in MRMSS, the Operations Management Tool (OMT). This tool allows ONRR to automate planning, execution, monitoring, measurement, and reporting of all of ONRR’s audit and compliance processes. In 2018, ONRR completed the migration of the compliance processes into OMT for both ONRR and a subset of its State and Tribal partners. In 2019, ONRR will complete the migration of audit work processes into OMT for both ONRR and its State and Tribal partners.

Collaboration with Partners: ONRR continues to strengthen its longstanding relationships with other bureaus because of the interdependent nature of our missions. ONRR works in partnership with the Bureau of Indian Affairs (BIA), the Bureau of Land Management (BLM), and the Office of the Special Trustee for American Indians (OST) to fulfill Interior’s trust and fiduciary responsibilities to Indian beneficiaries. ONRR is also committed to ensuring an effective, ongoing relationship with the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE). Additionally, ONRR has strengthened holistic management of oil, gas, and other natural resources by implementing standard operating procedures applicable to all DOI bureaus and offices in the management of Federal and Indian mineral resources.

Royalty Policy Committee: ONRR supports the Royalty Policy Committee, which is established pursuant to the Federal Advisory Committee Act. The Committee’s purpose is to provide advice to the Secretary on the fair market value and the collection of revenues derived from the development of energy and mineral resources on Federal and Indian lands. The Committee also advises on the potential impacts of proposed policies and regulations related to revenue collection from such development, including whether a need exists for regulatory reform.

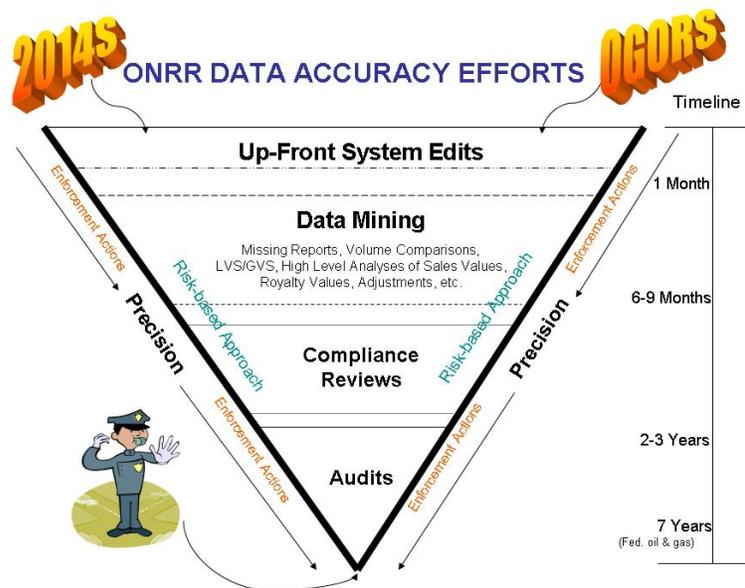
Revenue, Reporting, and Compliance Management

The Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, requires monthly distribution and disbursement of payments to States and Tribes for their share of mineral leasing revenues. The distribution and disbursement function within ONRR is intended to ensure that collections from Federal and Indian mineral leases are properly disbursed to the appropriate recipients, including the U.S. Treasury, Federal entities, 35 States, and 32 American Indian Tribes. In 2017, ONRR disbursed over \$8.93 billion to the U.S. Treasury, various State and American Indian accounts, and special-use accounts such as the Land and Water Conservation Fund. ONRR disbursed these amounts in accordance with legislated formulas.

As part of the revenue collection process, ONRR collects annual rental revenues and reporting information on more than 14,600 non-producing leases and monthly royalty revenue and sales reports on more than 26,600 producing onshore and offshore Federal leases.

Each month, ONRR receives and processes about 47,000 royalty and production reports, containing approximately one million lines of data, from approximately 1,900 royalty payors and 2,700 production reporters. ONRR received approximately 99 percent of reporting electronically in 2018. Through this royalty and production reporting, ONRR collects and maintains several forms of primary data, including:

- Property data, such as information on mineral leases, mineral-producing or revenue-paying companies, and commodity purchasers.
- Mineral revenue and production data, consisting of monthly-required reports and payments.
- Data related to rents, mineral royalties, and mineral production volumes.
- Market and sales data required for verifying compliance.



To ensure that ONRR collects the proper revenues on the Federal and Indian royalty share, ONRR performs automated processing of royalty and production reports, coordinating reporting and payment matters with industry, State governments, American Indian Tribes, and other Federal agencies. Each month, ONRR runs automated detection processes to ensure that industry follows Federal laws, regulations, and lease terms in their financial reporting. Receiving proper payments includes ensuring that delinquent invoices are pursued in accordance with the Debt Collection Act. ONRR uses phone calls and demand letters to companies, notices to lessees/operating rights owners, demands to surety, referrals to the Justice Department for litigation or to the U.S. Treasury for collection, or if required, ONRR writes off uncollectable debt.

In addition to automated upfront system edits, the Compliance Management staff perform data mining efforts as a second-level screening process to increase the accuracy of company-reported data before the data is subjected to compliance reviews and, ultimately, to audit. Closure of data mining cases has resulted in collections of \$237 million in fiscal years 2010 through 2018. By aligning the verification work of data mining and compliance reviews into one group, ONRR is creating a more efficient and effective compliance program. Of ONRR's \$102.3 million in 2018 compliance collections, the Compliance Management staff collected over \$25 million as a result of data mining cases and \$2.7 million from compliance reviews.

ONRR assists Alaskan Natives as well by holding escrow funds for the Native Corporations for land selections. Once land selections are finalized, ONRR disburses escrow amounts, and the Corporations assume collection responsibilities. Currently, \$5.7 million remains in escrow awaiting distribution after the remaining land selections are processed.

Program Performance Estimates

Timely Revenue Disbursement: ONRR ensures that funds are disbursed to recipients by the end of the month following the month received, per statute. When disbursements are not completed in a timely manner, ONRR must pay late-disbursement interest to States. In 2018, ONRR completed 96.5 percent of disbursements timely, including nearly \$1.78 billion to 35 States and more than \$1 billion to American Indians as their cumulative share of revenues collected from oil, gas, and mineral production.

Timely Service to American Indians: To ensure prompt payment of mineral revenues to American Indian Tribes and Individual Indian mineral owners (IIMOs), ONRR deposits American Indian revenues into Office of Special Trustee for American Indians (OST) accounts within 24 hours of receipt, where they are invested and subsequently distributed by BIA to American Indian Tribes and IIMOs. BIA requires Financial Distribution Report information to distribute funds to IIMOs. ONRR provides this lease distribution data to BIA twice each month. In 2018, ONRR distributed 99.4 percent of revenue timely to Indian recipients, exceeding the 98 percent target.

Financial Accountability: ONRR's financial system has automated internal controls and accounting processes to reconcile subsidiary and control accounts and to ensure proper recording and reporting of revenues. ONRR records financial transactions with an account structure consistent with the U.S. Government Standard General Ledger (USSGL). ONRR uses the

USSGL accounts to prepare external reports to OMB and the U.S. Treasury and to provide financial information for inclusion in the annual consolidated Interior Agency Financial Report.

The Chief Financial Officer's Act requires annual audits of the Department's financial statements that include a thorough review of ONRR's mineral revenue custodial accounts. These audits ensure that ONRR's financial information fairly represents the transactions recorded within the ONRR financial system.

Unqualified Audit Opinion on Mineral Revenue Custodial Accounts: To provide greater assurance of the integrity of financial operations and the accuracy of financial data, ONRR undergoes annual financial audits, including a thorough review of mineral revenue custodial accounts. In November 2018, OIG released the Independent Auditors' Report on the Department of the Interior Financial Statements for fiscal year 2018, including ONRR's mineral revenue custodial accounts. The Department received an unqualified (clean) audit opinion for fiscal year 2018. As a result of the audit, ONRR received one notice of finding and recommendation, which ONRR is actively addressing and expects to fully implement in fiscal year 2019.

Collection, Invoicing, and Data Mining: ONRR has several efforts underway to improve the accuracy of company-reported data used to collect and verify royalties. These efforts are in response to a 2008 Royalty Policy Committee Subcommittee report and to a 2009 GAO report titled *Mineral Revenues: ONRR Could Do More to Improve the Accuracy of Key Data Used to Collect and Verify Oil and Gas Royalties (GAO-09-549)*.

ONRR continues to re-enforce the accuracy of company-reported data by implementing new automated upfront edits and data mining routines. ONRR subjects company-reported royalty data to more than 185 edit checks and has incorporated up-front edits to prevent companies reporting royalties via the Internet from submitting erroneous data. For fiscal year 2018, 99.6 percent of company-reported royalty information passed system edit checks on the first attempt. ONRR dedicates a significant amount of effort to developing new tools to automate and improve its processes.

Production Reporting for Onshore and Offshore Leases: ONRR oversees the timely reporting and processing of Oil and Gas Operations Reports (OGORs) for Federal and Indian onshore and Federal offshore leases. As with company-reported royalty data, ONRR subjects OGOR reports to numerous edit checks and incorporates additional up-front edits. These edits, combined with ongoing ONRR efforts to train companies on proper reporting have resulted in a continuous decline in error rates. For fiscal year 2018, the error rate was 0.82 percent.

Additionally, ONRR has made tremendous progress in ensuring operators report production information in a timely manner. The Offshore Production Reporting staff ensures the accuracy of reported offshore production information through ONRR's automated Liquid Verification System (LVS) and Gas Verification System (GVS). The LVS/GVS systems compare company-reported OGOR production volumes to third-party pipeline run tickets and third-party gas volume statements supplied by BSEE. ONRR analysts resolve discrepancies between the OGOR and the third-party data sources to ensure that companies accurately report production volumes, the cornerstone for downstream royalty collection efforts. As a result, ONRR routinely issues

Orders to Report and issues Notices of Non-Compliance to companies who fail to submit an OGOR or to report well-level production.

Audit Management

ONRR's Federal and Indian compliance activities have yielded significant additional revenues to Tribes, Individual Indian Minerals Owners, States, and the U.S. Treasury. Since 1982, the Department's additional collections of royalties and interest attributable to compliance activities total more than \$4.5 billion.

Sections 202 and 205 of the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), as amended, authorize the Secretary to develop cooperative and delegated agreements with Tribes and States to carry out certain inspection, auditing, investigation, and enforcement activities for leases in their respective jurisdictions. These Tribes and States are working partners with ONRR, and integral to the overall compliance efforts. Tribes are self-empowered to perform audits on Tribal mineral royalties within their reservations, and the States perform audits on Federal leases within their boundaries. ONRR conducts compliance reviews and audits to provide compliance coverage over properties not covered by the Tribes and States.

For ONRR, cooperative agreements provide knowledgeable Tribal and State representatives who understand the systems and business processes for collecting, accounting for, and distributing mineral revenues. Tribes and States benefit by developing auditing skills, increasing knowledge of mineral revenue management, and gaining experience with ONRR's systems, processes, and regulations. This experience, as well as face-to-face contact, enables ONRR and Tribal and State employees to identify and work through issues for mutual benefit.

Together with its Tribal and State partners, ONRR performs both audits and compliance reviews on specifically targeted and randomly selected companies and properties and also focuses compliance efforts on gas plants, transportation systems, or other specific issues. These two compliance activities are described as follows:

- Audits are performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Audits have a high standard of verification in the form of evidence from company source documents and records, resulting in greater certainty of accurate payment and reporting.
- Compliance reviews supplement the audit program and provide reasonable assurance that all or part of the royalty equation is reported and paid correctly. Compliance Reviews focus on variations from expected norms and result in resolution of open issues when companies provide requested additional documentation and/or make payment to remove a variance.

To develop the compliance work plan, ONRR incorporates data from its risk tool, including prior-year performance data, cost-per-audit and compliance review, current-year targets, and data available on audit and compliance resources in order to determine the appropriate mix of audits and compliance reviews. Royalty dollars remain a key component of the risk determination, resulting in a strong probability of high-revenue companies and properties being selected for audit or review.

Program Performance Estimates

ONRR Compliance Collections: During 2018, ONRR collected an additional \$102.3 million as a result of all compliance activities. In addition to audits and compliance reviews, these activities included data mining and exceptions processing.

Three-Year Average Compliance Return-on-Investment (ROI): For 2018, the three-year average ROI for compliance activities (collections versus costs) was \$2.70 to \$1. This measure of efficiency includes collections from audits, compliance reviews, and data mining activities.

Audit and Compliance Reviews: During 2018, ONRR and our State and Tribal audit partners closed 115 audits and completed 564 compliance reviews.

Delegated and Cooperative Compliance Agreements with States and Tribes: Currently, ONRR has agreements with nine States and six Tribes to perform compliance activities for leases in their jurisdictions. ONRR includes its State and Tribal partners' compliance completion results in our performance results. In 2018, ONRR allocated \$13.3 million to States and Tribes in the 202/205 program. ONRR applies a "best business case" criteria to funding for the 202/205 program by analyzing cost, workload, and risk data, such as total revenues and number of producing leases in deciding how to allocate available budget resources.

Indian Gas Lease Coverage: In 2018, ONRR ensured substantial compliance for 100 percent of Indian gas properties within three years for Indian-specific major portion/index pricing terms.

Peer Review of ONRR Audit Organization: GAGAS requires an independent peer review of our audit activities every three years. During 2017, ONRR engaged an independent auditing firm to conduct an external peer review of our audit organization. The peer review examined the period of January 1, 2014, through December 31, 2016. The independent auditor issued a final report in 2017 with a rating of "Pass," the highest possible rating. This is the fifth consecutive peer review rating indicating that ONRR's audit functions are performed in accordance with professional standards. The independent auditor's report concluded no material weaknesses or findings. The next peer review is scheduled for spring 2020.

Coordination, Enforcement, Valuation, and Appeals

ONRR's Coordination, Enforcement, Valuation, and Appeals program (CEVA) coordinates Federal and Indian (trust) management services; provides enforcement support to ONRR programs; oversees production risk management efforts; addresses industry appeals of ONRR orders; drafts and publishes rulemakings and authorizations to collect information; and processes Federal Register notices.

To help fulfill the Secretary of the Interior's trust responsibility to American Indians, ONRR conducts Indian outreach activities through avenues such as Navajo radio broadcasts and attending pow-wows to reach American Indian beneficiaries. These outreach events enable ONRR to listen to concerns and suggestions for royalty accounting improvements, answer questions, and identify and resolve mineral-related problems in partnership with BLM, BIA, and OST. ONRR's goal is to vigorously and effectively fulfill our trust responsibilities and to foster an ongoing positive working relationship with the Indian community.

Through the Federal Partners Groups in three regions and the Bakken Federal Executives Group, ONRR is coordinating with several Federal agencies to address a wide range of coordination issues associated with increased production in the Bakken Formation in North Dakota. ONRR is working with BIA, the Office of Indian Energy and Economic Development, BLM, OST, the Environmental Protection Agency, and others to address concerns raised by Indian Tribes and individual Indian mineral owners in Kansas, Montana, North Dakota, Oklahoma, Texas, and Utah.

In addition, ONRR supports the Indian Energy Service Center (IESC) in its mission to provide a wide suite of support services to BIA and regional offices; BLM field and State offices; OST fiduciary trust officers and regional trust administrators; and ONRR. The Service Center assists these offices in expediting the leasing, permitting, developing, and reporting and payment for oil and gas development on Indian trust lands. Also fundamental to this effort is responsiveness to trust mineral estate owners (tribal or allotted) and coordination between Federal agencies. The needs of the Service Center are dynamic, and, as such, ONRR must respond quickly.

ONRR's Royalty Valuation group participates in valuation rulemaking, provides valuation guidance internally to ONRR, and trains internal and external customers on the proper value for royalty purposes. In addition, they issue royalty valuation determinations, and provide unbundling guidance to States, Tribal audit groups, industry, and ONRR compliance personnel.

Analytics and Risk Management business processes include audit and compliance work planning, economic analysis, reporting and market research, Geographic Information System services, and production risk management. The production risk component of ONRR's CEVA program is focused on enhancing the Department's oversight of accurate measurement and reporting of production volumes. These efforts 1) ensure that the Department accounts for all production from Federal offshore leases and Federal and Indian onshore leases, 2) provide greater assurance of data accuracy, 3) reduce the potential for data manipulation or fraud, and 4) mitigate the risk of production reporting errors.

ONRR has implemented a reimbursable support agreement with BSEE to perform production verification, meter inspections, and other production measurement oversight functions on offshore rigs, platforms, and production facilities. An offshore production verification team is operational in the Gulf of Mexico to inspect high risk measurement facilities. To support the measurement inspection effort, ONRR Production Reporting and Verification engineers provide in-depth analysis, verify the accuracy of OGORs, and coordinate work-plans with the BSEE offshore measurement inspectors to ensure that inspections are prioritized based on high royalty value.

In addition, ONRR has begun to build on the success of its offshore production verification program by replicating this model on onshore Federal and Indian lands. ONRR and BLM signed a Memorandum of Understanding in 2015 to support development of an agile inspection team to address onshore production hot spots and to develop measurement experts to assist with field-level inspections in BLM.

The Appeals group drafts proposed Director decisions or otherwise resolves industry appeals of ONRR, State, and Tribal orders and demands for payment. The Director decisions analyze, interpret, and apply statutes, regulations, lease terms, unit and communitization agreements, and

guidance documents. ONRR's Appeals group also supports the Office of the Solicitor and the Department of Justice in any appeal of a Director decision to the Interior Board of Land Appeals (IBLA) or Federal Court. In addition, the Appeals group provides guidance within ONRR and for States and Tribes on complex issues.

ONRR's Regulations group drafts all new rulemakings and all authorizations for information collection. It also processes all notices published to meet the requirements of the Federal Register.

The Enforcement group induces industry compliance with laws, regulations, and ONRR orders by investigating violations and issuing notices of non-compliance and civil penalty notices. It also performs litigation support activities by filing proofs of claims in bankruptcy cases, assuring the collection of bankruptcy payments, preparing the administrative records for Director decisions appealed to the Interior Board of Land Appeals (IBLA), and supporting administrative hearings requested on civil penalties assessed.

ONRR's Enforcement group also supports the Office of the Solicitor and Department of Justice in appeals before the Department and in Federal Court. This includes preparing voluminous administrative records to support litigation of appeals to the IBLA, evidentiary civil penalty hearings before Interior's Office of Hearings and Appeals, and various types of litigation in the Federal Court system. The Enforcement group further serves as ONRR's liaison in outside law enforcement investigations, providing data and arranging access to ONRR systems as required.

Program Performance Estimates

Communication and Consultation with American Indians: During 2018, ONRR held 168 outreach sessions with American Indian beneficiaries and resolved 16,437 royalty-related inquiries. ONRR has experienced a significant increase in inquiries in recent years. Increases in oil and gas development in North Dakota, Montana, Oklahoma, and Utah have spurred more inquiries from individual Indian mineral owners in those States.

Royalty Valuation: In 2018, ONRR completed 423 valuation guidance requests from internal and external customers. In addition, it completed 59 training sessions on Federal and Indian Royalty Value, training industry as well as State, Tribal and ONRR personnel. ONRR completed seven complex unbundling projects and published the unbundling cost allocation percentages to its web site. ONRR also supported the Secretary's Royalty Policy Committee, sub-committees, and working groups throughout 2018, and published Valuation Handbook Chapters at the recommendation of the Committee.

Production Risk Management: Since its inception in 2014, the offshore verification team has conducted inspections at 679 offshore facilities. These inspections resulted in 985 written Incidents of Non-Compliance (INCs). In addition, the team witnessed 276 oil meter proving's and 159 gas meter calibrations. The INCs require companies to address deficiencies that the measurement inspectors discovered and to provide greater assurance that the measured royalty volumes are reported correctly. The inspection efforts safeguard the integrity of the measurement process by requiring companies to measure accurately and in accordance with

regulatory requirements, industry standards incorporated by reference, and BSEE measurement approvals.

ONRR and BLM continue to ramp up the onshore production verification program. In 2018, the Measurement and Production Team at the National Operations Center began inspecting a wide variety of onshore production facilities. In 2019, BLM will be deploying a new strategy to take advantage of the logistics of having trained and certified petroleum engineering technicians in the vicinity of virtually all high-risk oil and gas production operations. BLM expects this strategy to allow measurement inspection efforts to reach a high percentage of high-risk oil and gas production operations within a single year. Continued collaboration with ONRR petroleum engineers will ensure that production volumes run through complex measurement systems are reported correctly, and in accordance with BLM approvals and recognized measurement standards.

Appeals: Since 1987, the Department has rendered decisions in appeals involving \$3.0 billion in additional royalties, rentals, liquidated damages, and interest. In 2018, ONRR completed Director decisions or otherwise disposed of 159 appeals of orders and offered guidance on more than 100 matters.

Regulations: In 2018, ONRR completed two priority rulemakings, one of which was deregulatory, and a second mandated by Congress. Also, it timely published three information collection renewals and, in a deregulatory action, terminated a fourth as no longer necessary in light of withdrawal from the U.S. Extractive Industries Transparency Initiative. ONRR also provided subject matter expertise to the Secretary's Royalty Policy Committee.

Enforcement: Civil penalties serve to compel current compliance and to deter future violations. ONRR issues civil penalties when companies fail to comply with or knowingly or willfully violate applicable laws or regulations. Such penalties are authorized by the Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA). ONRR has collected more than \$56.5 million in civil penalties since 1982, and over the last five years, it assessed nearly \$25 million in civil penalties.

Litigation support activities include preparing proofs of claims to submit in bankruptcy cases and collecting any monies due. Since fiscal year 2000, ONRR has collected \$22.7 million from such bankruptcy cases and, in 2018, collected \$533,000.