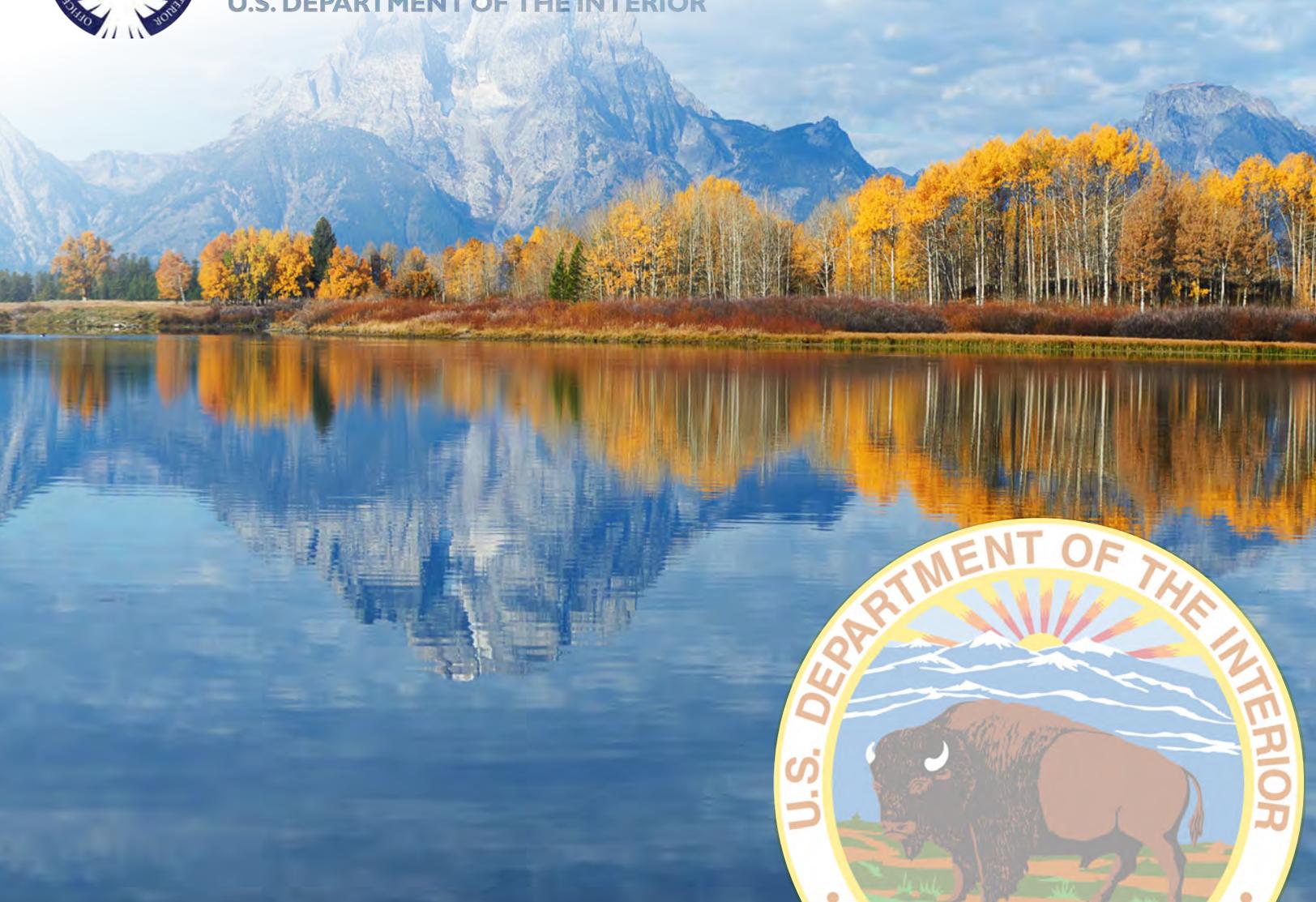




OFFICE OF
INSPECTOR GENERAL
U.S. DEPARTMENT OF THE INTERIOR



Audit



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DEC 16 2024

Memorandum

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From: Nicki Miller *Nicki Miller*
Acting Assistant Inspector General for Audits, Inspections, and Evaluations

Subject: Final Audit Report – *U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas
Internal Controls To Ensure Oversight of Financial Risks to the Government From Bankruptcies*
Report No. 2023-CR-003

This memorandum transmits our audit report on internal controls for Federal oil and gas bankruptcies at the U.S. Department of the Interior's bureaus with Federal oil and gas oversight responsibilities.

We will track open recommendations for resolution and implementation. We will notify Congress about our findings, and we will report semiannually, as required by law, on actions you have taken to implement the recommendations and on recommendations that have not been implemented. We will also post a public version of this report on our website.

If you have any questions about this report, please contact me aie_reports@doioig.gov.

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Results in Brief

Objective

The U.S. Department of the Interior (DOI) is responsible for overseeing and managing the Federal Government's oil and gas program. Our objective was to determine whether DOI's bureaus (1) maintained complete and accurate Federal oil and gas bankruptcy data and (2) had adequate policies and procedures in place that clearly establish internal controls to mitigate the bureaus' financial risk associated with nongovernmental entities that file for bankruptcy and hold Federal oil and gas leases or have operating responsibilities. Specifically, we reviewed DOI bureaus' ability to determine and account for amounts owed to them by entities that have declared bankruptcy (debtors), as well as other potential Federal liabilities that could arise as a result of debtors' bankruptcy filings at the four bureaus with oil and gas oversight responsibilities: the Bureau of Land Management (BLM), Bureau of Ocean Energy Management (BOEM), Bureau of Safety and Environmental Enforcement (BSEE), and Office of Natural Resources Revenue (ONRR).

Findings

We sampled 36 of 161 bankruptcy cases (22 percent) occurring between fiscal years 2018 and 2022, totaling approximately \$8.1 billion in claims for payments or obligations owed to BLM, BOEM, BSEE, and ONRR. We found that the bureaus did not maintain complete or accurate Federal oil and gas bankruptcy data for each entity either during a bankruptcy case or when the case was considered closed. For example, the bureaus did not always have information on leaseholder bankruptcy obligations, the risk of unpaid rent and royalty amounts, or the risk that lease decommissioning and reclamation costs could revert to the Federal Government. Updating obligation information is important because risks can change based on the length of time and outcome of the bankruptcy case. We also found that the bureaus are currently operating under either outdated policies and procedures with insufficient guidance regarding how to maintain bankruptcy information or draft bankruptcy policies and procedures that are still pending formal approval or publication. Further, despite the requirement that agencies must document internal controls as a part of the Office of Management and Budget Circular A-123 process, we found that the bureaus had not done so consistently.

Impact

A bankruptcy by a non-Federal oil and gas entity has the potential to leave outstanding uncollectable debts, as well as other obligations, that become the responsibility of the Federal Government. These uncollectable debts and obligations can arise from royalties and rents due, civil penalties, administrative fees, and decommissioning or reclamation requirements (which include plugging wells and removing platforms that are no longer in use and returning the area to previous or natural conditions). Each bureau needs sufficient and appropriate controls to maintain accurate and complete bankruptcy data and information, make informed decisions, and take appropriate steps to reduce the bureaus' risks of incurring costs related to entities' decommissioning and reclamation responsibilities if the entities do not pay their debts to the bureaus. These controls will help ensure that the Federal Government, and ultimately the taxpayers, are not forced to bear these costs.

These risks are well-known and longstanding. Indeed, in DOI's November 2021 *Report on the Federal Oil and Gas Leasing Program*,¹ it noted significant risks related to bankruptcies. Specifically, DOI stated that recent bankruptcies have resulted in some companies being unable to cover their liabilities and obligations. In a separate report,² the U.S. Government Accountability Office stated that financial assurances such as bonds—

¹ <https://www.doi.gov/sites/doi.gov/files/report-on-the-federal-oil-and-gas-leasing-program-doi-eo-14008.pdf>.

² Report No. GAO-16-40, *Offshore Oil and Gas Resources: Actions Needed to Better Protect Against Billions of Dollars in Federal Exposure to Decommissioning Liabilities*, issued December 2015, <https://www.gao.gov/assets/gao-16-40.pdf>.

which are a monetary guarantee—were inadequate, citing approximately \$2.3 billion in uncovered decommissioning liabilities on the Outer Continental Shelf alone.

As stewards and managers of Federal oil and gas resources, the bureaus must ensure that they identify and implement key internal controls that mitigate their bankruptcy risks. Bankruptcies will vary based on each entity's Federal oil and gas assets, so each bureau must be aware of the potential impacts of those bankruptcies on its ability to collect amounts owed and potential future liabilities, which can range from thousands to billions of dollars. The bureaus should also ensure that they have policies and procedures in place and verify that those key internal controls are effectively applied. It is critical that DOI leaders have accurate information so they can effectively and efficiently manage these programs and make policy decisions.

Recommendations

We make 21 recommendations that, if implemented, would help BLM, BOEM, BSEE, and ONRR improve their oversight and strengthen their internal controls to identify and mitigate the risks associated with Federal oil and gas entities declaring bankruptcy.

Introduction

Objective

Our objective was to determine whether the U.S. Department of the Interior's (DOI's) bureaus (1) maintained complete and accurate Federal oil and gas bankruptcy data and (2) had adequate policies and procedures in place that clearly establish internal controls to mitigate the bureaus' financial risk associated with nongovernmental entities that file for bankruptcy and hold Federal oil and gas leases or have operating responsibilities.

See Appendix 1 for our audit scope and methodology. See Appendix 2 for a glossary of key terms.

Background

DOI is responsible for overseeing and managing the Federal Government's oil and gas program—which includes issuing oil and gas leases to non-Federal entities, permitting development, and overseeing oil and gas operations. DOI performs this stewardship responsibility through several of its bureaus:

- The Bureau of Land Management (BLM) oversees onshore oil and gas resources on Federal lands with 23,500 producing oil and gas leases on about 23 million Federal acres.
- The Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environment Enforcement (BSEE) oversee offshore oil and gas resources for 2,287 active oil and gas leases on approximately 12.1 million Outer Continental Shelf (OCS) acres.
- The Office of Natural Resources Revenue (ONRR) collects royalties, rents, and other payments from entities that operate Federal oil and gas leases both offshore and onshore, which collectively with other ONRR energy and mineral revenues average more than \$10 billion annually.

BLM, BOEM, and BSEE regulate the activities associated with oil and gas operations, while ONRR collects rents and royalties on the bureaus' behalf. When an entity that works with these bureaus declares bankruptcy, each bureau must account for and manage the effects of that entity's bankruptcy. For ONRR, this includes collecting any outstanding payments owed to the Federal Government. For BLM, BOEM, and BSEE, this may include responsibility for removing infrastructure and reclaiming the environment if an entity defaults their decommissioning and reclamation requirements to the Federal Government.

Federal Oil and Gas Program Leaseholders

An entity becomes subject to DOI's Federal oil and gas program through BLM's and BOEM's lease processes, either as a leaseholder or a leaseholder's operator.³ The leaseholder, the leaseholder's operator, or both are responsible for requesting permits and complying with BLM, BOEM, and BSEE regulations and providing payments to ONRR for rents and royalties.⁴ All entities must comply with each bureau's processes and regulations. This includes plugging wells that are no longer used and returning the area to its previous condition, such as removing platforms and returning lands to a natural state, known as decommissioning and reclamation.

³ According to 43 C.F.R. § 3100.0-5 and 30 C.F.R. § 556.105, an operator is the entity having control or management of operations on the lease, which may be the leaseholder or a designated agent.

⁴ 43 C.F.R. Chapter II, "Bureau of Land Management, Department of the Interior"; 30 C.F.R. Chapter V, "Bureau of Ocean Energy Management, Department of the Interior"; 30 C.F.R. Chapter II, "Bureau of Safety and Environmental Enforcement, Department of the Interior"; 30 C.F.R. Chapter XII, "Office of Natural Resources Revenue, Department of the Interior."

When Entities Petition for Bankruptcy

A bankruptcy occurs when an entity (individual or organization) legally petitions the bankruptcy court to declare its inability or impairment to pay creditors.⁵ The entity filing for bankruptcy is designated as the “debtor.” As part of the bankruptcy process, creditors can file proofs of claims (POCs), which are essentially notifications that the creditor is asserting its right to receive a distribution—i.e., payment—from the bankruptcy estate. DOI and its bureaus can, in some cases, be creditors that may assert a claim on the estate. Accordingly, when an entity with Federal oil and gas responsibilities declares bankruptcy, each bureau with receivables for that entity files a POC asserting its bureau-specific receivables for each debtor listed in the bankruptcy case.⁶ ONRR’s POCs include payments owed to the bureau such as royalties and rents due, civil penalties, and administrative fees; BLM’s, BOEM’s, and BSEE’s POCs can include any immediate actions or current decommissioning or reclamation requirements (referred to as “actual liabilities”) as well as future decommissioning or reclamation requirements that are not currently required but will be required once a well is no longer operational (referred to as “protective liabilities”).

Once an entity declares bankruptcy, there are limitations or prohibitions on what can be required by any creditor, including the Federal Government;⁷ however, bankrupt entities must still comply with statutory and regulatory requirements as a condition of the lease. The Government has 180 days to provide a POC to the court for each entity stating the entity’s unpaid or owed obligations and liabilities.

Bureau Bankruptcy Processes

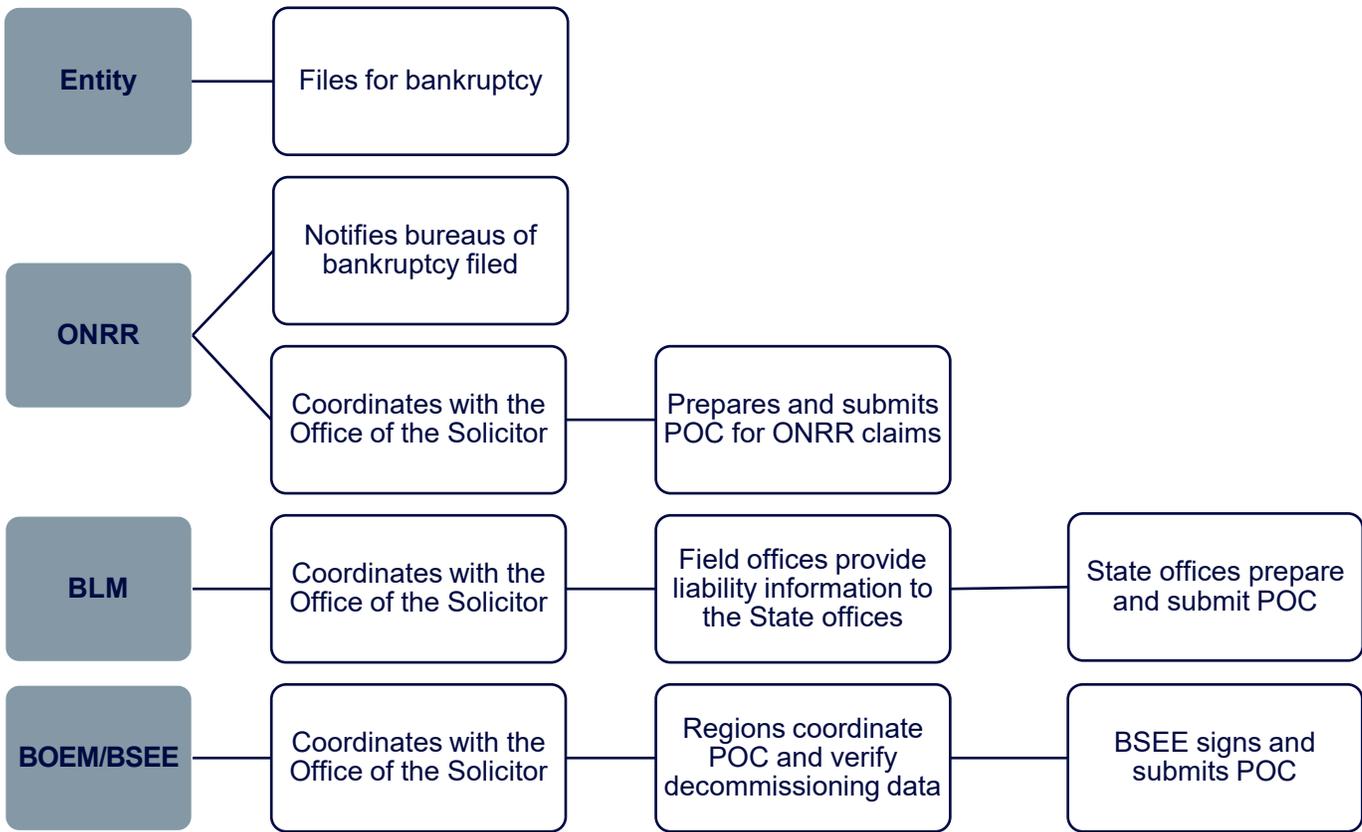
Each bureau has varying responsibilities and processes with respect to an entity that files for bankruptcy (see Figure 1). ONRR is responsible for accounting for amounts owed from oil and gas operations, such as rents and royalties, while BLM is responsible for onshore decommissioning and reclamation requirements and associated costs. BOEM and BSEE work in conjunction on bankruptcy cases because they are both responsible for offshore decommissioning requirements and associated costs. Each bureau uses its systems and processes to identify an entity’s obligations and responsibilities to that bureau. When an entity declares bankruptcy, each bureau prepares and submits its own POC(s) to the bankruptcy court based on the bankrupt entity’s liabilities to that bureau, and all bureaus receive support from DOI’s Office of the Solicitor.

⁵ Bankruptcy procedures are governed by the U.S. Bankruptcy Code, which is codified in Title 11 of the United States Code.

⁶ A bankruptcy case may include a single entity or multiple entities filing under a joint bankruptcy case with a lead bankruptcy entity. A joint bankruptcy case may include entities with no obligations or responsibilities with any DOI bureaus.

⁷ According to 11 U.S.C. § 525, “a governmental unit may not deny, revoke, suspend, or refuse to renew a license, permit, charter, franchise, or other similar grant to, condition such a grant to, discriminate with respect to such a grant against . . . a person that is or has been a debtor under this title . . . or another person with whom such bankrupt or debtor has been associated, solely because such bankrupt or debtor is or has been a debtor under this title . . . has been insolvent before the commencement of the case . . . or has not paid a debt that is dischargeable.”

Figure 1: DOI Bureau Bankruptcy Processes



Bureau Bankruptcy Roles and Responsibilities

Each bureau is affected by a bankruptcy of any Federal oil and gas entity it works with and accordingly has specific responsibilities to ensure that an entity’s Federal obligations are completed or paid to the fullest extent possible.

ONRR is primarily affected when an entity declares bankruptcy and ceases paying royalties, rents, or other payments owed. According to the ONRR Litigation Support Team’s bankruptcy process, the team receives⁸ and disseminates bankruptcy notifications to all potentially affected bureaus, follows a checklist to research and determine any amounts the debtor owes to ONRR, prepares and submits POCs for ONRR, and tracks bankruptcy cases and information for bankrupt entities that owe amounts to ONRR. If the bankruptcy results in remaining amounts owed in which no payments were received or expected, the team also prepares a memorandum that provides guidance to ONRR’s Financial Management Office on accounting for and removing from ONRR’s accounting and financial system—or writing off—any remaining amounts owed by the bankrupt entity.

For BLM, if an entity with a BLM oil and gas lease declares bankruptcy, the bureau may have to assume the entity’s decommissioning and reclamation responsibilities if the entity is unable to fulfill them. BLM’s headquarters office tracks and assists with coordinating bankruptcy information between BLM State offices and DOI’s Office of the Solicitor. The State offices contact the appropriate field offices to determine if the company has any outstanding liabilities that would require BLM to file a POC. The field offices provide liability information and costs to the State offices. The State offices prepare, sign, and submit the POCs to the bankruptcy court.

⁸ ONRR uses a bankruptcy subscription service to receive bankruptcy filing notifications.

BOEM and BSEE have differing but related responsibilities; both bureaus are affected and may have to assume decommissioning responsibilities if a bankrupt entity is unable to fulfill them. BOEM ensures that bankrupt entities continue to fulfill their lease and regulatory requirements as well as their financial assurance (bond) requirements in a timely manner. BSEE enforces safety and environmental protection obligations to ensure entities that have filed for bankruptcy continue to satisfy operational requirements, including properly decommissioning facilities, in a safe and timely manner. BOEM and BSEE coordinate with each other to prepare the POCs; BSEE provides decommissioning information and then signs and submits the POCs to the court. The National Bankruptcy Coordination Team—which includes staff from BOEM, BSEE, and DOI’s Office of the Solicitor—is responsible for coordinating and tracking BOEM’s and BSEE’s bankruptcy information.

Mitigating Bankruptcy Risks

The following policies and procedures are related to mitigating bureaus’ risks associated with Federal oil and gas entities declaring bankruptcy:

- Requiring entities to have financial assurance (that is, bonds) in place before issuing a lease or before approving a permitting action.
- Reviewing entities for financial capability and capacity (financial reviews) before issuing a lease, and conducting annual reviews thereafter.
- Submitting bankruptcy POCs when responding to an entity’s bankruptcy.
- Requiring any remaining bankruptcy obligations to be cured⁹ by the claimant or by predecessors during or after an entity’s bankruptcy.

Below, we examine how each bureau addresses these mitigation activities.

Financial Assurance (Bonds)

Financial assurance in the form of a bond provides a monetary guarantee to cover all terms and conditions of a lease and remains in place until all lease obligations—including decommissioning and reclamation obligations—have been met, which can extend beyond the expiration of the lease. BLM and BOEM require bonds before issuing a lease or prior to approving permits as part of the bureaus’ bonding requirements, which can help to mitigate bankruptcy risk if an entity does not fulfill its decommissioning and reclamation obligations. Specifically, BLM and BOEM can use these bonds to pay for any remaining bankruptcy obligations, with priority given to safety and environmental problems—such as facility and site safety, reclamation, and decommissioning—over monetary debts of royalties and rents. ONRR relies on BLM’s and BOEM’s bonds and approval to cover any uncollected amounts owed; however, decommissioning and reclamation obligations owed to BLM and BOEM have the higher priority for use of any bond amounts.

Both the U.S. Government Accountability Office (GAO) and DOI have reported on the use of bonds in other audits and reviews of DOI’s oil and gas programs.¹⁰ Specifically, GAO found that DOI’s bonding procedures did not provide sufficient financial assurance to cover decommissioning and reclamation costs because of an inability to accurately estimate and identify those costs, which resulted in bonds being too low to cover decommissioning and reclamation activities. In a review of its own, DOI also reported that bonds were insufficient, and that financial assurance coverage should be increased to protect the Federal Government and

⁹ Generally, the debtor must pay (or “cure”) any outstanding defaults before the assumption or sale of the leases as part of the bankruptcy process. In order to cure the defaults, the debtor must pay all amounts owed to ONRR plus any interest due, pending final approval by the bankruptcy court.

¹⁰ Report No. GAO-16-40, *Offshore Oil and Gas Resources: Actions Needed to Better Protect Against Billions of Dollars in Federal Exposure to Decommissioning Liabilities*, issued December 2015, <https://www.gao.gov/assets/gao-16-40.pdf>; Report No. GAO-19-615, *Oil and Gas: Bureau of Land Management Should Address Risks from Insufficient Bonds to Reclaim Wells*, issued September 2019, <https://www.gao.gov/assets/gao-19-615.pdf>; DOI Report on the Federal Oil and Gas Leasing Program, issued November 2021, <https://www.doi.gov/sites/doi.gov/files/report-on-the-federal-oil-and-gas-leasing-program-doi-eo-14008.pdf>.

taxpayers.¹¹ According to BLM and BOEM, both bureaus have been updating their bonding rules and regulations to strengthen this control.¹²

Financial Reviews

Financial reviews are intended to verify that entities are financially and operationally fulfilling their obligations. BOEM performs initial and annual financial reviews for both BOEM's and BSEE's entities to determine if changes to bonds are needed. BOEM requires entities to submit an audited consolidated balance sheet annually and determines financial solvency by examining total net worth of the entity, including, as appropriate, the net worth of affiliated entities.¹³ BLM does not have a specific, dedicated financial review process equivalent to BOEM's. However, BLM does have a bond adequacy review policy that states BLM must review all bonds every five years (or 20 percent of all bonds per year) to determine if any changes in bonding amounts are needed. BLM's policy identifies three critical areas for review to determine the level of potential risk posed by an entity: well status, operational history, and reclamation stewardship. In addition, BLM calculates an entity's potential performance risk by assessing the number of shut-in or inactive wells, depth of wells, production amounts, incidents of noncompliance, and uncompleted reclamation. ONRR does not perform financial reviews because it receives entity information from BLM, BOEM, and BSEE for payments and is not directly part of the leasing or permitting processes.

Bankruptcy POCs

Once an entity has declared bankruptcy, each affected bureau submits a POC to the designated bankruptcy court stating liabilities owed. POCs are documents the bankruptcy courts require for a bureau to be eligible for, and assert the bureau's right to, payments from the debtor. For BLM, BOEM, and BSEE, the POCs include the costs required for decommissioning and reclamation of an entity's wells and platforms. For ONRR, the POCs include any amounts owed to ONRR, such as rents and royalties. The bankruptcy court process also allows DOI to include language in the POCs to protect the bureaus' interests, including that entities continue to address their environmental regulatory obligations. Even though there are limitations on what the bureaus can require of an entity during bankruptcy, there are no limitations on the Government's enforcement of its regulatory power; an entity must continue to comply with the statutory and regulatory requirements that are conditions of its oil and gas lease.

We reviewed 36 of 161 bankruptcy cases from fiscal years (FYs) 2018 through 2022 (see Appendix 3 for more information on our sampling selection and results). In these cases, the bureaus had filed POCs stating the amounts owed to them or potential decommissioning and reclamation obligations (see Figure 2).

¹¹ *Report on the Federal Oil and Gas Leasing Program.*

¹² BOEM published a proposed rulemaking and request for comment, Risk Management and Financial Assurance for OCS Lease and Grant Obligations, 88 Fed. Reg. 42,136 (June 29, 2023). BLM published a proposed rulemaking and request for comment, Fluid Mineral Leases and Leasing Process, 88 Fed. Reg. 47,562 (July 24, 2023).

¹³ 30 C.F.R. § 550.1495(a) and (b), § 550.1496(a).

**Figure 2: Bureau POCs¹⁴ for 36 Bankruptcy Cases Tested
(FYs 2018-2022)**

Bureau	No. of POCs*	Claim Category	POC Amount
BOEM/BSEE	6	Decommissioning	\$8 billion
ONRR	17	Rents and royalties	\$58.2 million
BLM	14	Decommissioning and reclamation	\$22.9 million

* We selected 36 bankruptcy cases to review; however, some cases did not have a POC if the case was dismissed or there were no bureau claims. Some cases had multiple entities, which required a separate POC for each entity. Amounts shown are as of the date the bureaus filed the POCs with the bankruptcy court and may not be the final amounts owed to or required by each of the bureaus.

Mitigating Entity Obligations After Bankruptcy

When an entity cannot fulfill its obligations after a bankruptcy, the bureaus have processes to help mitigate remaining obligations before they become the bureaus' responsibility. For example, when an entity cannot fulfill or transfer¹⁵ its decommissioning and reclamation responsibilities, BLM, BOEM, and BSEE have processes to pursue decommissioning and reclamation responsibilities on the predecessors.¹⁶ ONRR may mitigate its risk that it will not be paid the remaining amounts owed by an entity by filing a list with the court (referred to as a "cure list") with the amounts that are due against the leases the entity wants to keep or sell as part of the bankruptcy process. Generally, cure amounts are the amounts an entity has to pay for the liabilities on a lease it wants to keep or sell. For example, if an entity is keeping its leases and is reorganized¹⁷ through the bankruptcy process, the entity would be required to pay the cure amount. Similarly, if an entity wants to sell or transfer its leases, the entity would be required to pay the cure amount for those leases. ONRR also includes language in its court documents to preserve ONRR's rights to perform audit and compliance reviews through the required six-year reporting period, ensuring that ONRR retains full audit rights for any rents, royalties, or other payments owed. ONRR's preservation language and final cure amounts are dependent on the bankruptcy court's decision and approval of an entity's reorganization, transfer, or sale.

Unresolved or Remaining Obligations After Bankruptcy

Although each bureau has mitigation measures in place to reduce its risks in the event of bankruptcies, there are still circumstances in which entities cannot fulfill or eliminate their responsibilities and those obligations become the bureaus' responsibilities. Specifically, if an entity cannot sell or transfer its lease because the well is no longer productive or if it has no other entity to which it can shift responsibility, any remaining amounts owed to the bureaus, as well as decommissioning and reclamation requirements, become the responsibility of the Federal Government. For ONRR, that means writing off amounts owed to the Government that were not received as part of the bankruptcy settlement. For example, from FYs 2018 through 2022, ONRR wrote off a total of \$149,120 for two Federal oil and gas entities that filed for bankruptcy.¹⁸ BLM, BOEM, and BSEE must

¹⁴ We determined the number of POCs and claim information by reviewing the bureaus' POC documentation.

¹⁵ An entity may in some circumstances sell or transfer its assets to another entity, which then takes on the required responsibilities.

¹⁶ A predecessor is a prior leaseholder or leaseholder's operator that is liable for decommissioning and reclamation obligations.

¹⁷ A Chapter 11 bankruptcy, known as a reorganization bankruptcy, typically occurs when the debtor submits a reorganization plan to maintain its business and pay creditors over time; a Chapter 7 bankruptcy, known as a liquidation bankruptcy, involves the sale of a debtor's assets, which are used to pay creditors. More information is available on the U.S. Bankruptcy Court website: <https://www.uscourts.gov/services-forms/bankruptcy>.

¹⁸ There may be additional writeoffs in the future pending the outcome of ongoing bankruptcies.

also address orphaned wells¹⁹ that result from bankruptcies along with the requirements and costs for decommissioning and reclamation. BLM does not track which wells are orphaned due to bankruptcies, so it cannot determine costs associated with bankruptcies; however, we noted that, within the scope of our review, BLM's 14 bankruptcy POC amounts totaled \$22.9 million, with individual POC amounts ranging between \$34,818 and \$8.8 million. To date, BOEM and BSEE have not been required to pay for any decommissioning activities because they are still pursuing obligations and requirements owed through the bankruptcy process and with predecessors; however, BOEM had a list showing \$34 million²⁰ in uncovered orphaned well decommissioning liabilities (all due to bankruptcies) that may require Federal funds in the future.

¹⁹ Orphaned wells are wells that do not have a legally responsible party to perform or provide for permanent well decommissioning and reclamation. The Infrastructure Investment and Jobs Act (Pub. L. No. 117-58), which was signed into law on November 15, 2021, requires DOI to submit an annual report to Congress detailing information on orphaned wells programs. We reported on DOI's efforts to comply with this requirement in our *Flash Report: Orphaned Wells Programs – The U.S. Department of the Interior's Efforts To Collect Data To Meet Annual Orphaned Wells Programs Reporting Requirements* (Report No. 2022-INF-042), issued April 2023.

²⁰ As of June 14, 2023, BOEM's total uncovered orphaned wells decommissioning obligations amounted to five bankrupt entities, with only one entity's bankruptcy occurring during FYs 2018 through 2022.

Results of Audit

We found that BLM, BOEM, BSEE, and ONRR did not maintain complete and accurate Federal oil and gas bankruptcy data. We sampled 36 of 161 bankruptcy cases (22 percent) totaling approximately \$8.1 billion in claims for payments or obligations owed to BLM, BOEM, BSEE, and ONRR and found that the bureaus did not consistently track bankruptcy information or include basic but critical information related to bankruptcies, such as bankruptcy POC amounts. Specifically, we found that none of the bureaus consistently included POC amounts in their bankruptcy tracking tools and that ONRR POCs were missing production reports, which entities are required to file for their oil and gas production and ONRR uses to determine payment amounts. We also found that, although ONRR does disseminate bankruptcy notifications, the bureaus more generally do not share potentially relevant bankruptcy information with each other. Additionally, the bureaus were operating under either outdated policies and procedures with inadequate guidance regarding bankruptcy processes or draft bankruptcy policies and procedures that were still pending formal approval. Further, despite the requirement that agencies must document internal controls as part of the Office of Management and Budget (OMB) Circular A-123 process,²¹ we found that the bureaus had not done so consistently.

Each bureau is actively engaged in efforts to improve its bankruptcy-related processes; however, key internal controls should still be strengthened, such as updating and finalizing bankruptcy policies and procedures and tracking critical bankruptcy information, including bankruptcy POC amounts. As stewards and managers of Federal oil and gas resources, the bureaus should ensure that they identify all key internal controls that mitigate the risks associated with entities' bankruptcies. The bureaus should also ensure they have policies and procedures in place and verify those key internal controls are being effectively applied. If implemented, our recommendations will assist the bureaus in improving oversight and enhancing their ability to identify and mitigate impacts from Federal oil and gas entities' bankruptcies.

The Bureaus Did Not Maintain Complete and Accurate Federal Oil and Gas Bankruptcy Data

GAO's *Standards for Internal Control in the Federal Government* (the "Green Book") provides managers with criteria for designing, implementing, and operating an effective internal control system. Principle 10 provides that management should design control activities to achieve objectives and respond to risks. Principle 12 provides that management should implement control activities through policies. Additionally, Principle 13 provides that management should use quality information to achieve the bureau's objectives. OMB Circular A-123 defines management's responsibilities for internal control, and states that "documentation is required to demonstrate the design, implementation, and operating effectiveness of an entity's internal control system." The circular also provides that management should analyze risks and determine what action will be taken to address the risks, including potentially implementing formal internal controls to reduce the risks.

DOI implements Circular A-123 through its Office of Planning and Performance Management. This office collaborates with departmental, bureau, and office leaders on various risk management activities. These include developing and updating risk registers, creating risk profiles, implementing risk treatments and testing, and analyzing risks to inform decision making. Bureaus integrate enterprise risk management practices by identifying risks and respective internal controls, then assess the internal controls in place to mitigate the risks.

These internal control concepts are meant to ensure that the bureaus are using quality information to make effective decisions to achieve their missions. However, we found that the bureaus were not identifying or tracking key bankruptcy information throughout the bankruptcy process. This prevented decision makers from understanding the full financial impact of bankruptcies upon each of the bureaus. DOI and bureau leadership need dependable information to effectively and efficiently manage the Federal oil and gas program.

²¹ OMB Circular No. A-123, *Management's Responsibility for Internal Control* (revised July 15, 2016).

Key Bankruptcy Case Information Missing

We found that each bureau had its own bankruptcy process and its own tool²² for tracking bankruptcy cases and entities. Each bureau’s tracking tool provided varying information, but none of the tools tracked all of the bankruptcy information necessary to determine the complete financial impact of any given bankruptcy (Figure 3 shows whether the bureaus tracked key bankruptcy case information). In addition, the bureaus did not consistently update the tools during the bankruptcy case process or when the case was considered closed. Updating information is important because obligations and risks to the Government can change based on the outcome of a case, length of time since a case was filed, or other changes such as a bankruptcy chapter change.

Figure 3: Key Bankruptcy Information Included in Bureau Tracking Tools*

Key Bankruptcy Tracking Information	ONRR	BLM	BOEM/BSEE
Entity name	Yes	Yes	Yes
Case number	Yes	Yes	Yes
Bankruptcy case type	No	Yes	Yes
Court case status	Yes	Partially†	No
Petition date	Yes	Yes	Yes
Closed date	Yes	Partially†	No
POC amounts	Partially†	Partially†	No

Note: “Yes” means that bureaus included bankruptcy information in their bankruptcy tracker, “no” means that the information is not included, and “partially” means that information is sometimes included.

* We did not list all information that each bureau included in its tracking tool.

† Information is not consistently updated or is not listed separately but is sometimes included in comment sections.

We identified the following key pieces of information that should be tracked for Federal oil and gas bankruptcy cases:

- The **entity name** (usually a company name) is key information for use in bankruptcy POCs and in bureau records.
- The **case number** (bankruptcy court case number) is necessary to prepare the bankruptcy POCs and to track bankruptcy cases.
- There are normally two types of bankruptcies for businesses: reorganization or liquidation. The **bankruptcy case type** is important because of the different requirements and outcomes of each type of bankruptcy case.

²² The tools we identified were ONRR’s bankruptcy cases database, BLM’s master bankruptcy list, and BOEM and BSEE’s National Bankruptcy Coordination Team bankruptcy tracker.

- The **court case status** identifies where a case is in the bankruptcy process and is where the bureau notes any issues or changes that could affect the Government's claim (e.g., a bankruptcy changing from a reorganization to liquidation).
- The **petition date** is when the bankruptcy was filed with the bankruptcy court. Because the POC deadline is based on the petition date, the bureaus need this date to ensure they prepare the POC in a timely fashion to preserve the Government's claim.
- The **closed date** is when the bankruptcy was closed with the court. This date is necessary to determine remaining obligations and impacts on the bureaus.
- The **POC amounts** are the claim amounts submitted to the bankruptcy court recorded on the POC. These amounts are critical for determining the financial impacts on the bureaus.

We also identified two other key pieces of information that should be tracked after a bankruptcy is filed:

- The **post-bankruptcy amounts** are any amounts or obligations remaining after a bankruptcy has closed. The bureaus need this information to determine their remaining financial impacts.
- The **mitigation amounts** are amounts collected through mitigation procedures, such as bonds or cure payments. The bureaus use this information to identify their ability to mitigate any remaining bankruptcy amounts and obligations and to determine the total financial impacts on the bureaus.

This list is not exhaustive, and the bureaus should identify and track all the bankruptcy information they need to implement their bankruptcy processes and to determine the impact of bankruptcies on the bureaus' operations. The absence of key bankruptcy information and inconsistencies that we identified occurred because the bureaus did not have any mechanisms or procedures requiring them to track critical Federal oil and gas bankruptcy information. Without a complete record of bankruptcy information, especially of bankruptcy claim amounts, the bureaus cannot clearly define or calculate their short- or long-term bankruptcy obligations and respond to risks. Moreover, it is essential that the bureaus provide clear and accurate information to departmental leadership on the financial and programmatic impact of bankruptcies so that leadership can make informed policy decisions regarding DOI's Federal oil and gas program.

Bureaus Inconsistently Tracked POC Amounts and Did Not Track Final Bankruptcy Amounts

During our review of bankruptcy tracking tools, we found that none of the bureaus consistently included POC amounts in the tool. In fact, because the bureaus do not consistently track bankruptcy claims, it was only during our review of the bureaus' POCs that we were able to identify and calculate bankruptcy claim amounts.

We identified 37 POCs submitted from FYs 2018 through 2022 with a total of \$8.1 billion in claims (see Figure 2 in the "Background" section for a breakdown by bureau). Notably, the POCs include the bureaus' estimates of entities' obligations at the time the bureaus filed the POCs with the bankruptcy court and may not be the final amounts due to the Government. For example, a bankrupt entity may continue to accrue payments owed for rents or royalties, or decommissioning or reclamation costs may have increased. Due to the complexity of the bankruptcy processes and the lack of tracking information such as POC amounts, case status, and mitigation capabilities, it is unclear what amounts or responsibilities will be or have been left to each bureau during and after an entity's bankruptcy.

We found issues with each bureau involved. Specifically, BOEM and BSEE did not include POC amounts, nor did they identify all entities involved with a bankruptcy case in their tracking tool. For example, we identified a bankruptcy case with six entities in which BOEM and BSEE had filed six corresponding POCs with the bankruptcy court for "performance of permanent decommissioning of [Outer Continental Shelf oil and gas] property" totaling more than \$8 billion in liabilities. Nonetheless, only one entity was listed in the bankruptcy tracking tool, and no POC amounts were listed. The single identified entity was later removed from the list

without any details on the outcome of the bankruptcy case.²³ In addition, the tracking tool listed the lead entity of the case, but the case number listed was for an affiliated case and entity, which can lead to confusion and the possibility of incorrect information being used.

We found that ONRR did not state the purpose of payment information in its tracking tool, and without this information, it is difficult to accurately identify whether ONRR has recovered all outstanding amounts. For example, ONRR's bankruptcy tracking tool listed a bankruptcy case where it filed a POC for approximately \$2 million in claims for underpaid oil and gas royalties. According to the tracking tool, ONRR received multiple payments; however, we could not determine what the payments were for, and the tracking tool did not include any notes identifying whether amounts owed were actually paid or if they were written off. During our review of the documents supporting the case file, we found \$19,302 in total payments, but it is unclear if the payments were for the claims detailed in the POC or for some other purpose.

We also found that, although BLM included POC amounts in its bankruptcy tracking tool, it did not list the amounts separately; as a result, the amounts could not be easily identified or calculated. Additionally, because BLM stated that it did not track orphaned wells resulting from bankruptcies, we could not determine the financial and ongoing impacts of bankruptcies on BLM's oil and gas program. In May 2018, GAO noted that due to BLM's limited tracking information, BLM could not identify how many wells became orphaned over time.²⁴ In addition, a 2019 GAO report²⁵ stated that BLM had 296 orphaned oil and gas wells as of April 2019 and identified the same issues with BLM's tracking information. BLM determined that, as of September 2023, it had 29 known, unplugged orphaned wells, but did not know whether or not these were the result of bankruptcies.

ONRR POCs Missing Production Reports

We found that ONRR identified missing production reports in 3 of 17 (18 percent) of the bankruptcy POCs we analyzed; in those claims, ONRR stated that additional amounts may be owed due to missing production reports and included lists of the missing production reports. By failing to properly calculate outstanding amounts, ONRR creates uncertainty regarding its total bankruptcy claims. Entities are required to submit to ONRR monthly production reports that provide oil and gas production amounts.²⁶ ONRR uses these reports to support obligation estimates used in the POCs.

Specifically, the 3 POCs were missing 414 reports because entities had not filed production reports or had done so with incorrect information. ONRR's Litigation Support Team relies on other ONRR offices to oversee and provide accurate and timely information (such as current and complete production reports from entities) to accurately complete POCs. Although ONRR does have bankruptcy policies and procedures, there is no clear description of each office's responsibilities within this process. Required production reports are necessary to help determine the correct amount that ONRR should include in the POC. Failing to provide quality information to the court during the bankruptcy process establishes a risk that bankruptcy POCs may not include all eligible obligations and that the Federal Government will not receive all funds due to it.

Better Coordination and Sharing of Bankruptcy Information Needed Among the Bureaus

Having current and accurate bankruptcy information is critical for a bureau to properly determine its bankruptcy claims and assess the impact on its program. ONRR relies on BLM, BOEM, and BSEE for current and accurate entity information to carry out its accounting responsibilities, such as processing bond payment amounts required to fulfill bankruptcy obligations. We found that, although ONRR provides bankruptcy

²³ In a followup response to our office, BOEM and BSEE stated they tracked the case only while it was "active" and did not provide us with a case outcome.

²⁴ Report No. GAO-18-250, *Oil and Gas Wells: Bureau of Land Management Needs to Improve Its Data and Oversight of Its Potential Liabilities*, issued May 2018, <https://www.gao.gov/products/gao-18-250>.

²⁵ Report No. GAO-19-615 included only one recommendation for BLM (that it adjust bonding levels), which is not related to our concerns.

²⁶ 30 C.F.R. § 1210.102(a)(1).

notifications to each bureau and each bureau coordinates directly with its own Office of the Solicitor representative, the bureaus do not share bankruptcy information with each other. Although BOEM, BSEE, and BLM may not have leases with the same entities, the bureaus could potentially work on the same bankruptcy cases, which would typically also involve ONRR because of its rent and royalty claims. It is important that the bureaus communicate with each other to build awareness of bankruptcies across bureaus, so that each bureau can identify potential impacts to its own responsibilities. For example, if bureaus are unaware of bankruptcy case closures, they cannot take appropriate steps to ensure that the entity's obligations are being fulfilled to mitigate and minimize bureaus' responsibilities, such as notifying predecessors or using bonds to complete any remaining liability requirements.

Additionally, since the bureaus use their own individual tools to coordinate and track their bankruptcy efforts, the bureaus should ensure that those tools and related mechanisms provide the most current and accurate bankruptcy information, including claim amounts, bankruptcy case status, and other key bankruptcy information. Without identifying and tracking their key bankruptcy information, the bureaus cannot easily determine or calculate entities' bankruptcy amounts throughout the entire bankruptcy process, determine the potential impacts of bankruptcies, and validate the use and results of their mitigation measures.

BLM's, BOEM's, and BSEE's Policies and Procedures Were Outdated and Inadequate

We found that BLM, BOEM, and BSEE did not have current or adequate bankruptcy policies and procedures to ensure that all bankruptcy requirements were completed accurately and timely, such as completing and submitting POCs or entering and updating information into bureaus' bankruptcy tracking tools. We also found that each bureau's staff identified as having a role in the bankruptcy process had differing knowledge of their bureau's bankruptcy process and requirements and, at times, had not received sufficient training on bureau bankruptcy process requirements.

Green Book Principle 10 provides that management should design control activities to achieve objectives and respond to risks. Principle 12 provides that management should implement control activities through policies. Additionally, Principle 13 provides that management should use quality information to achieve the bureau's objectives.

Federal oil and gas bankruptcy policies and procedures are key internal controls. Accordingly, they should be current and have quality information so the bureaus can accurately account for, assess, and respond to bankruptcies to mitigate the financial risk to the Government.

We found, however, that BLM's, BOEM's, and BSEE's bankruptcy policies and procedures were either outdated or in draft and included limited information on the bankruptcy process. In addition, while we determined that the bureaus do have policies and procedures (such as bonding) that assist in mitigating bankruptcy risks, the bureaus did not identify or include those mitigating measures in their bankruptcy policies and procedures to address the risks posed by bankrupt entities that have Federal oil and gas leases.

BLM Policies and Procedures

BLM has three guidance documents related to bankruptcies: the *Fluid Minerals Bond Processing User Guide*; Instructional Memorandum 2019-014, *Oil and Gas Bond Adequacy Reviews*; and a short reference document. We found that, cumulatively, these documents were outdated and provided insufficient guidance to appropriately track bankruptcy cases.

Specifically, the *Fluid Minerals Bond Processing User Guide* is dated December 1996. Although BLM staff told us that BLM is currently in the process of updating this guide, the update is still in draft form. BLM put the draft on hold for over a year, pending updates to the bonding and leasing regulations. Therefore, BLM staff are still using a guide that is more than 25 years old and contains limited information on the procedures to follow when dealing with a bankruptcy. For example, the guide does not provide steps or procedures for completing or

submitting bankruptcy POCs and does not have any reference to BLM's tracking tool. The bankruptcy portion of the guide states, "This section provides only general guidance regarding the areas of bankruptcy proceedings that concern the BLM and MMS operations."²⁷

In addition, BLM issued Instruction Memorandum 2019-014, *Oil and Gas Bond Adequacy Reviews*, in November 2018; however, the policy expired in September 2022. BLM has not renewed, updated, or replaced it—which could imply that the policy no longer applies or does not need to be followed. This policy includes BLM's requirement to ensure that financial assurance is in place prior to bankruptcy proceedings so BLM does not incur well-plugging, abandonment, and reclamation costs.

BLM also issued a four-page bankruptcy oil and gas reference document that gives basic information about the bankruptcy process. However, we found that not all staff understood the document—specifically, 9 of the 14 BLM State and field office employees with bankruptcy process responsibilities who we interviewed did not understand key aspects of the document. For example, they did not know or could not tell us the difference between actual and protective liabilities, which are both listed under the State and field offices in the reference document. Multiple BLM employees also stated that they would like more guidance, communication, and training on the bankruptcy process.

BOEM and BSEE Policies and Procedures

BOEM and BSEE have been operating under a draft standard operating procedure (SOP) for over two years. This draft SOP is a six-page document that sets forth BOEM's, BSEE's, and the Office of Solicitor's bankruptcy responsibilities and is BOEM's and BSEE's only documented bankruptcy procedure. The document does not provide any information on the bureaus' bankruptcy tracking tool. BOEM stated it relies on specific regulations from the C.F.R.²⁸ for bonding and financial assurance and canceling leases to help with bankruptcies and does not have other policies and procedures on its bankruptcy process. BSEE deferred to BOEM for policies, procedures, laws, and regulations on OCS Federal oil and gas bankruptcy processes.

Without current and approved bankruptcy policies, SOPs, and training, bureaus cannot validate that all bankruptcy requirements (such as completing and submitting POCs) have been fulfilled. In addition, if the bureaus do not identify their key bankruptcy mitigation internal controls and ensure they are applied, the bureaus may not account for or mitigate all their bankruptcy risks. This in turn increases the possibility that the Federal Government will bear costs that should be the responsibility of other parties.

Internal Controls Not Identified To Address Risks Associated With Federal Oil and Gas Leaseholder Bankruptcies

We also found that BLM, BOEM, BSEE, and ONRR did not consistently identify internal controls to reduce the risks related to entities that hold Federal oil and gas leases or have operating responsibilities and have filed for bankruptcy. As outlined in OMB Circular A-123, the bureaus are required to identify inherent risks that could impact their ability to achieve their objectives, determine the response to the identified risks, and document internal controls to mitigate the risks.

BLM and BOEM stated that they did not list any inherent risks associated with Federal oil and gas leaseholder bankruptcies in their risk registers for Circular A-123. As a result, the bureaus did not identify any internal controls to mitigate the potential impacts of Federal oil and gas leaseholder bankruptcies. ONRR, however, did identify some risks that if not mitigated could cause less effective litigation of bankruptcy cases. In response, ONRR reported that in 2021 it had implemented seven internal controls to address those risks and will review those internal controls every three years. Due to the review schedule, ONRR has not yet evaluated the effectiveness of those internal controls. Although BSEE did identify "failure to protect BSEE decommissioning

²⁷ MMS refers to the former Minerals Management Service, which split and became ONRR (2010), BOEM (2011), and BSEE (2011).

²⁸ BOEM cited three subchapters impacting bankruptcies: 30 C.F.R. § 556.900-907 on bonding and financial assurance, § 556.1102 on canceling a lease, and § 556.46-47 on terminating a lease. We note that these regulations as well as the regulations governing BOEM and BSEE operations (30 C.F.R. Chapter V and 30 C.F.R. Chapter II) provide limited information specific to bankruptcies.

interests in a bankruptcy filing” in its 2019 risk register, no risk treatment or other risk information was provided until FY 2023—after we shared our potential finding and recommendation with BSEE during our audit. BSEE included additional bankruptcy risk information in its FY 2023 risk register and noted that the results of risk review were pending our final report.

Due to the potential impact a bankruptcy has on the Federal Government, each bureau should identify and document the risks and internal controls associated with Federal oil and gas bankruptcies as required by OMB Circular A-123. Without proper identification of risks and implementation of internal controls to mitigate those risks, bureaus cannot reasonably ensure that their internal controls are mitigating their bankruptcy risks and that the bureaus’ objectives will be met.

Conclusion and Recommendations

Conclusion

We found that BLM, BOEM, BSEE, and ONRR did not maintain complete and accurate Federal oil and gas bankruptcy data and did not clearly identify or include internal controls that mitigate the financial risks associated with Federal oil and gas entities declaring bankruptcy in their bankruptcy procedures. The bureaus did not consistently track bankruptcy information or include basic but critical information related to bankruptcies, such as bankruptcy POC amounts. We found that the bureaus were operating under either outdated policies and procedures with inadequate guidance regarding bankruptcy processes or draft bankruptcy policies and procedures that were still pending formal approval. Although we found related policies and procedures that function as internal controls to help mitigate bureaus' bankruptcy financial risks, the bureaus did not consistently identify or account for those mitigating measures to address their bankruptcy risks in their OMB Circular A-123 reporting. Each bureau has been working to improve its bankruptcy processes; however, key internal controls need to be strengthened, such as updating and finalizing bankruptcy policies and procedures and tracking critical bankruptcy information such as bankruptcy claim amounts.

As stewards and managers of Federal oil and gas resources, the bureaus need to ensure that they identify all key internal controls that mitigate their bankruptcy risks. The bureaus also need to have policies and procedures in place to ensure those key internal controls are being effectively applied. In addition, it is critical for DOI leadership to have clear and accurate information on the financial and programmatic impact that bankruptcies have on the oil and gas program in order to effectively and efficiently manage these programs and make policy decisions.

We make 21 recommendations that, if implemented, would help BLM, BOEM, BSEE, and ONRR improve their oversight and strengthen their internal controls to identify and mitigate the risks associated with Federal oil and gas entities declaring bankruptcy.

Recommendations Summary

We provided a draft of this report to DOI, ONRR, BLM, BOEM, and BSEE for review. ONRR and BSEE provided us with technical comments.²⁹ While we did not identify any factual errors or misleading statements, we did clarify two footnotes and process nuances, but this did not change the substance of our findings and recommendations. In their written responses to the draft report, DOI and the bureaus concurred with 18 recommendations, partially concurred with 2 recommendations, and did not concur with 1 recommendation. We consider Recommendations 1 through 4 and 9 through 21 resolved; Recommendations 7 and 8 implemented; and Recommendations 5 and 6 unresolved. We determined that Recommendation 21 is significant and will be reported as such in our semiannual report to Congress in accordance with the Inspector General Act.³⁰ Below we summarize the bureaus' responses to our recommendations, as well as our comments on their responses. See Appendix 4 for the full text of the bureaus' responses; Appendix 5 lists the status of each recommendation.

We recommend that ONRR:

1. Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of bankruptcy cases.

²⁹ As is our normal practice, we did not include these technical comments in the final version of our report.

³⁰ The Inspector General Act of 1978, 5 U.S.C. § 405(b), requires inspectors general to prepare semiannual reports summarizing OIG activities during the immediately preceding six-month periods ending March 31 and September 30. It also states that these semiannual reports should include an identification of each "significant recommendation" described in previous semiannual reports on which corrective action has not been completed.

ONRR Response: ONRR concurred with this recommendation and stated it “has already developed procedures for updating ONRR’s bankruptcy tracking tool to address key bankruptcy information. ONRR will modify its written procedures to include this recommendation’s additional consideration of final bankruptcy claim amounts recovered and unrecovered.” ONRR stated that it will work with DOI and the Office of the Solicitor to implement procedures to coordinate and share key bankruptcy information across bureaus. ONRR provided an April 30, 2025 target implementation date.

OIG Comment: Based on ONRR’s response, we consider this recommendation resolved. We will consider it implemented when ONRR provides evidence demonstrating it has identified and incorporated key bankruptcy information, including final bankruptcy claim amounts recovered and unrecovered, into its bankruptcy tracking tool and procedures.

2. Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

ONRR Response: ONRR concurred with this recommendation and stated that it “has implemented a complete risk register, which includes bankruptcy risks, and updates the risk register on a yearly basis.” ONRR provided a March 31, 2025 target implementation date.

OIG Comment: Based on ONRR’s response, we consider this recommendation resolved. We will consider it implemented when ONRR provides evidence demonstrating it has updated the risk register.

3. Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

ONRR Response: ONRR concurred with this recommendation and stated that it “has already implemented a complete risk register that identifies internal controls, which includes bankruptcy risks and internal controls.” In addition, ONRR stated that it “performs internal control functions regularly and updates the risk register on a yearly basis.” ONRR provided a March 31, 2025 target implementation date.

OIG Comment: Based on ONRR’s response, we consider this recommendation resolved. We will consider it implemented when ONRR provides evidence demonstrating it has updated the risk register to include bankruptcy risks.

4. Update and implement existing policies and processes to identify all obligations for bankruptcy proofs of claims, including obligations provided by other ONRR offices or programs.

ONRR Response: ONRR concurred with this recommendation and stated it “will modify its written procedures to incorporate this recommendation.” ONRR also stated that it “has implemented policies and processes to identify obligations from all ONRR offices or programs” and “continues to research outstanding liabilities through the pendency of the bankruptcy and modifies its claims if necessary.” ONRR provided an April 30, 2025 target implementation date.

OIG Comment: Based on ONRR’s response, we consider this recommendation resolved. We will consider it implemented when ONRR provides evidence demonstrating it has updated bankruptcy procedures identifying bankruptcy obligations required from ONRR offices or programs.

5. Identify and resolve any deficiencies with required production reports and other required information needed to complete the bankruptcy process.

ONRR Response: ONRR partially concurred with this recommendation and stated it “will modify its written procedures to incorporate required information needed to complete the bankruptcy process.” ONRR repeated that it has implemented policies and processes to identify obligations from all ONRR offices or programs and will continue to identify and resolve outstanding liabilities through the pendency of the bankruptcy and modify its claims if necessary. ONRR did not concur that unfiled production reports should be identified and resolved in the bankruptcy process. It stated, “Production reports are

non-financial obligations and are not included in a proof of claim,” and referred to established processes and procedures outside of its bankruptcy process to identify and resolve deficiencies with required production reports. ONRR stated that “a bankruptcy petition typically results in other parties, such as a bankruptcy trustee, becoming responsible for a leaseholder’s obligations, which often impacts timeliness of production reports.” ONRR provided a May 31, 2025 target implementation date.

OIG Comment: Based on ONRR’s response, we consider this recommendation unresolved. As justification for its nonconurrence, ONRR stated that production reports are not included in POCs. However, as noted in our report, we found POCs that stated additional amounts may be owed due to a debtor’s missing production reports and included lists of the missing reports that the debtor needed to file. As a practice, therefore, ONRR has relied on production reports in POCs. This recommendation is intended to help to determine and ensure all information needed for POCs is provided timely. As such, ONRR should resolve any deficiencies with required production reports to ensure accurate information in the POCs, given ONRR’s demonstrated reliance on production reports in POCs. We will consider this recommendation resolved when ONRR informs us that it is either working to incorporate production report POC requirements into its bankruptcy processes or provides us with its legal determination that production reports are non-financial and are not required for POCs. We will consider it implemented when ONRR provides evidence demonstrating it has updated bankruptcy procedures identifying bankruptcy information required from ONRR offices or programs, including resolving any deficiencies with production reports or a legal determination that production reports are not required for POCs.

We recommend that BLM:

6. Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information such as case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of bankruptcy cases, including identifying wells orphaned due to a bankruptcy.

BLM Response: BLM did not concur with this recommendation and stated that a list of orphaned wells resulting from bankruptcies is not necessary because “none of the orphaned wells on BLM lands have been a result of operator bankruptcies.” BLM also stated that it pursues current and previous operators and owners to plug wells before classifying them as orphaned and that “a bankruptcy will only result in an orphaned well if there are no other liable parties, a situation that so far has not occurred.” BLM stated it created, maintains, and regularly updates a bankruptcy tracking tool with input from its State office staff with bankruptcy experience and captures pertinent information identified during the bankruptcy process. In addition, BLM stated its “tracking tool includes all key bankruptcy information listed in this recommendation to communicate with the Department’s Office of the Solicitor effectively and efficiently,” and it “considers the existing tracking tool a valuable mechanism for managing bankruptcies.”

OIG Comment: Based on BLM’s response, we consider this recommendation unresolved. BLM stated in its response that its tracking tool included all key bankruptcy information listed in this recommendation; however, as noted in our report, claim amounts were not consistently or clearly stated as well as the case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of the bankruptcy cases. In addition, although BLM has processes to pursue prior lessees and bonds for decommissioning and reclamation, it cannot determine with absolute certainty that a bankruptcy will never result in an orphaned well. While BLM stated in its response to the draft report that none of the orphaned wells on BLM lands have been a result of operator bankruptcies, BLM staff stated during our audit that there is a risk of a bankruptcy resulting in orphaned wells. We will consider this recommendation resolved when BLM provides a target date to identify and implement changes to its tracking tool, including identifying potential orphaned wells due to bankruptcy. We will consider it implemented when BLM provides evidence demonstrating it identified and incorporated changes to its tracking tool to clearly identify claim and post-bankruptcy amounts and whether the bankruptcy resulted or did not result in an orphaned well.

7. Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

BLM Response: BLM concurred with this recommendation and stated it “assessed and updated its risk register to address identified risks related to bankruptcy concerns for all minerals, lands, and realty cases [emphasis in original].” BLM provided its updated risk register and stated it “identified and developed a bankruptcy risk for multiple BLM programs (fluid minerals, solid minerals, renewable energy, realty, etc.)” BLM noted items for consideration included revenue loss, management costs, environmental risks, and operations disruptions.

OIG Comment: Based on BLM’s response and documentation provided, we consider this recommendation implemented.

8. Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

BLM Response: BLM concurred with this recommendation and stated it “has existing internal controls related to Federal Oil and Gas Leaseholder Bankruptcies.” BLM provided a list of existing and updated policies and internal controls “that the agency uses to address risks related to the Federal oil and gas leaseholder operations, including bankruptcies.” BLM stated it “will continue to: (1) maintain its existing policies to ensure its oil and gas operational staff are completing inspections, reviewing idled wells, reviewing bond adequacy, and pursuing liable parties if there is an issue on a lease or on the identified risk related to Federal leaseholder bankruptcies; and (2) assess our internal controls and make any necessary adjustments and or improvements deemed appropriate.”

OIG Comment: Based on BLM’s response and documentation provided, we consider this recommendation implemented.

9. Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.

BLM Response: BLM concurred with this recommendation and stated it “is finalizing updates to the bankruptcy policy in its *Bonds* handbook,” which will include bankruptcy requirements for POCs. BLM also stated it “is developing a communication plan on the roll out and implementation of recent regulatory and resulting policies updates related to its final rule on ‘Revision of Existing Regulations Pertaining to Fossil Fuel Leases and Leasing Process’ (RIN 1004-AE80).”³¹ BLM provided a January 31, 2025 target implementation date.

OIG Comment: Based on BLM’s response, we consider this recommendation resolved. We will consider it implemented when BLM provides evidence demonstrating it has updated its bankruptcy policy.

10. Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 9.

BLM Response: BLM concurred with this recommendation and stated it “developed and implemented a training program for all personnel involved in bankruptcy proceedings on Federal onshore oil and gas leases in May 2020 as a result of a sharp increase in the number of bankruptcy filings.” BLM provided information on this training program, including course objectives specific to the bankruptcy process and necessary coordination with the Office of the Solicitor. BLM stated that the training materials remain available to all BLM employees and committed to conduct virtual self-paced training to personnel involved in the bankruptcy process. In addition, it stated, “BLM Headquarters works directly with the appropriate state office staff in creating, processing, and submitting proof of claims filings. The BLM

³¹ The proposed rule is available at <https://www.reginfo.gov/public/do/eAgendaViewRule?pubId=202210&RIN=1004-AE80>.

believes that developing a new bankruptcy training program is not required as there has been no change from its existing process.” BLM provided a March 31, 2025 target implementation date.

OIG Comment: Based on BLM’s response, we consider this recommendation resolved. We will consider it implemented when BLM provides evidence demonstrating it has updated its bankruptcy policy and that all staff involved in its bankruptcy process, including BLM’s State and field office staff, have taken the bankruptcy training.

We recommend that BOEM:

11. Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

BOEM Response: BOEM concurred with this recommendation and stated that it reviewed and assessed the information in its risk register for FY 2024 and “found that BOEM had not documented risks related to bankruptcies of Federal oil and gas leaseholders.” BOEM said it will update the risk register in FY 2025 and provided a March 31, 2025 target implementation date.

OIG Comment: Based on BOEM’s response, we consider this recommendation resolved. We will consider it implemented when BOEM provides evidence demonstrating it has updated the risk register identifying bankruptcy risks.

12. Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

BOEM Response: BOEM concurred with this recommendation and stated it will, “as part of its scoping for its FY 2025 risk register, incorporate risks related to Federal oil and gas leaseholder bankruptcies and will include the internal controls recommended by the OIG in this report for routine monitoring and risk-based evaluation. Through the course of the risk assessment and application of BOEM risk tolerance criteria, BOEM will prioritize implementation of new internal controls and will assign resources to evaluate their effectiveness.” BOEM provided a June 30, 2025 target implementation date.

OIG Comment: Based on BOEM’s response, we consider this recommendation resolved. We will consider it implemented when BOEM provides evidence demonstrating it has updated the risk register identifying bankruptcy risks and implemented internal controls addressing those risks.

13. Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.

BOEM Response: BOEM concurred with this recommendation and stated it “will update the bankruptcy tracking tool to include the recommended additional information.” BOEM noted that “[a]ll information on the updated bankruptcy tracking tool will be reviewed and updated no less than monthly with the Bankruptcy Coordination Team.” BOEM provided a December 31, 2024 target implementation date.

OIG Comment: Based on BOEM’s response, we consider this recommendation resolved. We will consider it implemented when BOEM provides evidence demonstrating it has coordinated with the Bankruptcy Coordination Team and has identified and incorporated key bankruptcy information into the Bankruptcy Coordination Team’s tracking tool.

14. Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.

BOEM Response: BOEM concurred with this recommendation and stated, “The Bankruptcy Coordination Team will review the BOEM and Bureau of Safety and Environmental Enforcement Letter of Agreement and Memorandum of Agreement and finalize any updates to the team’s standard operating

procedures document. BOEM published the final rule ‘Risk Management and Financial Assurance for OCS Lease and Grant Obligations’ in the Federal Register on April 24, 2024, at 89 FR 31544, with an effective date of June 29, 2024.” According to BOEM, the updated regulations “will better protect taxpayers from bearing the cost of oil and gas obligation in the event of a bankruptcy by requiring financial assurance from higher risk lease and grant holders.” BOEM provided a June 30, 2025 target implementation date.

OIG Comment: Based on BOEM’s response, we consider this recommendation resolved. We will consider it implemented when BOEM provides evidence demonstrating it has coordinated with the Bankruptcy Coordination Team and provided the updated and finalized Bankruptcy Coordination Team’s bankruptcy standard operating procedures.

15. Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 14.

BOEM Response: BOEM concurred with this recommendation and stated, “The Bankruptcy Coordination Team will add a requirement to the team’s standard operating procedures and implement team training on a periodic basis.” BOEM provided a June 30, 2025 target implementation date.

OIG Comment: Based on BOEM’s response, we consider this recommendation resolved. We will consider it implemented when BOEM provides evidence demonstrating that the Bankruptcy Coordination Team implemented training on the updated and finalized standard operating procedures.

We recommend that BSEE:

16. Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

BSEE Response: BSEE partially concurred with this recommendation and stated it “has included risks relating to bankruptcies of Federal oil and gas leaseholders in its risk register dating back to Fiscal Year (FY) 2017. BSEE reviewed and assessed the information in its risk register for FY 2024 as part of its annual Enterprise Risk Management effort and will further review the risk register in FY 2025.” BSEE provided a May 1, 2025 target implementation date.

OIG Comment: Based on BSEE’s response and additional documentation it provided, we consider this recommendation resolved. We will consider it implemented when BSEE provides evidence demonstrating it has updated the risk register.

17. Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

BSEE Response: BSEE concurred with this recommendation and stated it “will continue to build on efforts to assess risks related to Federal oil and gas leaseholder bankruptcies. This includes continuing annual review of relevant internal control formulation, control gaps, and control testing based on risk assessments. BSEE also will prioritize development of risk treatments through its Enterprise Risk Management process and will assign resources to evaluate control effectiveness.” BSEE provided an August 30, 2025 target implementation date.

OIG Comment: Based on BSEE’s response, we consider this recommendation resolved. We will consider it implemented when BSEE provides evidence demonstrating it has updated the risk register and implemented internal controls addressing those risks.

18. Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.

BSEE Response: BSEE concurred with this recommendation and stated that it will coordinate with the BSEE-BOEM National Bankruptcy Coordination Team to update the bankruptcy tracking tool to include the recommended information. In addition, BSEE stated, “All information on the updated bankruptcy tracking tool will be reviewed and updated no less than monthly with the BSEE-BOEM National Bankruptcy Coordination Team. BSEE will confer with DOI and the Office of the Solicitor to implement procedures to share key bankruptcy information across bureaus.” BSEE provided a December 31, 2024 target implementation date.

OIG Comment: Based on BSEE’s response, we consider this recommendation resolved. We will consider it implemented when BSEE provides evidence demonstrating it has coordinated with BOEM and has identified and incorporated key bankruptcy information into the National Bankruptcy Coordination Team’s bankruptcy tracking tool.

19. Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.

BSEE Response: BSEE concurred with this recommendation and stated, “The BSEE-BOEM National Bankruptcy Coordination Team will review the BOEM and BSEE Letter of Agreement and Memorandum of Agreement and finalize any updates to the team’s standard operating procedures.” BSEE provided a June 30, 2025 target implementation date.

OIG Comment: Based on BSEE’s response, we consider this recommendation resolved. We will consider it implemented when BSEE provides evidence demonstrating it coordinated with BOEM and provided the updated and finalized National Bankruptcy Coordination Team’s bankruptcy standard operating procedures.

20. Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 19.

BSEE Response: BSEE concurred with this recommendation and stated, “The BSEE-BOEM National Bankruptcy Coordination Team will add a requirement to the team’s standard operating procedures and implement training on a periodic basis.” BSEE provided a June 30, 2025 target implementation date.

OIG Comment: Based on BSEE’s response, we consider this recommendation resolved. We will consider it implemented when BSEE provides evidence demonstrating the National Bankruptcy Coordination Team implemented training on the updated and finalized standard operating procedures.

We recommend that DOI:

21. Enhance coordination by developing and implementing procedures to coordinate and share bankruptcy information across bureaus, to include key bankruptcy information for each entity’s bankruptcy case, such as proof of claim information and bankruptcy tracking information.

DOI Response: The Office of the Solicitor responded to and concurred with this recommendation on behalf of DOI. The Office of the Solicitor stated that it “has developed and will maintain a bankruptcy tracking tool, tracking key bankruptcy information for each entity’s bankruptcy case, and will improve the sharing of this information across bureaus.” Although the Office of the Solicitor did not provide a target implementation date in its initial response to the draft report, it subsequently provided a target date of December 31, 2024 in followup correspondence.

OIG Comment: Based on the Office of the Solicitor’s response, we consider this recommendation resolved. We will consider it implemented when the Office of the Solicitor provides evidence demonstrating it has implemented procedures and coordinated with the bureaus to share bankruptcy information.

Appendix 1: Scope and Methodology

Scope

We audited the Bureau of Land Management's (BLM's), Bureau of Ocean Energy Management's (BOEM's), Bureau of Safety and Environmental Enforcement's (BSEE's), and Office of Natural Resources Revenue's (ONRR's) internal controls that mitigate the financial risks associated with Federal oil and gas leaseholders that declared or were in bankruptcy from fiscal years (FYs) 2018 through 2022.

Methodology

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We assessed whether internal control was significant to the audit objectives. We determined that the U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* control activities and the following related principles were significant to the audit objectives:

- Principle 10 provides that management should design control activities to achieve objectives and respond to risks.
- Principle 12 provides that management should implement control activities through policies.
- Principle 13 provides that management should use quality information to achieve the bureau's objectives.

We reviewed each bureau's bankruptcy policies and procedures, including policies and procedures determined to help mitigate bankruptcy risks. We also reviewed each bureau's bankruptcy lists with bankruptcy case and entity information and selected bankruptcy case information, including proofs of claims information. We did not review or trace data to source records or review any of the bureaus' information systems.

We tested the operation and reliability of internal controls over activities related to our audit objectives. Our tests and procedures included:

- Gathering background information on BLM's, BOEM's, BSEE's, and ONRR's internal controls that mitigate leaseholders' Federal oil and gas bankruptcy risks.
- Interviewing BLM, BOEM, BSEE, and ONRR management and staff with bankruptcy responsibilities.
- Obtaining and reviewing applicable laws and regulations.
- Obtaining and reviewing each bureau's policies and procedures related to bankruptcies, bankruptcy claims, and mitigation of bankruptcy risks.
- Analyzing each bureau's bankruptcy lists and selected bankruptcy cases with supporting documentation, including proofs of claims.

We found deficiencies in internal control resulting in our findings related to bureaus not consistently tracking bankruptcy information or including basic critical information such as bankruptcy claim amounts and results of bankruptcies on bureau obligations, operating under outdated or draft policies and procedures with limited

bankruptcy information (including not identifying key internal controls that would mitigate bankruptcy risks), and not ensuring that all required production reports are included to determine bankruptcy claims.

We did not rely on computer-generated data; instead, we received lists of bankruptcy case information that each bureau had manually entered and bankruptcy case documentation BLM, BOEM, and ONRR provided for FYs 2018 through 2022 (BSEE referred us to the BOEM bankruptcy list). We reviewed, compared, and analyzed each bureau's bankruptcy lists. We also looked at the information each bureau tracked for its bankruptcy cases. We based our analysis on the bankruptcy lists and documents provided and determined this data to be sufficient for this audit's purpose.

Based on the results of our initial assessments, we identified 161 bankruptcy cases³² and associated companies from BLM's, BOEM's (which included BSEE's), and ONRR's bankruptcy lists. We then used a random selection tool to identify 36 selected bankruptcy cases to request bankruptcy documentation from each bureau. We reviewed bankruptcy email notifications, proofs of claims, lease lists, payments, production and financial reports, and other bankruptcy-related documents and compared information to the bankruptcy lists. We used auditor judgment and considered risk levels relative to other audit work performed to determine the degree of testing performed. Our sample selections were not generated using statistical sampling, and therefore we did not project the results of our tests to the total population of transactions. Appendix 3 provides additional information on our sampling selection and results.

³² A bankruptcy case may have one entity or may include multiple entities filing for bankruptcy.

Appendix 2: Glossary of Terms

We developed this glossary of terms and definitions using information from the Bureau of Land Management (BLM), the Bureau of Ocean Energy Management (BOEM), the Bureau of Safety and Environmental Enforcement (BSEE), the Office of Natural Resources Revenue (ONRR), bureau glossaries, the C.F.R., and the U.S. Courts.

Actual Liabilities: A debtor’s required actions or performance that need to be addressed but have not yet been completed by the debtor. For example, environmental concerns (leaks, spills, or other similar situations); incidents of noncompliance; defaults; or performance or reclamation due right now, including requirements to plug inactive wells. (Source: BLM Bankruptcy Glossary of Terms.)

Bankruptcy: “A legal procedure for dealing with debt problems of individuals and businesses; specifically, a case filed under one of the chapters of title 11 of the United States Code (the Bankruptcy Code).” (Source: <https://www.uscourts.gov/educational-resources/educational-activities/bankruptcy-basics-glossary>.)

Chapter 11 (U.S. Bankruptcy Code - Reorganization bankruptcy): “This chapter of the Bankruptcy Code generally provides for reorganization, usually involving a corporation or partnership. A chapter 11 debtor usually proposes a plan of reorganization to keep its business alive and pay creditors over time.” (Source: <https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-11-bankruptcy-basics>.)

Chapter 7 (U.S. Bankruptcy Code - Liquidation bankruptcy): “This chapter of the Bankruptcy Code provides for ‘liquidation’ – the sale of a debtor’s nonexempt property and the distribution of the proceeds to creditors.” (Source: <https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-7-bankruptcy-basics>.)

Claim: “A creditor’s assertion of a right to payment from the debtor or the debtor’s property.” (Source: <https://www.uscourts.gov/educational-resources/educational-activities/bankruptcy-basics-glossary>.)

Cure: The debtor must pay (or “cure”) any outstanding defaults before the assumption or sale of the leases. In order to cure the defaults, the debtor must pay all amounts owed to ONRR plus any interest due. (Source: ONRR bankruptcy process document.)

Debtor: The entity that filed bankruptcy and that owes a debt to another entity. The entity may be an individual, a firm, a government, a company, or other legal person. (Source: BLM Bankruptcy Glossary of Terms.)

Decommissioning: Ending oil, gas, or sulfur operations; removing idle infrastructure; and returning the environment to a condition that meets Federal regulations and the bureaus’ requirements. (Sources: 30 C.F.R. § 250.1700(a) and 30 C.F.R. § 585.112.)

Entity: A company or individual (the lessee) entitled under oil, gas, geothermal, or solid minerals lease to explore for and produce minerals from a lease. In addition, the entity has the responsibility for payment of royalties but may authorize others to do so on its behalf. (Source: <https://onrr.gov/glossary>.)

Offshore: Natural resources of submerged lands from the coastline to no more than three nautical miles into the Atlantic Ocean, Pacific Ocean, Arctic Oceans, or the Gulf of Mexico. For Texas and the west coast of Florida, State jurisdiction extends from the coastline to no more than three marine leagues into the Gulf of Mexico. (Source: <https://www.boem.gov/oil-gas-energy/leasing/federal-offshore-lands>.)

Onshore: Federal subsurface mineral estate consisting of about 700 million acres held by the BLM, the U.S. Forest Service, and other Federal agencies and surface owners for the benefit of the American public. (Source: <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/about>.)

Orphaned Well: A well with (1) no legally responsible or liable party to perform permanent well plugging, abandonment and reclamation; and (2) no adequate financial assurance for which the United States is the beneficiary to cover the estimated cost of permanent well plugging, abandonment, and surface reclamation. (Source: BLM Instruction Memorandum 2021-039.)

Outer Continental Shelf: All submerged lands lying seaward of State coastal waters that are under United States jurisdiction. (Source: www.boem.gov/frequently-asked-questions.)

Predecessor: “A prior lessee or owner of operating rights, or a prior holder of a right-of-use and easement grant or a pipeline right-of-way grant, that is liable for accrued obligations on that lease or grant.” It should also be noted that “[l]esseees, owners of operating rights, and their predecessors are jointly and severally liable for meeting decommissioning obligations for facilities on leases, including the obligations related to lease-term pipelines, as the obligations accrue and until each obligation is met.” (Sources: 30 C.F.R. § 250.1700(d) and 30 C.F.R. § 250.1701(a).)

Protective Liabilities: Actions or performance due in the future, including the cost of plugging and reclaiming the well sites. (Source: BLM Bankruptcy Glossary of Terms.)

Permitting: According to BLM, once a leaseholder, operator, or designated agent identifies an oil and gas deposit on a Federal lease, that entity can file an application for permit to drill. In addition, according to BSEE, an entity must have written approval (permit to drill) before drilling any well or before an entity can sidetrack, bypass, or deepen a well. (Sources: <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/operations-and-production> and 30 C.F.R. § 250.410.)

Proof of Claim: A written statement that notifies the bankruptcy court, the debtor, the trustee, and other interested parties that a creditor wishes to assert its right to receive a distribution (payout) from the bankruptcy estate. (Source: BLM Bankruptcy Glossary of Terms.)

Reclamation: Ecosystem restoration, including restoration of any natural vegetation, hydrology, and wildlife habitats affected by surface disturbances from construction and operating activities at an oil and gas site. (Source: <https://www.blm.gov/programs/energy-and-minerals/oil-and-gas/reclamation>.)

Rents: “Annual amount due on leases as specified in lease terms. Rental payments are usually due on or before the lease anniversary date.” (Source: <https://onrr.gov/glossary>.)

Royalties: “Any part of oil, gas, solid minerals, and geothermal resources or their cash value paid by a lessee to a lessor and/or parties acquiring possession of royalty rights based on a certain percentage of production from the property.” (Source: <https://onrr.gov/glossary>.)

Appendix 3: Bankruptcy Case Sampling Selection and Results

We used the bureaus' master bankruptcy lists for bankruptcy case information and the bankruptcy case documentation provided by the Bureau of Land Management (BLM), Bureau of Ocean Energy Management (BOEM), Bureau of Safety and Environmental Enforcement (BSEE), and Office of Natural Resources Revenue (ONRR) for fiscal years (FYs) 2018 through 2022.³³ We reviewed, compared, and analyzed each bureau's bankruptcy lists. We also reviewed the information each bureau tracked for its bankruptcy cases.

We used the lead bankruptcy case numbers³⁴ for our sampling frame. There were 161 unique lead case numbers when compiling and comparing the ONRR and BLM master bankruptcy lists. All BOEM bankruptcy cases were on ONRR's list. Based on the results of our initial assessments, we identified 161 lead bankruptcy cases and associated companies from BLM's, BOEM's (which included BSEE's), and ONRR's bankruptcy lists (see Figure 4). ONRR had 147 lead bankruptcy cases that matched 66 cases on BLM's list and all 9 of the cases on BOEM's and BSEE's list. BLM had 14 lead bankruptcy cases that appeared only on its bankruptcy list.

Figure 4: Breakdown of the 161 Lead Bankruptcy Cases by Bankruptcy Filed Date (by Calendar Year)

Bureau	2018	2019	2020	2021	2022	Prior to 2018*	Total Lead Cases
All	16	36	38	15	6	50	161
ONRR	13	29	37	15	5	48	147
BLM	12	27	30	7	2	2	80
BOEM/BSEE	1	2	5	1	–	–	9

* Lead bankruptcy cases that were filed prior to 2018 but were open during FYs 2018 through 2022.

To assist the team in reviewing the bureaus' bankruptcy internal controls, we aligned the 161 lead bankruptcy cases into 5 bureau groups:

- BLM Only: 14 cases (on BLM's master bankruptcy list but not on ONRR's list).
- BLM/ONRR: 63 cases (on both BLM's and ONRR's master bankruptcy lists).
- ONRR Only: 75 cases (excluding those on BLM's and BOEM's master bankruptcy lists).
- BOEM Only: 6 cases (from BOEM's master bankruptcy list—all companies matched ONRR lead case numbers).
- BOEM/BLM/ONRR: 3 cases (on BOEM's, BLM's, and ONRR's master bankruptcy lists).

We used a random selection tool to select 36 lead bankruptcy cases from the 5 bureau groups: BLM only (5 cases); BLM and ONRR (13 cases); ONRR only (15 cases); BOEM only (2 cases); and BOEM, BLM, and ONRR (1 case).

³³ ONRR's master bankruptcy list, BLM's master bankruptcy list, and BOEM and BSEE's National Bankruptcy Coordination Team bankruptcy tracker.

³⁴ We used the lead bankruptcy case number, which may include one entity or multiple entities filing jointly for bankruptcy.

We used these 36 selected lead bankruptcy cases to request bankruptcy documentation from each bureau. We reviewed bankruptcy email notifications, proofs of claims (POCs), lease lists, payments, production and financial reports, and other bankruptcy-related documents and compared information to the bankruptcy lists.

We found that not every bankruptcy case was associated with all bureaus. In addition, we found that a POC was not always required because there were no outstanding receivables, leases, or other obligations with the bureau; the case was dismissed; or the case had a reorganization plan that did not require a POC.

A summary of bureaus' bankruptcy information follows:

- ONRR had 11 cases with 17 POCs filed for a total amount of \$58.2 million in claims for unpaid/underpaid royalties, missing production reports, and civil penalties; unpaid royalties and interest accounted for \$56.2 million of the total.
- BLM had 11 cases with 14 POCs filed for a total amount of \$22.9 million for decommissioning and reclamation.
- BOEM and BSEE had one case with six POCs filed for a total amount of \$8 billion for decommissioning.

We found that bankruptcy claim amounts were not included in the bureaus' bankruptcy tracking tools with the exception of BLM. As to BLM, it sometimes included the amounts as notes, but that information could not be easily calculated. Although each bureau's bankruptcy list provided some bankruptcy information—such as the case number, entity name, and petition date—the lists did not always include other critical bankruptcy information. For example, ONRR did not include the bankruptcy case type; BOEM and BSEE did not include the court case status or a closed date; and BLM included court case status, closed date, or claim amounts for some, but not all cases.

Appendix 4: Responses to Draft Report

The responses to our draft report follow on page 31.



United States Department of the Interior

OFFICE OF NATURAL RESOURCES REVENUE

P.O. Box 25165
Denver, Colorado 80225-0165

Aug 15, 2024

Memorandum

To: Nicki Miller
Acting Assistant Inspector General for Audits, Inspections, and Evaluations
Office of Inspector General (OIG), U.S. Department of the Interior

Through: Joan M. Mooney
Principal Deputy Assistant Secretary Exercising the Delegated Authority of the
Assistant Secretary for Policy, Management and Budget

From: Howard M. Cantor
Director

Subject: Response to the OIG's Draft Audit Report – *U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas Internal Controls to Ensure Oversight of Financial Risks to the Government from Bankruptcies* (Report No. 2023-CR-003)

JOAN MOONEY

Digitally signed by JOAN MOONEY
Date: 2024.08.20 10:52:14 -04'00'

HOWARD CANTOR

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Date: 2024.08.15 07:35:20 -06'00'

Thank you for the opportunity to review and comment on the OIG's draft audit report titled *U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas Internal Controls to Ensure Oversight of Financial Risks to the Government from Bankruptcies* (draft report). The OIG concluded that:

- The Department of the Interior's (Interior) bureaus did not maintain complete or accurate Federal oil and gas bankruptcy data for each entity either during a bankruptcy case or when the case was considered closed;
- The Interior bureaus are currently operating under either outdated policies and procedures with insufficient guidance regarding how to maintain bankruptcy information, or draft bankruptcy policies and procedures that are still pending formal approval or publication; and
- The Interior bureaus have not consistently documented internal controls as part of the Office of Management and Budget Circular A-123 process.

The OIG made five (5) recommendations for the Office of Natural Resources Revenue (ONRR) to address, specifically recommendations 1-5. Recommendations 6-20 are directed to other Interior bureaus, whereas recommendation 21, focused on coordination between bureaus and offices, is directed to the Interior and applies to all bureaus and offices engaged in this audit. For its part, ONRR does and will continue to coordinate with other bureaus, including through

communications of key bankruptcy information with the Solicitor's Office attorney-advisor who serves as the oil and gas lease bankruptcy coordinator for the Interior.

ONRR met with OIG, along with the Bureau of Land Management (BLM), at the exit conference on June 6, 2024, to discuss these issues. We appreciate OIG's efforts to improve Interior's internal controls related to bankruptcies of Federal oil and gas leaseholders. ONRR generally agrees with OIG's recommendations but has concerns that the draft report does not acknowledge that ONRR has previously implemented, at least in part, many of the steps outlined in the recommendations. We have attached a summary of the actions ONRR plans to take, target dates, and the responsible official for each of the five recommendations for ONRR in OIG's draft report (Attachment 1). ONRR is committed to continuous improvement and welcomes external reviews to review and improve our operations.

We appreciate the insight OIG's draft report provides. However, ONRR identified several factual errors and potentially misleading statements that, if addressed, would improve the report. We have attached our technical comments to this memo, for OIG's consideration (Attachment 2).

If you have any questions about this response, please contact Stephen Rovira, ONRR's Audit Liaison Officer, at (303) 231-3491 or Catherine Vojslavek at (303) 231-3209.

Attachments

Agency Response to the Office of Inspector General’s Draft Report, *U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas Internal Controls to Ensure Oversight of Financial Risks to the Government from Bankruptcies*, Report No. 2023-CR-003

Recommendation 1: *Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of bankruptcy cases.*

ONRR Response: Concur

ONRR concurs with this recommendation, as it has already developed procedures for updating ONRR's bankruptcy tracking tool to address key bankruptcy information. ONRR will modify its written procedures to include this recommendation's additional consideration of final bankruptcy claim amounts recovered and unrecovered. ONRR will coordinate with the Interior and the Office of the Solicitor to implement procedures to coordinate and share key bankruptcy information across bureaus.

ONRR will provide documentation of its updated procedures and implementation.

Target Date: April 30, 2025

Responsible Official: Howard M. Cantor, Director, Office of Natural Resources Revenue

Recommendation 2: *Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.*

ONRR Response: Concur

ONRR concurs that the risk register should be completed and updated regularly. ONRR has implemented a complete risk register, which includes bankruptcy risks, and updates the risk register on a yearly basis.

ONRR will provide documentation and show implementation by providing the updated risk register lines.

Target Date: March 31, 2025

Responsible Official: Howard M. Cantor, Director, Office of Natural Resources Revenue

Recommendation 3: *Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.*

ONRR Response: Concur

ONRR concurs that internal controls should be identified and implemented regularly. ONRR has already implemented a complete risk register that identifies internal controls, which

includes bankruptcy risks and internal controls. ONRR also performs internal control functions regularly and updates the risk register on a yearly basis.

ONRR will provide documentation and show implementation of its internal controls.

Target Date: March 31, 2025

Responsible Official: Howard M. Cantor, Director, Office of Natural Resources Revenue

Recommendation 4: *Update and implement existing policies and processes to identify all obligations for bankruptcy proofs of claims, including obligations provided by other ONRR offices or programs.*

ONRR Response: Concur

ONRR concurs that obligations from all ONRR offices or programs should be identified on proofs of claims and will modify its written procedures to incorporate this recommendation.

ONRR has implemented policies and processes to identify obligations from all ONRR offices or programs. ONRR continues to research outstanding liabilities through the pendency of the bankruptcy and modifies its claims if necessary.

ONRR will provide documentation of its updated procedures and show implementation.

Target Date: April 30, 2025

Responsible Official: Howard M. Cantor, Director, Office of Natural Resources Revenue

Recommendation 5: *Identify and resolve any deficiencies with required production reports and other required information needed to complete the bankruptcy process.*

ONRR Response: Partially Concur

ONRR partially concurs and will modify its written procedures to incorporate required information needed to complete the bankruptcy process. ONRR has implemented policies and processes to identify obligations from all ONRR offices or programs. ONRR will continue to identify and resolve outstanding liabilities through the pendency of the bankruptcy and modify its claims if necessary.

ONRR does not concur that unfiled production reports should be identified and resolved in the bankruptcy process. Production reports are non-financial obligations and are not included in a proof of claim. ONRR has established processes and procedures outside of its bankruptcy process to identify and resolve deficiencies with required production reports. The filing of a bankruptcy petition typically results in other parties, such as a bankruptcy trustee, becoming responsible for a leaseholder's obligations, which often impacts timeliness of production reports.

ONRR will provide documentation of its updated procedures and show implementation.

Target Date: May 31, 2025

Responsible Official: Howard M. Cantor, Director, Office of Natural Resources Revenue



United States Department of the Interior
BUREAU OF LAND MANAGEMENT
National Headquarters
Washington, DC 20240
<https://www.blm.gov>



In Reply Refer To:
1245 (750/310)

Memorandum

To: Kathleen Sedney
Assistant Inspector General for Audits, Inspections, and Evaluations

Through: Steven H. Feldgus
Principal Deputy Assistant Secretary
Land and Minerals Management

STEVEN
FELDGUS

Digitally signed by
STEVEN FELDGUS
Date: 2024.09.11
17:22:27 -04'00'

From: Tracy Stone-Manning
Director

Tracy Stone-
Manning

Digitally signed by Tracy
Stone-Manning
Date: 2024.09.11
16:49:52 -04'00'

Subject: Comments on the Office of Inspector General's Draft Audit Report titled, "U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas Internal Controls To Ensure Oversight of Financial Risks to the Government From Bankruptcies" (Report No. 2023-CR-003)

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Audit Report titled, "U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas Internal Controls To Ensure Oversight of Financial Risks to the Government From Bankruptcies" (Report No. 2023-CR-003). The report contains 21 recommendations, five of which are specific to the Bureau of Land Management (BLM).

The BLM concurs with Recommendations 7, 8, 9, and 10 but does not concur with Recommendation 6. Provided below are BLM's responses to Recommendations 6-10.

Recommendation 6: Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information such as case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of bankruptcy cases, including identifying wells orphaned due to a bankruptcy.

Response: Non-concur. While the OIG report states that the BLM could not provide a list of any orphaned wells that resulted from bankruptcies, and implies this is a tracking failure, none of the orphaned wells on BLM lands have been a result of operator bankruptcies. Currently, the BLM pursues the current operator, current record title owners, current operating rights owners, previous record title owners, and previous operating rights owners to plug wells before

classifying a well as orphaned. Therefore, a bankruptcy will only result in an orphaned well if there are no other liable parties, a situation that so far has not occurred.

The BLM created, maintains, and regularly updates a bankruptcy tracking tool with input from its State Office subject matter experts (SMEs) with experience on bankruptcies. The tracking tool captures pertinent information identified by these SMEs regarding issues that come up during the bankruptcy process. The tracking tool includes all key bankruptcy information listed in this recommendation to communicate with the Department's Office of the Solicitor effectively and efficiently. The BLM considers the existing tracking tool a valuable mechanism for managing bankruptcies.

Responsible Official: David Rosenkrance, Assistant Director, Energy, Minerals and Realty Management Directorate.

Target Date: Not Applicable

Recommendation 7: Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

Response: Concur. The BLM assessed and updated its risk register to address identified risks related to bankruptcy concerns for all minerals, lands, and realty cases. Attachment 1 is the BLM's updated risk register for fiscal year 2024 submitted to the Department on March 1, 2024. On row 2 in Attachment 1, the BLM identified and developed a bankruptcy risk for multiple BLM programs (fluid minerals, solid minerals, renewable energy, realty, etc.). Items noted for consideration on this identified risk include considerations for revenue loss, management costs, environmental risks, and operational disruptions.

Responsible Official: David Rosenkrance, Assistant Director of Energy, Minerals and Realty Management.

Target Date: Implemented

Recommendation 8: Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

Response: Concur. The BLM has existing internal controls related to Federal Oil and Gas Leaseholder Bankruptcies. Attachment 2 is a list of BLM's existing and updated policies and internal controls that the agency uses to address risks related to the Federal oil and gas leaseholder operations, including bankruptcies.

The BLM will continue to: (1) maintain its existing policies to ensure its oil and gas operational staff are completing inspections, reviewing idled wells, reviewing bond adequacy, and pursuing liable parties if there is an issue on a lease or on the identified risk related to Federal leaseholder bankruptcies; and (2) assess our internal controls and make any necessary adjustments and or improvements deemed appropriate.

Responsible Official: David Rosenkrance, Assistant Director of Energy, Minerals and Realty Management.

Target Date: Implemented

Recommendation 9: Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.

Response: Concur. The BLM is finalizing updates to the bankruptcy policy in its *Bonds* handbook, H-3104-1. This update will include bankruptcy requirements for proofs of claim. The BLM is developing a communication plan on the roll out and implementation of recent regulatory and resulting policies updates related to its final rule on “Revision of Existing Regulations Pertaining to Fossil Fuel Leases and Leasing Process” ([RIN 1004-AE80](#)).

Responsible Official: David Rosenkrance, Assistant Director of Energy, Minerals and Realty Management.

Target Date: January 31, 2025

Recommendation 10: Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 9.

Response: Concur. The BLM developed and implemented a training program for all personnel involved in bankruptcy proceedings on Federal onshore oil and gas leases in May 2020 as a result of a sharp increase in the number of bankruptcy filings. Attachment 3 contains information on this training program, including course objectives specific to the bankruptcy process and necessary coordination with the Solicitor. The training materials remain available to all BLM employees through its Adjudicator SharePoint site.

Additionally, the BLM commits to providing virtual self-paced training to personnel involved in the bankruptcy process. It is important to note that for every new bankruptcy case, BLM Headquarters works directly with the appropriate state office staff in creating, processing, and submitting proof of claims filings. The BLM believes that developing a new bankruptcy training program is not required as there has been no change from its existing process.

Responsible Official: David Rosenkrance, Assistant Director of Energy, Minerals and Realty Management.

Target Date: March 31, 2025

If you should have any questions regarding this response, please contact Amy Hay, Division Chief of Business, Engineering and Evaluations, at 303-236-6629; or LaVanna Stevenson, Audit Liaison Officer, at 202-568-0274.

3 Attachments

1- DOI-BLM O&G Bankruptcy Risk (spreadsheet)

- 2- Existing BLM Policies Bankruptcy (2 pp)
- 3- Email BLM Bankruptcy Training Held May 2020 (2 pp)



United States Department of the Interior

BUREAU OF OCEAN ENERGY MANAGEMENT
WASHINGTON, DC 20240-0001

Memorandum

To: Assistant Inspector General for Audits, Inspections, and Evaluations
Office of Inspector General

Through: Steven H. Feldgus
Principal Deputy Assistant Secretary
Land and Minerals Management

From: Elizabeth Klein
Director

Subject: Office of Inspector General Draft Report: *Audit of Internal Controls Related to Bankruptcies of Federal Oil and Gas Leaseholders (2023-CR-003)*

Steven H.
Feldgus

Digitally signed by Steven
H. Feldgus
Date: 2024.08.26
14:07:10 -04'00'

ELIZABETH
KLEIN

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ELIZABETH KLEIN
Date: 2024.08.26
13:09:34 -04'00'

Thank you for the opportunity to review and respond to the Office of Inspector General (OIG) draft report, *Audit of Internal Controls Related to Bankruptcies of Federal Oil and Gas Leaseholders (2023-CR-003)*. We appreciate the OIG's interest in the BOEM bankruptcy program.

As the draft report noted, BOEM published a notice of proposed rulemaking on risk management and financial assurance for oil and gas leases in the *Federal Register* on June 29, 2023. BOEM is pleased to report that it published the final rule in the *Federal Register* on April 24, 2024, at 89 FR 31544, and the rule became effective on June 29, 2024.

We provide the following in response to the recommendations directed to BOEM:

Recommendation 11: Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

Response: Concur. BOEM reviewed and assessed the information in its risk register for Fiscal Year (FY) 2024 and found that BOEM had not documented risks related to bankruptcies of Federal oil and gas leaseholders. BOEM will update the risk register in FY 2025.

Responsible Official: BOEM Deputy Director
Target Date: March 31, 2025 (FY 2025, Q2)

Recommendation 12: Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

Response: Concur. BOEM will, as part of its scoping for its FY 2025 risk register, incorporate risks related to Federal oil and gas leaseholder bankruptcies and will include the internal controls

recommended by the OIG in this report for routine monitoring and risk-based evaluation. Through the course of the risk assessment and application of BOEM risk tolerance criteria, BOEM will prioritize implementation of new internal controls and will assign resources to evaluate their effectiveness.

Responsible Official: BOEM Deputy Director

Target Date: June 30, 2025 (FY 2025, Q3)

Recommendation 13: Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.

Response: Concur. BOEM will update the bankruptcy tracking tool to include the recommended additional information. All information on the updated bankruptcy tracking tool will be reviewed and updated no less than monthly with the Bankruptcy Coordination Team.

Responsible Official: BOEM Deputy Director

Target Date: December 31, 2024 (FY 2025, Q1)

Recommendation 14: Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proof of claims.

Response: Concur. The Bankruptcy Coordination Team will review the BOEM and Bureau of Safety and Environmental Enforcement Letter of Agreement and Memorandum of Agreement and finalize any updates to the team's standard operating procedures document. BOEM published the final rule "Risk Management and Financial Assurance for OCS Lease and Grant Obligations" in the *Federal Register* on April 24, 2024, at 89 FR 31544, with an effective date of June 29, 2024. The updated regulations will better protect taxpayers from bearing the cost of oil and gas obligation in the event of a bankruptcy by requiring financial assurance from higher risk lease and grant holders.

Responsible Official: BOEM Deputy Director

Target Date: June 30, 2025 (FY 2025, Q3)

Recommendation 15: Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 14.

Response: Concur. The Bankruptcy Coordination Team will add a requirement to the team's standard operating procedures and implement team training on a periodic basis.

Responsible Official: BOEM Deputy Director

Target Date: June 30, 2025 (FY 2025, Q3)

If you have questions about this response, please contact Andrea Nygren, BOEM Audit Liaison Officer at andrea.nygren@boem.gov.



United States Department of the Interior
BUREAU OF SAFETY AND ENVIRONMENTAL ENFORCEMENT
WASHINGTON, DC 20240-0001

Memorandum

To: Nicki Miller
Acting Assistant Inspector General for Audits, Inspections, and Evaluations

Through: Steven H. Feldgus
Principal Deputy Assistant Secretary, Land and Minerals Management
Steven H. Feldgus
Digitally signed by Steven H. Feldgus
Date: 2024.08.26 09:06:11 -04'00'

Kevin M. Sligh, Sr.
Director
Kevin Sligh
Digitally signed by Kevin Sligh
Date: 2024.08.20 15:17:54 -04'00'

From: Molly K. Madden
Deputy Assistant Director for Policy and Analysis
MOLLY MADDEN
Digitally signed by MOLLY MADDEN
Date: 2024.08.15 08:48:31 -04'00'

Subject: Response to Draft Report titled, *Audit of Internal Controls Related to Bankruptcies of Federal Oil and Gas Leaseholders (2023-CR-003)*

The Bureau of Safety and Environmental Enforcement (BSEE) appreciates the Office of Inspector General's (OIG) interest in BSEE's Bankruptcy Program. In the draft report referenced above, the OIG made the following recommendations to BSEE:

Recommendation 16: *Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.*

Recommendation 17: *Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.*

Recommendation 18: *Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.*

Recommendation 19: *Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proof of claims.*

Recommendation 20: *Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 19.*

BSEE generally concurs with the recommendations. Attachment 1 provides details regarding the corrective actions that BSEE has already completed or plans to take to address these recommendations.

Should you or your staff have any questions concerning this response, please contact Chanielle Williams, BSEE Audit Liaison Officer at 202-322-7605.

Attachment 1

OIG Draft Report #2023-CR-003, Audit of Internal Controls Related to Bankruptcies of Federal Oil and Gas Leaseholders (BSEE Response)

Recommendation 16: Assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.

Response: Partially Concur. BSEE has included risks relating to bankruptcies of Federal oil and gas leaseholders in its risk register dating back to Fiscal Year (FY) 2017. BSEE reviewed and assessed the information in its risk register for FY 2024 as part of its annual Enterprise Risk Management effort and will further review the risk register in FY 2025.

Responsible Official: Paul Huang, BSEE Deputy Director

Target Date: May 1, 2025 (FY 2025, Q3)

Recommendation 17: Identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.

Response: Concur. BSEE will continue to build on efforts to assess risks related to Federal oil and gas leaseholder bankruptcies. This includes continuing annual review of relevant internal control formulation, control gaps, and control testing based on risk assessments. BSEE also will prioritize development of risk treatments through its Enterprise Risk Management process and will assign resources to evaluate control effectiveness.

Responsible Official: Paul Huang, BSEE Deputy Director

Target Date: August 30, 2025 (FY 2025, Q4)

Recommendation 18: Develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.

Response: Concur. BSEE, in coordination with the BSEE-BOEM National Bankruptcy Coordination Team, will update the bankruptcy tracking tool to include the recommended additional information. All information on the updated bankruptcy tracking tool will be reviewed and updated no less than monthly with the BSEE-BOEM National Bankruptcy Coordination Team. BSEE will confer with DOI and the Office of the Solicitor to implement procedures to share key bankruptcy information across bureaus.

Responsible Official: Paul Huang, BSEE Deputy Director

Target Date: December 31, 2024 (FY 2025, Q1)

Recommendation 19: Update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.

Response: Concur. The BSEE-BOEM National Bankruptcy Coordination Team will review the BOEM and BSEE Letter of Agreement and Memorandum of Agreement and finalize any updates to the team's standard operating procedures.

Responsible Official: Paul Huang, BSEE Deputy Director

Target Date: June 30, 2025 (FY 2025, Q3)

Recommendation 20: Develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 19.

Response: Concur. The BSEE-BOEM National Bankruptcy Coordination Team will add a requirement to the team's standard operating procedures and implement training on a periodic basis.

Responsible Official: Paul Huang, BSEE Deputy Director

Target Date: June 30, 2025 (FY 2025, Q3)



United States Department of the Interior
OFFICE OF THE SOLICITOR
Washington, D.C. 20240

August 22, 2024

Memorandum

To: Assistant Inspector General for Audits, Inspections, and Evaluations
Office of Inspector General

From: Travis Annatoyn
Deputy Solicitor, Energy and Mineral Resources
Office of the Solicitor

TRAVIS
ANNATOYN

Digitally signed by
TRAVIS ANNATOYN
Date: 2024.08.26
09:55:32 -04'00'

Subject: Office of Inspector General Draft Report: *Audit of Internal Controls Related to Bankruptcies of Federal Oil and Gas Leaseholders* (2023-CR-003)

Thank you for the opportunity to comment on the Office of Inspector General's (OIG) Draft Audit Report entitled, "U.S. Department of the Interior Bureaus Must Improve Federal Oil and Gas Internal Controls to Ensure Oversight of Financial Risks to the Government from Bankruptcies" (Report No. 2023-CR-003).

The report contains 21 recommendations, five recommendations specific to the Office of Natural Resources Revenue (ONRR); five recommendations specific to the Bureau of Land Management (BLM); five recommendations specific to the Bureau of Ocean Energy Management (BOEM); five recommendations specific to the Bureau of Safety and Environmental Enforcement (BSEE); and one recommendation to the Department of Interior, generally.

The Office of the Solicitor plays an integral role in coordinating bankruptcy cases among ONRR, BLM, BOEM, and BSEE. In that regard, the Office of the Solicitor responds to Recommendation 21, which is directed to the Department of the Interior.

Recommendation 21: Enhance coordination by developing and implementing procedures to coordinate and share bankruptcy information across bureaus, to include key bankruptcy information for each entity's bankruptcy case, such as proof of claim information and bankruptcy tracking information.

Response: Concur. The Office of the Solicitor has developed and will maintain a bankruptcy tracking tool, tracking key bankruptcy information for each entity's bankruptcy case, and will improve the sharing of this information across bureaus.

If you have any questions regarding this response, please contact Karen Hawbecker, Associate Solicitor, Mineral Resources, at 202-208-4146.

Appendix 5: Status of Recommendations

Recommendation	Status	Action Required
<p>2023-CR-003-01 We recommend that the Office of Natural Resources Revenue (ONRR) develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of bankruptcy cases.</p>		
<p>2023-CR-003-02 We recommend that ONRR assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.</p>	Resolved	We will track implementation.
<p>2023-CR-003-03 We recommend that ONRR identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.</p>		
<p>2023-CR-003-04 We recommend that ONRR update and implement existing policies and processes to identify all obligations for bankruptcy proofs of claims, including obligations provided by other ONRR offices or programs.</p>		
<p>2023-CR-003-05 We recommend that ONRR identify and resolve any deficiencies with required production reports and other required information needed to complete the bankruptcy process.</p>	Unresolved: pending additional information.	We will meet with ONRR to further discuss resolution of this recommendation.

Recommendation	Status	Action Required
<p>2023-CR-003-06 We recommend that the Bureau of Land Management (BLM) develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information such as case status, mitigation steps taken, post-bankruptcy amounts, and outcomes of bankruptcy cases, including identifying wells orphaned due to a bankruptcy.</p>	<p>Unresolved: nonconcur.</p>	<p>We will meet with BLM to further discuss resolution of this recommendation.</p>
<p>2023-CR-003-07 We recommend that BLM assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.</p>	<p>Implemented</p>	<p>No action is required.</p>
<p>2023-CR-003-08 We recommend that BLM identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.</p>		
<p>2023-CR-003-09 We recommend that BLM update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.</p>		
<p>2023-CR-003-10 We recommend that BLM develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 9.</p>	<p>Resolved</p>	<p>We will track implementation.</p>

Recommendation	Status	Action Required
<p>2023-CR-003-11 We recommend that the Bureau of Ocean Energy Management (BOEM) assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.</p>		
<p>2023-CR-003-12 We recommend that BOEM identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.</p>		
<p>2023-CR-003-13 We recommend that BOEM develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.</p>	Resolved	We will track implementation.
<p>2023-CR-003-14 We recommend that BOEM update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.</p>		
<p>2023-CR-003-15 We recommend that BOEM develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 14.</p>		

Recommendation	Status	Action Required
<p>2023-CR-003-16 We recommend that the Bureau of Safety and Environmental Enforcement (BSEE) assess if information in its risk register related to Federal oil and gas leaseholder bankruptcies is complete and, if not, update the risk register accordingly.</p>		
<p>2023-CR-003-17 We recommend that BSEE identify existing or develop and implement new internal controls to address identified risks related to Federal oil and gas leaseholder bankruptcies.</p>		
<p>2023-CR-003-18 We recommend that BSEE develop and implement procedures to update its bankruptcy tracking tool to include claim amounts for each case and entity and other key bankruptcy information, such as case status, mitigation steps taken, and post-bankruptcy amounts and outcomes of bankruptcy cases.</p>		
<p>2023-CR-003-19 We recommend that BSEE update, finalize, and implement bankruptcy policies and standard operating procedures to include all bankruptcy requirements for proofs of claims.</p>	Resolved	We will track implementation.
<p>2023-CR-003-20 We recommend that BSEE develop and implement a training program for all personnel involved in bankruptcy processes on the bankruptcy policies and standard operating procedures developed under Recommendation 19.</p>		
<p>2023-CR-003-21 We recommend that the U.S. Department of the Interior enhance coordination by developing and implementing procedures to coordinate and share bankruptcy information across bureaus, to include key bankruptcy information for each entity's bankruptcy case, such as proof of claim information and bankruptcy tracking information.</p>		



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

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