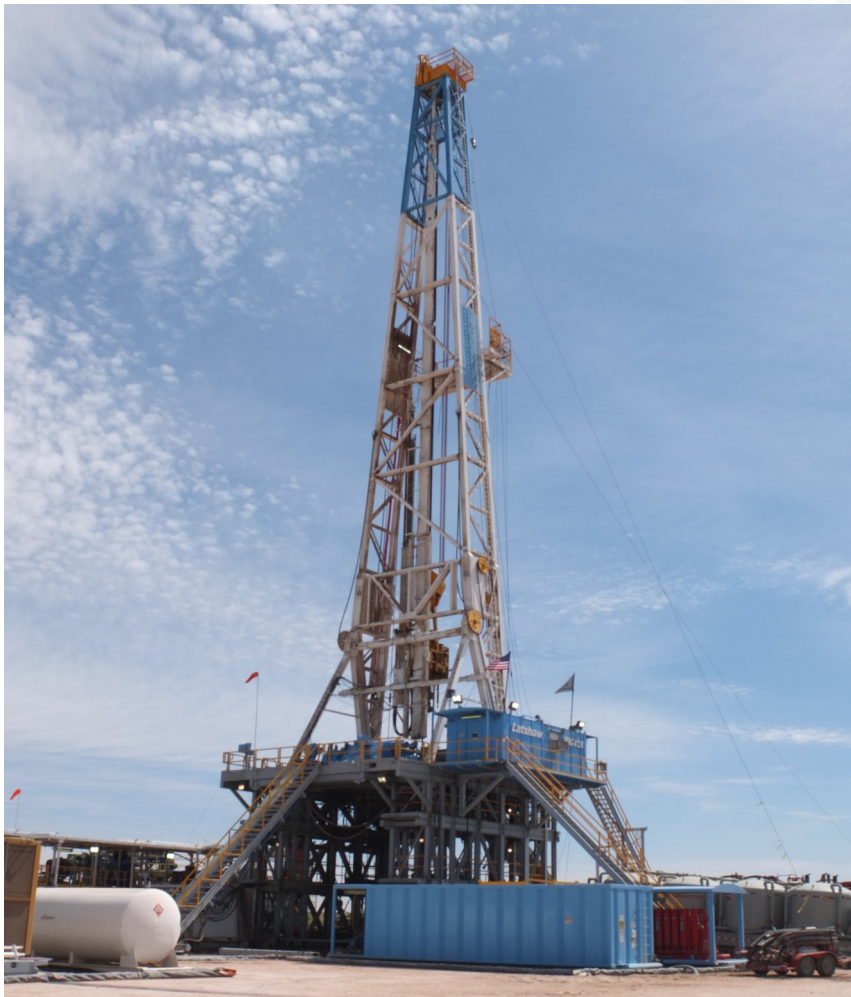




OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR

ONSHORE OIL AND GAS PERMITTING, U.S. DEPARTMENT OF THE INTERIOR





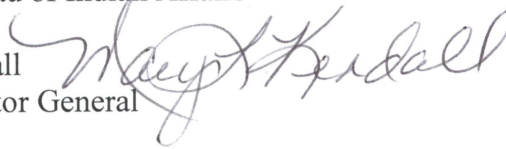
**OFFICE OF
INSPECTOR GENERAL**
U.S. DEPARTMENT OF THE INTERIOR

JUN 26 2014

Memorandum

To: Neil Kornze
Director, Bureau of Land Management

Michael Black
Director, Bureau of Indian Affairs

From: Mary L. Kendall 
Deputy Inspector General

Subject: Final Evaluation Report – Onshore Oil and Gas Permitting, U.S. Department of the Interior
Report No. CR-EV-MOA-0003-2013

This memorandum transmits the findings of our evaluation of the U.S. Department of the Interior's effectiveness and efficiency in reviewing and approving drilling permits on onshore Federal and Indian oil and gas leases. The primary focus of this review was the Bureau of Land Management (BLM), since it has final approval authority for all applications for permits to drill (APDs) on onshore Federal and Indian lands.

BLM approves thousands of APDs each year, and the bureau reports that overall processing times have been improved. Nevertheless, we found that review times are still often very long. Although oil and gas operators share responsibility for this situation, inefficiencies in the Government's review process impede productivity. We identified a number of improvements that would expedite the review process and still maintain quality. We also found several promising practices performed at some field offices that could enhance the APD processing effectiveness of other offices.

In response to the draft report, BLM concurred with all six recommendations (see Appendix 3). We consider one recommendation resolved and implemented, and we consider four of the recommendations resolved but not implemented. We will refer these four recommendations to the Assistant Secretary for Policy, Management and Budget for implementation tracking (see Appendix 4).

In its response to Recommendation 2, however, BLM did not agree that performance timelines would improve APD processing (see Appendix 3). We consider this recommendation unresolved because we believe performance timelines would instill accountability and move the APD process along much more efficiently. We request that BLM reconsider this recommendation and respond to us, in writing, within 30 days. The response should provide

information on actions taken or planned to address the recommendation, as well as target dates and titles of officials responsible for implementation.

Please address your response to:

Ms. Kimberly Elmore
Assistant Inspector General for Audits, Inspections, and Evaluations
U.S. Department of the Interior
Office of Inspector General
Mail Stop 4428
1849 C Street, NW.
Washington, DC 20240

The legislation creating the Office of Inspector General requires that we report to Congress semiannually on all audit, inspection, and evaluation reports issued; actions taken to implement our recommendations; and recommendations that have not been implemented.

We appreciate the cooperation and assistance extended by BLM and the Bureau of Indian Affairs during our review. If you have any questions concerning this report, please contact me at 202-208-5745.

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Results in Brief

In assessing the effectiveness and efficiency of the drilling permit process for oil and gas wells, we found that the Bureau of Land Management (BLM) approves thousands of permits each year, but review times are very long. Although oil and gas operators share responsibility for this situation, inefficiencies in the U.S. Department of the Interior's (DOI) review process impede productivity. We identified a number of improvements, however, that would expedite the review process and still maintain quality.

Oil and gas production is a major activity on Federal and Indian lands, with annual royalty revenues averaging \$3 billion since fiscal year 2011. About 92,000 oil and gas wells currently exist on Federal lands, and industry drills over 3,000 new wells annually.

Prior to drilling a well on a Federal or Indian lease, an operator submits an application for permit to drill (APD) to BLM. BLM has primary responsibility for approving the APD, but coordinates with other Federal agencies—primarily the Bureau of Indian Affairs and the U.S. Department of Agriculture's U.S. Forest Service—when the proposed well site is under these agencies' jurisdiction. BLM receives about 5,000 new APDs each year, which it processes at 33 field offices, mostly in the Western States.

We found that neither BLM nor the operator can predict when the permit will be approved. Target dates for completion of individual APDs are rarely set and enforced, and consequently, the review may continue indefinitely. The process at most field offices does not have sufficient supervision to ensure timely completion. BLM also does not have a results-oriented performance goal to address processing times.

Processing delays have occurred because, until recently, improving the APD process has not been a high priority for DOI. Other contributing factors are resource challenges and an inadequate oil and gas database for monitoring performance at the field office and national program levels. Operators also bear responsibility by often failing to provide complete, necessary information.

Long review times create uncertainties in the APD process for both industry and BLM. This adversely affects developing the Nation's domestic energy resources. Specifically, the Federal Government and Indian mineral owners risk losing royalties from delayed oil and gas production. Industry officials informed us that delays cause some wells not to be drilled, resulting in additional lost production and royalties.

We identified a number of actions that BLM can take to improve the process, particular to oversight and accountability and staffing resources. We also found innovative practices at individual field offices that show promise in improving the APD process throughout DOI.

Introduction

Objective

Our objective was to assess the U.S. Department of the Interior's (DOI) effectiveness and efficiency in managing the application for permit to drill (APD) process on onshore Federal and Indian oil and gas leases.

Background

DOI's onshore oil and gas program is a significant revenue source for the Federal Government averaging \$3 billion in annual royalties since fiscal year (FY) 2011 (see Figure 1). In FY 2013, Federal onshore and Indian oil and gas accounted for 37 percent of royalty revenues collected by DOI's Office of Natural Resources Revenue. The share of Indian royalties has almost doubled in the past 3 years, reaching 25 percent in FY 2013.

Oil and Gas Royalties (\$ Billion)			
	FY 2011	FY 2012	FY 2013
Gas	\$1.5	\$1.1	\$1.1
Oil	\$1.4	\$1.7	\$2.2
Total	\$2.9	\$2.8	\$3.3

Figure 1. Royalties from onshore Federal and Indian oil and gas leases from FYs 2011 through 2013.

More than 92,000 oil and gas wells exist on Federal lands, and industry drills over 3,000 new wells annually (see Figure 2). In descending order, the States with the most drilling activity on departmentally managed lands are Wyoming, New Mexico, and Utah. The greatest drilling increase in recent years has occurred in North Dakota due to concentrated oil activity in the Bakken shale formation.

Prior to drilling a well on a Federal or Indian lease, an operator submits an APD to the Bureau of Land Management (BLM). BLM is responsible for approving the APD, but coordinates with other Federal agencies—primarily the Bureau of Indian Affairs (BIA) and the U.S. Department of Agriculture's U.S. Forest Service—when the proposed well site is under those agencies' jurisdiction.

An APD submission is a package consisting of a standard permit form, drilling plan, surface use plan of operations, well plat, evidence of bond coverage, operator certification, and additional information as BLM may require. BLM receives about 5,000 new APDs each year. It processes APDs at 33 field offices,

mostly in the Western States. Just three offices (Vernal, UT; Dickinson, ND; and Carlsbad, NM) account for over half the workload.



Figure 2. An oil pump jack near Vernal, UT. Note the staking for additional wells. Source: Office of Inspector General

The Government's review of the APD package is a complex process requiring a multidisciplinary team often working across agency lines. Many of the specialists' reviews are interdependent and address challenging environmental, geological, and engineering issues. The surface review, for instance, must comply with the National Environmental Policy Act, which accounts for most of the APD processing time. The surface review also incorporates various scientific analyses such as hydrology, archeology, biology, and wildlife, including an assessment of threatened and endangered species.

The Energy Policy Act of 2005 and BLM's Onshore Order No. 1 require DOI to approve or deny the APD within 30 days upon receipt of a complete APD package, or defer the decision and list the actions needed for approval. BLM often cannot finalize its decision because the operator needs to furnish more information or because additional processing steps are needed. The review process frequently requires many months, sometimes over a year. For instance, BLM approves 99 percent of all APDs received, but approves only 6 percent of these within 30 days of receipt. BLM reported that the backlog of unprocessed APDs has been decreasing, but still remains at about 3,500. Upon approval, a

company has 2 years to drill the well, but BLM may approve an extension for another 2 years.

We previously reviewed the APD process in 2003, finding deficiencies that resulted in long processing times. We conducted a follow-up review in 2008 and concluded that BLM had implemented six of the original eight recommendations. More recently, the Government Accountability Office (GAO) issued a report in August 2013 stating that BLM had made management improvements, but long APD processing times persisted. GAO made two recommendations to improve the process. In its response, DOI concurred with both recommendations and said full implementation would be completed by the end of 2014.

The scope and methodology for this evaluation are in Appendix 1.

Findings

We found that BLM approves thousands of APDs each year, but inefficiencies result in lengthy review times. The process is essentially open ended. Neither BLM nor the operator can predict when an APD will be approved. BLM rarely sets and enforces target dates for completion, and consequently, the review may continue indefinitely. At most field offices, employees conduct their work without the supervision needed to ensure timely completion.

BLM reported an average of 228 calendar days, or about 7.5 months, to process an APD during FY 2012 (see Appendix 2). In contrast, State governments claim they take 80 days or less to process an APD. Federal oil and gas wells, however, are more complicated because of a multiple-use mandate, land ownership issues, and compliance with laws that do not pertain to non-Federal lands. In addition, operators also bear responsibility by often failing to provide the required information for the Government's review. Presently BLM cannot say how long the APD process should be, as it has not undertaken such an analysis. Based on many factors such as available staff, natural resource issues unique to each region, and the complexities of the drilling and surface use plans, the length will likely vary among field offices and individual wells within the same office. Nevertheless, we concluded that BLM has opportunities to improve the efficiency and speed of the Federal and Indian APDs.

Processing delays have occurred because, until recently, improving the APD process has not been a high departmental priority. As detailed below, BLM started to address the APD process by issuing guidance from the Washington Office and modernizing its tracking system, but it is too early to assess whether these actions will be successful.

Long APD processing times create uncertainties for both industry and BLM. Further, the Federal Government and Indian mineral owners risk losing royalties from delayed oil and gas production. Operators informed us that delays could cause some wells to not be drilled, resulting in additional lost production and subsequent royalties. Delays also negatively affect developing the Nation's domestic energy resources.

We determined that inefficiencies in processing APDs primarily related to weaknesses in oversight and accountability, and staffing. We identified numerous promising practices, however, that have increased productivity in APD processing.

Oversight and Accountability

Project Management

Effective coordination of the APD process is critical for an efficient review. At BLM field offices, numerous employees from different program areas participate

in the APD review, including adjudicators, natural resource specialists, geologists, petroleum engineers, and various resource specialists such as biologists and archeologists. The number of participants can exceed a dozen. Most field offices, however, do not assign a manager to direct the process and focus efforts toward timely completion. A field-office-level project manager would instill accountability for all participants in the process and benefit the review by providing oversight and problem resolution.

The project manager concept has proven successful. For example, the field office in Silt, CO, assigned a supervisor to oversee the APD process, particularly for the surface aspects of the review. It has lower processing times than most field offices. Specifically, in FY 2012 it has averaged 108 days versus the bureauwide average of 228 days. In addition, the field office in Carlsbad, NM, created an in-house, automated, tracking system to allow the field manager to oversee the APD process. Its processing time averages 110 days.

Our report issued in 2003 recommended that BLM strengthen its coordination and oversight of the APD process. Our 2008 follow-up review, however, showed that BLM had not implemented this recommendation.

BLM provided significant guidance to its State office directors in Instruction Memorandum No. 2013-104, "Notice of Staking and Application for Permit to Drill Processing," issued in April 2013. These instructions established some timelines, definitions, and procedures aimed at standardizing and improving the review process. The memorandum, however, did not establish individual accountability and deadlines for completing the APD review.

Further, BLM still does not have performance measures or standard operating procedures that address appropriate processing times for completing the APD review and set a practical and realistic "finish line" to a process that frequently has no defined end. Accordingly, the APD processing times vary significantly among field offices, and even among individual APDs within the same field office (see Appendix 2). Although some variation is expected, the process ranges widely, from 37 days in Anchorage, AK, to 328 days in Buffalo, WY. BLM does not have the data to explain why these variations occur.

Performance Measurement

BLM's sole performance measure relating to APDs is to process a certain percentage of pending permits bureauwide. For FY 2014, the goal is to process 56 percent of pending APDs. We noted that this goal is only an output measure that merely counts the combined number of permits approved for the 33 field offices. While this does furnish reporting data, it does not help management identify inefficiencies within the APD process, pinpoint which field offices need the most attention, and determine corrective actions. Performance measures that are outcome based are more constructive and would help BLM improve productivity. For example, BLM could develop measures that directly address the completion

of the individual components of the APD process. If computed for each applicable field office, such a measure could equip management with the necessary qualitative and quantitative information to help bring down processing times.

Data Integrity

We found that the Automated Fluid Minerals Support System (AFMSS), the official database for managing the fluid minerals program, hindered BLM’s field office employees. The database does not provide sufficient workflow information to serve as a management tool. For example, one cannot determine an APD’s status at any time in the process. Consequently, many field office employees reported they do not use AFMSS to track and manage the APD process. Employees said they do not consider AFMSS to be user friendly because entering and querying the database is highly complex.

Further, data reliability is questionable. We found data entry errors, substantial information that was not entered (see Figure 3), and inconsistent data entry across BLM field offices and even within the same office. The system does not have validity checks to detect and prevent incorrect entries. The only reliable APD-related data fields were the initial receipt date and final disposition date. BLM began an initiative in 2012 to modernize AFMSS, acknowledging in the request for proposal that:

Data is not being entered consistently, completely and are prone to inaccuracies during data entry, hindering the BLM’s ability to effectively manage the programs. In addition, consistent processes are not being followed, making it difficult for our customers, specialists, other internal users, and line managers to make informed decisions.

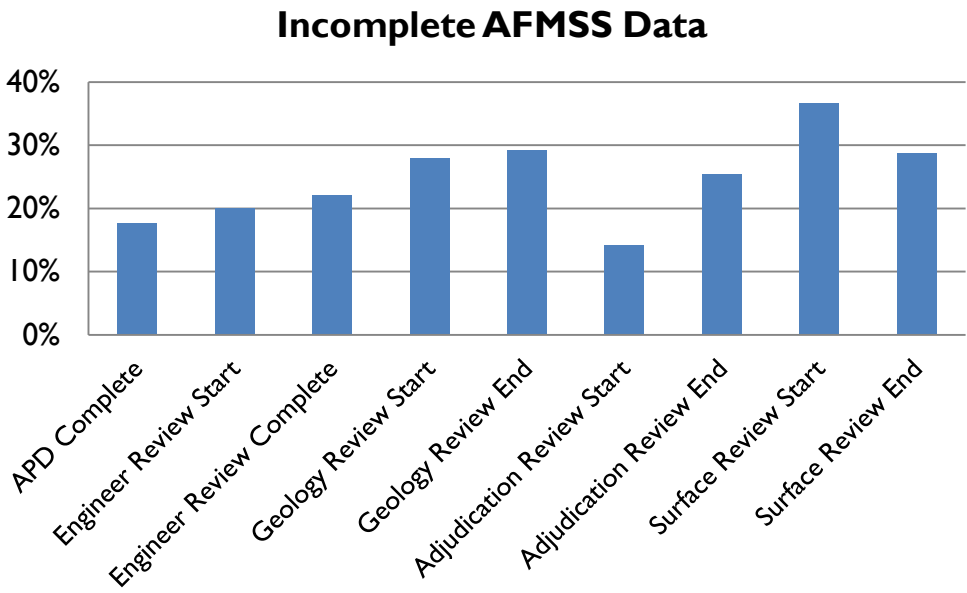


Figure 3. Percentage of incomplete (i.e., missing or erroneous) data entries in AFMSS for all field offices for the 3-year, 8-month period of October 2009 through May 2013.

In August 2013, GAO reported similar deficiencies in AFMSS, recommending that the Secretary of the Interior direct BLM to take corrective action. We note that the AFMSS modernization should address many of these challenges, but this will take time and until improvements are completed, suspect data will continue.

Recommendations

We recommend that BLM:

1. Establish accountability over the APD process by appointing a field-office-level project manager. The project manager should oversee the entire APD process and have authority to ensure APDs are timely processed;
2. Develop, implement, enforce, and report performance timelines for APD processing;
3. Develop outcome-based performance measures for the APD process that help enable management to improve productivity; and
4. Ensure that the modifications to AFMSS enable accurate and consistent data entry, effective workflow management, efficient APD processing, and APD tracking at the field office level.

Inefficient Use of Staffing Resources

We found that BLM field offices are not effectively using their personnel.

Staffing and Funding

BLM and BIA officials told us that many field offices and agencies were understaffed given the extensive APD workload. Understaffing critical positions—including adjudicators, petroleum engineers, geologists, and natural resource specialists—increases processing times, particularly at offices receiving a high number of APDs. Further, limited budgets in recent years coupled with the high cost of living in regions of increased oil and gas drilling activity have constrained hiring. Field offices in locations such as Durango and Silt, CO; Dickinson, ND; and Vernal, UT; have a high cost of living that makes it difficult to attract and retain employees.

BIA agencies also reported an insufficient number of realty specialists to process APDs. For example, the Ute Agency in Fort Duchesne, UT, formally requested additional staff in February 2013. In addition, the Fort Berthold Agency, ND, stated that it is understaffed to process its APDs, which are expected to be at

elevated levels for the next decade. Hiring, training, and retaining personnel have become difficult under these conditions.

To improve coordinating oil and gas permitting, the Energy Policy Act of 2005 established special pilot office funding for seven BLM field offices.¹ The additional funding helped relieve the APD backlog at some offices with the greatest workload by increasing their staffing levels. Oil and gas activity, however, has shifted to different regions over time, and accordingly, the workload at some pilot offices has significantly changed. For example, APD submissions at field offices in Buffalo, WY, and Farmington, NM, have dropped substantially while submissions at Vernal, UT, and Carlsbad, NM, have grown (see Figure 4). Further, submissions to Dickinson, ND, a non-pilot office, have significantly increased over the years. Price, UT, another non-pilot office, is now receiving APDs when none had been submitted in recent years. Unfortunately, the act does not allow BLM to transfer the special funding to offices with the greatest need. Pilot office funding will expire at the end of FY 2015.

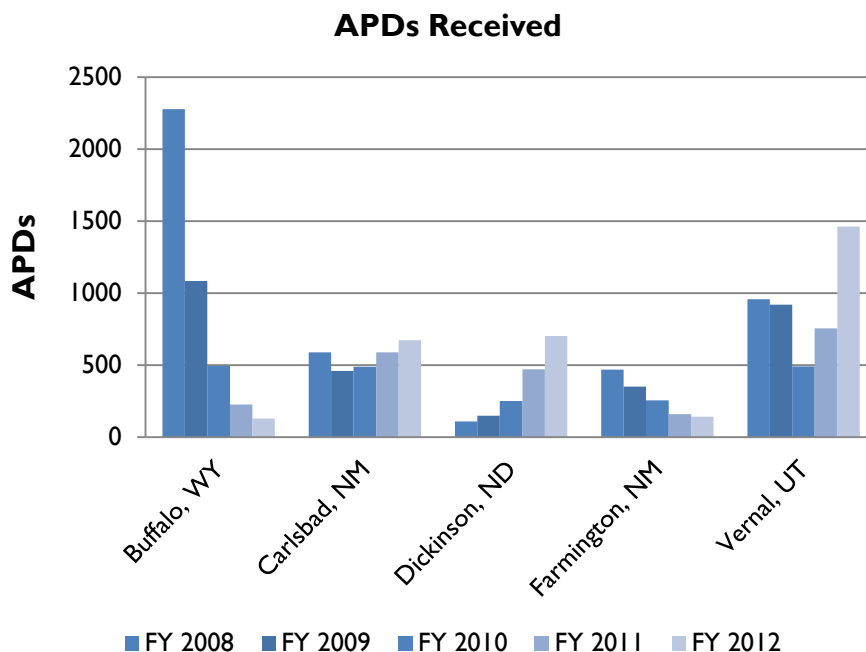


Figure 4. Trend of APDs received by selected BLM field offices from FYs 2008 through 2012.

The BIA agency in Ignacio, CO, oversees extensive oil and gas activity on the Southern Ute Reservation. The superintendent stated that the agency has insufficient qualified staff to assist the Tribe in administering oil and gas operations effectively. In a report prepared in 2011 to justify additional staff, the superintendent stated that about 2,000 oil and gas wells existed on the reservation

¹ Grand Junction/Glenwood Springs (now Silt), CO; Miles City, MT; Carlsbad and Farmington, NM; Vernal, UT; and Buffalo and Rawlins, WY.

with 720 additional wells BIA predicted to be drilled over the next 5 years. To meet the current and projected workload effectively, the superintendent requested six additional staff—three petroleum engineers, one environmental scientist, and two realty specialists. To date, the requested positions have not been filled. Further, tribal officials told us that the agency is understaffed and said APD review times are prolonged as a result.

Processing Procedures

Procedures for processing APDs vary among the field offices, but are mostly manual. That is, employees review and file permits and supporting documents in hard copy, even if initially received electronically. This does not take advantage of the inherent efficiency gains that could be realized by maintaining electronic format for the entire process. Using an automated process wherever feasible would also eliminate the time currently spent on printing, making copies, assembling paper folders, and filing. Further, electronic filing saves money by eliminating physically storing records. At least one office we visited (Vernal, UT) has little file space remaining and may soon have to store records offsite. We see no downside for keeping the official permanent files in electronic format.

We observed that two practices, Notices of Staking and Master Development Plans, allowed under BLM's regulations are underutilized. A Notice of Staking is an optional procedure to enable onsite inspections before the operator submits a formal APD. This allows BLM and the operator to identify site-specific resource concerns that they should address while preparing the APD package. Field office personnel stated that this option expedites the APD review. Second, constructing a Master Development Plan enables an operator to submit multiple APDs in specific areas sharing the same plans for drilling, surface use, and future development and production. Again, field offices report that this practice saves time because it eliminates redundancies.

To address resource challenges, some BLM and BIA offices have used a variety of strategies including remote processing, strike teams, one-stop shops, outreach training, virtual onsite inspections, and industry-funded employment agreements to process APDs. We explain these in the "Promising Practices for Enhanced Efficiency" subsection below.

Recommendation

We recommend that BLM:

5. Work with Congress regarding reauthorization of the pilot offices, and request permanent appropriation funding and flexibility in applying the funds to field offices with the greatest need.

Promising Practices for Enhanced Efficiency

We found numerous practices used within the past year by BLM field offices to improve APD processing. Personnel asserted that the practices enhanced APD processing. BLM and BIA could use these practices to enhance the APD process.

Remote Processing

In remote processing, another office assists the originally assigned office in reviewing an APD. Currently, BLM field offices process APDs submitted only within their jurisdiction. Remote processing, however, can expedite permit processing, particularly in understaffed offices.

Strike Teams

A strike team brings together numerous specialists from multiple field offices. In 2012, BLM's Montana/Dakotas State Office used two strike teams located at the field office in Miles City, MT, to reduce a large APD backlog at the field office in Dickinson, ND. In just 2 months, the teams processed 357 APDs (215 were approved; 142 were partially completed).

One-Stop Shops

This involves a single locale staffed with sufficient resources to process APDs. This has been used for various program purposes at the Federal Indian Minerals Office in Farmington, NM, the Fort Berthold Agency in New Town, ND, and at over 35 BLM field offices in 16 States.

Outreach Training

In State and field offices that conduct outreach training for oil and gas operators, BLM reported reduced instances of incomplete APD packages, thus saving time in completing the reviews.

Virtual Onsite Inspections

A virtual onsite inspection is done without physically visiting the well site. The key to virtual onsite inspections is high-quality aerial photography, reliable topographic maps, and a comprehensive, current geographic information system augmented by prior field visits. BLM's field office in Vernal, UT, has used virtual onsite inspections to reduce the need to visit proposed well sites. Virtual inspections should be used judiciously, however, and should not substitute for an actual site visit when inspectors have insufficient knowledge about the proposed well site.

Industry-Funded Employment Agreements

The district offices in Miles City, MT, and Casper, WY, have signed separate memoranda of agreement with oil and gas associations whereby the latter provides financial support to increase the district offices' permitting capacity. The offices must carefully construct these agreements to avoid conflict-of-interest issues and minimize risks to the Federal Government.

Recommendation

We recommend that BLM:

6. Implement, as practicable, the promising practices and other efficiency enhancements contained in this report.

Conclusion and Recommendations

Conclusion

DOI faces many challenges in processing the large volume of APDs in a timely manner. Nevertheless, we believe the bureaus have many opportunities to expedite permit processing. Implementing our recommendations should result in major improvements to the process.

Recommendations Summary

We recommend that BLM:

1. Establish accountability over the APD process by appointing a field-office-level project manager. The project manager should oversee the entire APD process and have authority to ensure APDs are timely processed.

BLM's Response: BLM concurred with the recommendation, stating that field office managers are accountable for the APD process and have discretion to appoint a project manager. Based on workload and funding, field office managers will decide whether to appoint an APD project manager. Also, the modernization of AFMSS is expected to assist managers in the reporting and monitoring of the APD process.

Office of Inspector General's (OIG) Reply: We consider this recommendation resolved but not implemented. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

As we reported, the APD process at most field offices does not have accountability and strong guidance. Field office managers have many job duties and cannot be expected to provide the direction required to effectively oversee the APD process, particularly at field offices with a significant workload. Accordingly, we urge BLM to make maximum use of the project manager concept. Further, we caution BLM that the enhancements to AFMSS should not be considered a substitute for hands-on management of APDs.

Further, BLM said that it is the Nation's largest land management agency, yet has a relatively smaller workforce and budget than other Federal agencies. In our opinion, this affirms why BLM should fully institute the project manager concept, as the efficiency gains will enable it to process APDs more effectively in spite of limited resources.

2. Develop, implement, enforce, and report performance timelines for APD processing.

BLM's Response: BLM concurred with the recommendation, stating that regulatory-mandated timelines for various stages of the APD process already exist. The response added that processing times vary depending on drilling plan complexities and other issues, which can lead to unmanageable expectations and constant adjustments. Finally, the AFMSS modernization will help managers monitor the process.

OIG's Reply: Although BLM stated concurrence, it did not respond to the intent of the recommendation, which is to improve efficiency by establishing timelines for completing the APD process. The objective of our recommendation is to set a practical and realistic "finish line" to a process that frequently has no defined end.

While regulations specify certain deadlines—such as notifying an operator within 10 days whether an application is complete, or approving, denying, or deferring a decision on a permit within 30 days—these are merely decision points that do not address actual processing times. Instituting a timeline is particularly important when BLM issues a defer decision because the process then becomes open ended. The general regulatory deadlines for certain phases should not be confused with a proactive managerial approach that carefully considers the demands for reviewing an individual APD and coordinating the many component tasks. BLM's current processing approach falls short. A project manager should evaluate each APD within the context of regional factors unique to a field office, timeframes should then be customized for completing the multiple tasks of the downhole and surface reviews, and the final approval or denial decision should be timely. Accordingly, we consider this recommendation unresolved and ask that BLM reconsider its response.

3. Develop outcome-based performance measures for the APD process that help enable management to improve productivity.

BLM's Response: BLM concurred with the recommendation, stating it will use the Business Process Management tool and the modernized AFMSS to monitor the entire APD process.

OIG's Reply: We consider this recommendation resolved but not implemented. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

4. Ensure that the modifications to AFMSS enable accurate and consistent data entry, effective workflow management, efficient APD processing, and APD tracking at the field office level.

BLM's Response: BLM concurred with the recommendation, stating that the modernized AFMSS will ensure standardization of data and processes, and will include entry controls to ensure data integrity.

OIG's Reply: We consider this recommendation resolved but not implemented. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

5. Work with Congress regarding reauthorization of the pilot offices, and request permanent appropriation funding and flexibility in applying the funds to field offices with the greatest need.

BLM's Response: BLM concurred with the recommendation, stating that its 2015 budget justification included a request to extend the pilot office funding and obtain flexibility in using the funds.

OIG's Reply: We consider this recommendation resolved but not implemented. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking implementation.

6. Implement, as practicable, the promising practices and other efficiency enhancements contained in this report.

BLM's Response: BLM concurred with the recommendation, stating that it uses the promising practices as appropriate.

OIG's Reply: We consider this recommendation resolved and implemented. No further action is required.

BLM's full response to our recommendations is included as Appendix 3. A list of the status of the recommendations is in Appendix 4.

Appendix I: Scope and Methodology

Scope

Our evaluation covers the U.S. Department of the Interior's management of the application for permit to drill (APD) process on onshore Federal and Indian oil and gas leases.

We include the APD process on all Indian lands except the Osage Nation. We assessed the Osage Nation's energy resources and its APD process in a separate evaluation (Report No. CR-EV-BIA-0002-2013).

Methodology

We conducted this review from March through November 2013. We reviewed laws, regulations, policies, and procedures related to the APD process; examined prior reviews; analyzed APD data; interviewed departmental and bureau officials having oil and gas program and APD process responsibilities; interviewed oil and gas industry personnel, State government officials, and other organizations knowledgeable about the APD process; examined internal controls; and observed onsite inspections of proposed well sites conducted by departmental and participating industry officials.

We reviewed computer-generated data from the Automated Fluid Minerals Support System. This included APD-related fields. In addition, the Bureau of Land Management (BLM) provided computer-generated data from field offices in Buffalo and Casper, WY, and Carlsbad, NM.

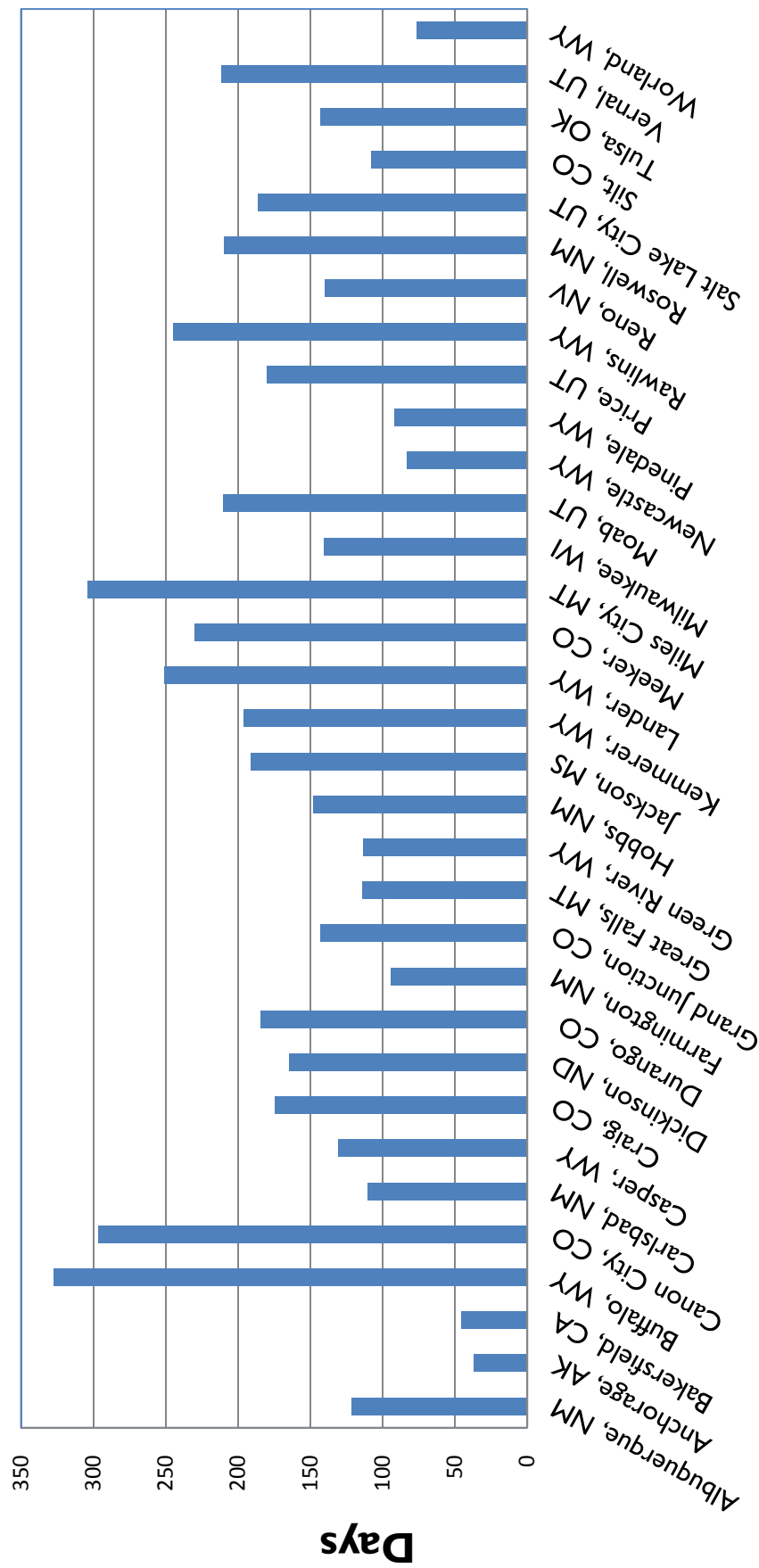
We visited or contacted the—

- BLM, Washington Office, Washington, DC;
- Bureau of Indian Affairs (BIA) Headquarters, Washington, DC;
- BLM State offices in Colorado, Montana/North Dakota, New Mexico, and Wyoming;
- BLM district and field offices in Durango and Silt, CO; Miles City, MT; Albuquerque and Carlsbad, NM; Dickinson, ND; Vernal, UT; and Buffalo and Casper, WY;
- BIA Southwest Regional Office, Albuquerque, NM;
- BIA agency offices in Ignacio, CO; New Town, ND; and Fort Duchesne, UT;
- Office of the Special Trustee for American Indians, Office of Trust Review and Audit, Albuquerque, NM;
- U.S. Fish and Wildlife Service, Southwest Region, Albuquerque and Carlsbad, NM;
- Office of Indian Energy and Economic Development, Lakewood, CO;

- U.S. Forest Service, U.S. Department of Agriculture, Silt, CO, and Dickinson, ND;
- Government Accountability Office, Dallas, TX;
- Three American Indian tribes (Southern Ute Indian Tribe, Ignacio, CO; Three Affiliated Tribes, New Town, ND; and Ute Indian Tribe, Fort Duchesne, UT);
- State government offices in Salt Lake City, UT; and Cheyenne, WY;
- Mesa Energy, Denver, CO;
- Newfield Exploration Company, Myton, UT;
- Western Energy Alliance, Denver, CO;
- Western Energy Project, Denver, CO; and
- Wilderness Society, Denver, CO.

We conducted our evaluation in accordance with the Quality Standards for Inspection and Evaluation as put forth by the Council of the Inspectors General on Integrity and Efficiency. We believe the work performed provides a reasonable basis for our conclusions and recommendations.

Appendix 2: APD Average Processing Days



Note: Average processing days by BLM field office for APDs received for the 3-year, 8-month period of October 2009 through May 2013.

Appendix 3: Bureau of Land Management Response to the Draft Report

The Bureau of Land Management's response to our draft report begins on page 21.



United States Department of the Interior
BUREAU OF LAND MANAGEMENT

Washington, D.C. 20240
<http://www.blm.gov>


MAY - 9 2014



In Reply Refer To:
1245/3160 (830/310)

Memorandum

To: Kimberly Elmore, Assistant Inspector General for Audits, Inspections

Through: Tommy P. Beaudreau 
Principal Deputy Assistant Secretary – Land and Minerals Management

From:  Neil Kornze 
Director

Subject: Office of the Inspector General Draft Evaluation Report, “Onshore Oil and Gas Permitting, U.S. Department of the Interior” (CR-EV-MOA-0003-2013)

Thank you for the opportunity to review and comment on the Office of Inspector General (OIG) draft report, titled Onshore Oil and Gas Permitting, U.S. Department of the Interior (CR-EV-MOA-0003-2013). Effective management of the permitting component of the Bureau of Land Management’s (BLM) oil and gas program is a top concern for me and my staff, and we welcome the analysis and recommendations provided by your office. The BLM agrees with many of the findings of the report and concurs with each of its recommendations.

To fully understand the budgetary, staffing, or management challenges of any particular program of the BLM, we must consider the entire scope and scale of our responsibilities. As the draft report notes, the BLM fulfills what is arguably the most complex mission of any land-use agency – managing for multiple use and sustained yield over roughly 250 million surface acres and 700 million acres of mineral estate. The bureau does this work with the smallest budget and staff of any major federal land-management agency. We believe the report would be more helpful to the public if it addressed the complexities and challenges that the BLM faces as it manages an environmentally responsible oil and gas program.

Instead, the analysis presented in the draft report is narrowly focused, addressing Applications for Permits to Drill (APDs) and associated reviews. The draft report does not examine related or competing bureau priorities, such as Inspection and Enforcement (I&E) activities for oil and gas or activities related to recreation or conservation. Given this limited scope, we question the

breadth of some of the conclusions made in this draft report, including assertions about the appropriateness of Departmental priorities and the effectiveness of personnel resources.

Similarly, understanding a highly technical issue such as oil and gas permitting requires careful use of high-quality data and expert analysis informed by a thorough understanding of the pertinent legal and scientific framework. In conducting its investigation, your office used a wide variety of data sources, including public data posted by the BLM, formal interviews with BLM staff, site visits, and communications with industry and the public. We are concerned about the quality of some of the information used in the report and about the appropriateness of some of the inferences drawn from that information. In particular, some of the draft report's main conclusions rely on impressions expressed by industry and other outside parties rather than empirical economic and performance data. In other instances, the analysis focuses on comparisons of dislike data – for example, APD timeliness for different field offices or in comparison to state data. We believe the report could be improved by further examining claims with empirical data and by showing the trends of like-data over time.

Finally, the report fails to acknowledge the significant progress the BLM has made in shortening the time it takes to complete APD processing. Over the past three years the BLM has reduced the average APD processing time from 307 days to 194 days even in the face of declining budgets. We continue to make additional improvements in the APD process.

Attachment 1 provides further detail on some of these concerns. We hope these comments will assist you in preparing the final report. Attachment 2 outlines our agreement with the recommendations of the draft report and provides a summary of the actions taken or planned by the BLM to implement those recommendations. Included are names of the responsible officials and targets dates of implementation.

If you have any questions about this response, please contact Steven Wells, Chief, Division of Fluid Minerals, at 202-912-7143, or LaVanna Stevenson, BLM Audit Liaison Officer, at 202-912-7077.

Attachments

Attachment 2

Response to Recommendations on the Office of Inspector General Draft Report “Onshore Oil and Gas Permitting, U.S. Department of the Interior” (CR-EV-MOA-0003-2013)

Recommendation 1: Establish accountability over the Application for Permit to Drill (APD) process by appointing a project manager at the field office level. The project manager should oversee the entire APD process and have authority to ensure APDs are timely processed.

Response: The BLM concurs with the concept of having accountability over the APD process. Already the BLM field office manager is accountable for the APD processing in his or her office. The manager has the discretion to appoint a project manager taking into consideration the overall office needs to fill other priority energy related positions; however, based on workload and funding, not every office can justify a position dedicated exclusively as a project manager. Nonetheless, we realize there are opportunities to improve accountability in the review process and, as funding and workload priorities allow, the BLM field office managers will consider appointing project managers to oversee the APD process. In addition, as part of the BLM’s modernization of the Automated Fluid Minerals Support System (AFMSS), a reporting and monitoring tool will be embedded within the database system that will generate reports to enable field office managers to monitor the APD approval processing timeline to ensure APDs are timely processed. Managers will use this tool to track milestones in the APD approval process in order to identify and respond accordingly to any potential bottlenecks and report achieved timelines, thus providing enhanced accountability over the APD process. Absent the funding mechanisms to fully commit to the prescriptions within this recommendation, we believe the modernization of AFMSS will provide enhanced capabilities to field office managers to better account for the processing of APDs within their jurisdiction.

Responsible Official: Michael D. Nedd, Assistant Director, Energy, Minerals and Realty Management

Target Date: December 31, 2015

Recommendation 2: Develop, implement, enforce, and report performance timelines for Applications for Permit to Drill (APD) processing.

Response: Timelines have already been developed for different stages of the APD process. For example, by regulation, the BLM sends what is known as 10-day letters to applicants after the agency first reviews their APD to notify them whether their application is complete and what information is missing and needs to be submitted to make it complete. In addition, within 30 days of the BLM’s determination that an APD package is complete, the BLM sends deferral letters to applicants if the agency will not be able to meet the 30-day deadline for making a decision on a complete APD (in Section 366 of the Energy Policy Act of 2005). The letter notifies the applicant of the agency’s next steps in processing their application and identifies what other actions the applicant could take that would enable the BLM to make a final decision on their

application. In all cases, however, the BLM works to complete the permitting process as quickly as possible, and provides the operator a reasonable timeframe for completion.

Reasons the actual processing can take longer include the complexity and variety of drill plans, uniqueness of drill sites, operator requests to reprioritize work, and other factors important to consider. Another consideration is the shift in workload versus workforce that has recently been experienced in several BLM offices. Setting a specific expected timeline would lead to unmanageable expectations, and would require constant adjustments to arbitrarily established timelines.

As a reporting and monitoring tool, the BLM's Automated Fluid Mineral Support System II (AFMSS II), currently under development, will generate a quarterly APD processing report to enable field managers to monitor the APD approval processing timeline to ensure APDs are timely processed. Managers will use the AFMSS II APD module to track milestones in the APD approval process in order to identify and respond accordingly to any potential bottlenecks and report achieved timelines. The BLM is currently working with its contractor on the APD module to test new enhancement features. Pilot testing in two offices is expected later this year with full implementation expected in 2015.

Responsible Official: Michael D. Nedd, Assistant Director, Energy, Minerals and Realty Management

Target Date: December 31, 2015

Recommendation 3: Develop outcome-based performance measures for the APD process that help enable management to improve productivity.

Response: The BLM managers will utilize the Business Process Management (BPM) tool, which is a systematic approach to making an organization's workflow more effective, more efficient and more capable of adapting to an ever-changing environment. The BPM will be embedded within AFMSS II to monitor the entire APD process, from application submission through review and approval. It will provide the BLM with the highest level of information accuracy, visibility, transparency, control and accountability. The AFMSS II is composed of a series of sections that provide a high-level description of how the primary business processes will be supported, which major assumptions have been made, and what performance parameters are to be met.

Responsible Official: Michael D. Nedd, Assistant Director, Energy, Minerals and Realty Management

Target Date: December 31, 2015

Recommendation 4: Ensure the revisions to AFMSS enable accurate and consistent data entry, effective workflow management, effective APD processing, and APD tracking at the field office.

Response: The AFMSS II is being designed with improvements that will allow for standardization of data and processes, including data entry controls to ensure improved data integrity. As designed, the AFMSS II will address this recommendation.

Responsible Official: Michael D. Nedd, Assistant Director, Energy, Minerals and Realty Management

Target Date: December 31, 2015

Recommendation 5: Work with Congress to request permanent appropriation funding for the pilot offices, and to obtain flexibility to applying the funds to field offices with the greatest need.

Response: In the 2015 Budget Justification, the BLM included a legislative proposal to amend and extend certain authorities provided to the BLM by Section 365 of the Energy Policy Act of 2005. These authorities have improved the BLM's efficiency in processing APDs and other use authorizations. Specifically, the legislative proposal would amend Section 365 to provide the BLM with the flexibility to establish permit processing pilot offices where needed and does not limit it to only those pilot offices explicitly identified in the Energy Policy Act, as amended. This will help the BLM respond and adapt to the oil and gas industry's sometimes rapidly shifting demands in different geographical areas. The proposal would also extend the authority for the BLM to pay other agency personnel assigned to these pilot offices. The 2015 legislative proposal does not extend the Permit Processing Improvement Fund that was also established by Section 365. This permanent funding source is scheduled to expire at the end of fiscal year 2015.

The 2015 Budget Justification also proposes shifting a significant share of the cost of oil and gas inspections to industry through inspection fees that will generate an estimated \$48,000,000. The increased funding will allow the BLM to address deficiencies identified by the GAO in its February 2011 report and will help the BLM achieve the high-priority goal of increasing the completion of inspections of Federal and tribal high-risk oil and gas cases. The additional funding will provide the BLM with additional resources to accomplish more environmental inspections to ensure environmental requirements are being followed in all phases of development. The fee is similar to those already in place for offshore operations and will help the BLM be more responsive to market demand. A stronger inspection capacity and field presence will also enable the BLM to ensure proper production measurement especially after the program faced funding declines in 2011 and 2012. Even a slight underreporting of 2 percent may potentially lead to an annual shortfall of \$50 million in royalties. The operator will also benefit because the proper measurement returns more of their share of the production stream, adding to their overall revenues.

Responsible Official: Michael D. Nedd, Assistant Director, Energy, Minerals and Realty Management

Target Date: Complete

Recommendation 6: Implement, as practicable, the promising practices and other efficiency enhancements contained in this report.

Response: Where practicable, the BLM uses the promising practices, as appropriate, identified by the IG (e.g., project managers, strike teams) to improve various components of the APD review process. For example, the BLM's engineers have worked on streamlining and standardizing the analysis for evaluating the adequacy of the downhole casing design of a well. The analysis program allows agency staff to apply one analysis to more complex projects and another analysis to a more simple casing design. This program is based on a process developed by the BLM employees in Carlsbad, NM. This program was shared throughout the BLM for adaptation as appropriate and is expected to enhance the APD process.

Responsible Official: Michael D. Nedd, Assistant Director, Energy, Minerals and Realty Management

Target Date: Complete

Appendix 4: Status of Recommendations

In its response to our draft report, BLM concurred with the six recommendations (see Appendix 3). Although concurrence was expressed for Recommendation 2, the response was insufficient for us to consider it resolved. The table below summarizes the status of the recommendations.

Recommendations	Status	Action Required
1, 3, 4, and 5	Resolved but not implemented.	We will refer these recommendations to the Assistant Secretary for Policy, Management and Budget for tracking implementation.
2	Unresolved.	We request that BLM reconsider its response to the recommendation and respond to us, in writing, within 30 days.
6	Resolved and implemented.	No further action is required.

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