



MRM Audit and Compliance Program Overview

May 2007

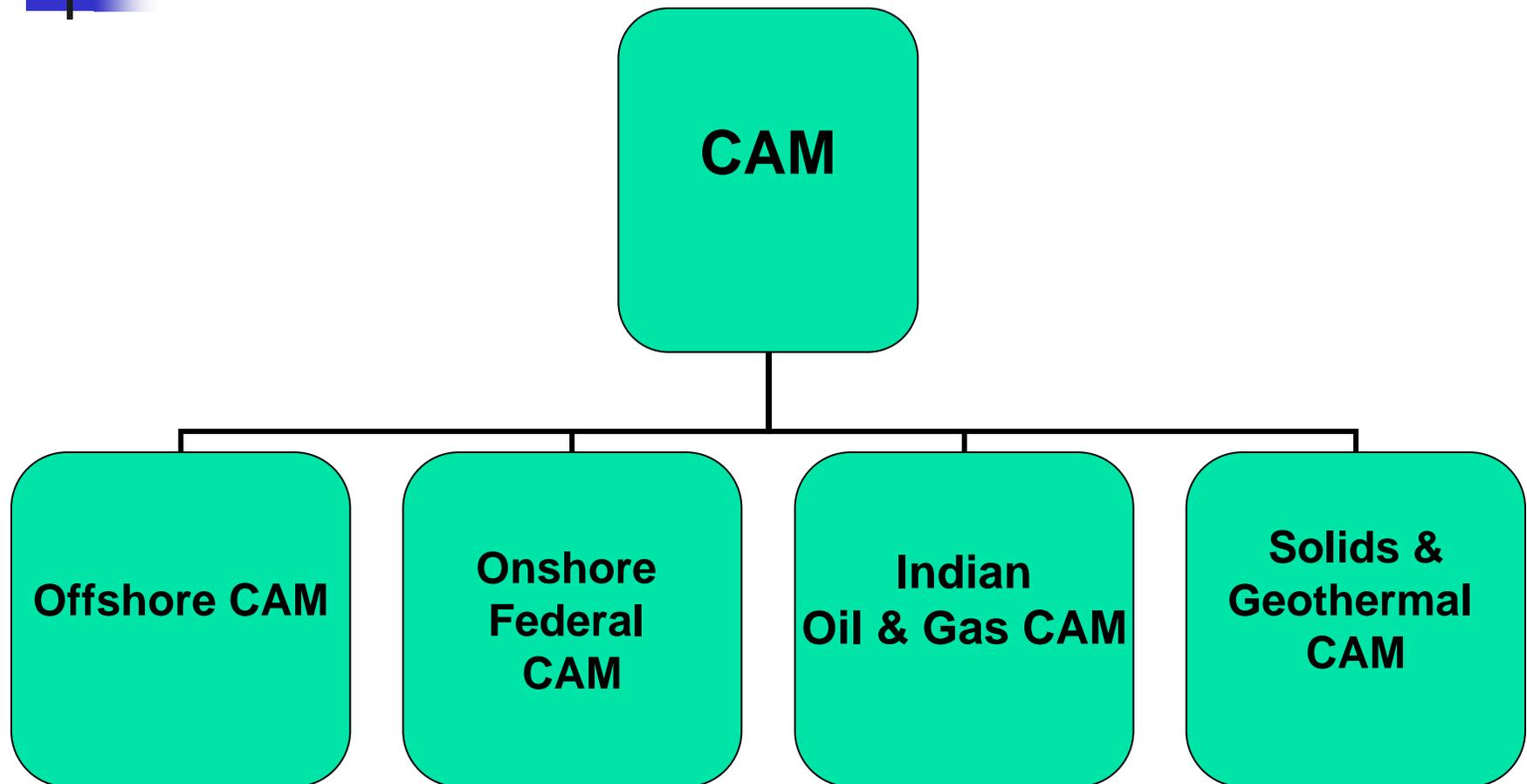
Theresa Walsh Bayani

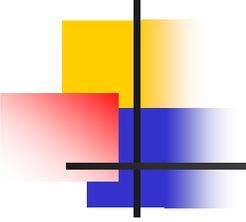
MMS, MRM

Program Director,

Compliance and Asset Management

Compliance and Asset Management (CAM) Organization Chart





State and Tribal Partnerships

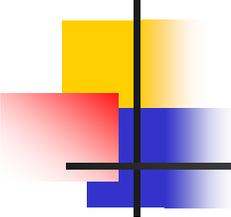
States

Alaska
California
Colorado
Louisiana
Montana
New Mexico
North Dakota
Oklahoma
Texas
Utah
Wyoming

- FOGRMA Sections 202 and 205 authorize MMS to contract with States and Tribes to conduct audits of leases within their State/Reservation
- States and Tribes are fully reimbursed for their costs

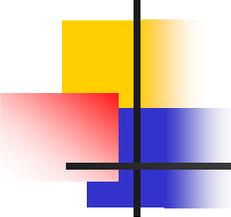
Tribes

Blackfeet
Jicarilla Apache
Navajo Nation
Shoshone/Arapaho
Southern Ute
Ute
Ute Mountain



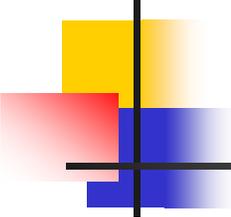
Compliance Universe

- In FY06 there were about 29,000 producing leases
 - 22,361 Federal onshore oil and gas
 - 2,204 Offshore
 - 3,777 Indian oil and gas
 - 238 Coal leases (Federal and Indian)
 - 478 other producing mineral leases
- Royalties paid for FY06 were about \$12.7 billion



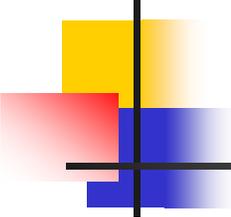
CAM Responsibilities

- Audit: formal examination of company records on Federal and Indian mineral properties to ensure the accuracy of reporting and payment in accordance with applicable laws, regulations, and lease terms.
- Compliance Review: compares all elements (volume, value, royalty rate, and allowances) of the royalty equation to an expected value to determine if variances exist. (OIG endorsed our use of compliance reviews as a good tool).
- Limited-Scope Compliance Review: compares 3 or less elements of the royalty equation to an expected value to determine if variances exist.
- Valuation guidance, allowance approvals, State & Tribal assistance, updating regulations, etc.



How Are Compliance Reviews Different From Audits?

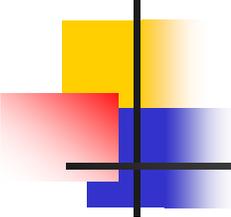
- Audits have a higher standard of verification in the form of evidence from company source documents and records resulting in certainty
- Once engaged, companies have to provide the requested records in the planned audit scope and objective
- Longer, formal process
- CRs provide reasonable assurance that all or part of the royalty equation are paid and reported correctly
- Companies provide additional documentation to resolve the variance
- Typically a shorter process



Audit/Compliance Processes

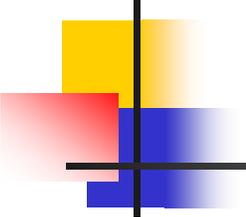
■ **Auditors/analysts:**

- Conduct audits of properties and payors (e.g. companies) specific issues, such as, transportation, gas plant, random audits and compliance review verification audits.
- Perform full and limited-scope compliance reviews.
- Verify major portion prices, index prices and alternative dual accounting on Indian gas leases.
- Perform limited scope compliance reviews (for example, volume, royalty rate, allowances, price).
- Perform value/volume and allowance adjustments for solid mineral leases.



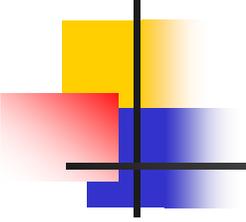
Internal Audit and Compliance Review Manuals

- The Audit Manual released January 1, 2005, sets the minimum standards that MRM, state, and tribal auditors must follow in completing audits
- The Compliance Review Manual released January 1, 2006 establishes the minimum standards for completing both full and limited scope compliance reviews



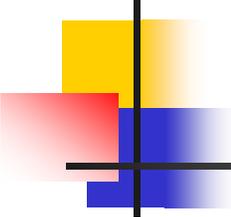
Compliance Strategy

- Current goal is to ensure reasonable compliance on an increasing percentage of revenue paid within 3 years of the payment.
- CAM strategy focuses primarily on the largest producing properties (both RIK and RIV) with a more detailed strategy for Indian leases. Does limit our review of smaller properties.



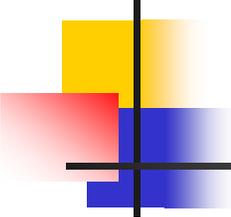
Compliance Strategy

- Over the last year we have developed a risk-based methodology which is being piloted to further develop and refine the identified risk factors to successfully scale the Federal and Indian compliance universe.
- Will compliment our current revenue goal.



Compliance Management and Audit Accomplishments

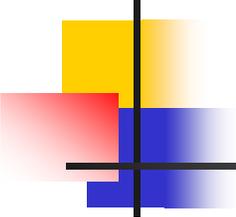
- In FY 2006, the Compliance organization met the goal of assuring reasonable compliance on 72.5% of total offshore and onshore royalties paid for Calendar Year 2003
- Received unqualified opinion on 2005 Peer Review
- Collected \$3.1 billion in additional royalties since 1982



Outreach to American Indians

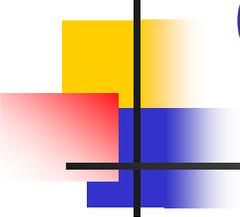
- In FY 2006, MMS resolved over 4,366 inquiries from Individual Indian Mineral Owners (IIMO's) and conducted 74 outreach sessions

- Through continuous communication and consultation with American Indians, MMS:
 - Serves as an advocate for Indian mineral interest owners ensuring fulfillment of MMS trust responsibility
 - Identifies and resolves mineral related problems in partnership with BIA, BLM and OTFM
 - Informs and educates Indian owners about issues related to Indian minerals which includes meeting with IIMO's and allottee associations
 - Listens to Indian mineral owners' suggestions for improvement; and
 - Conducts and coordinates field trips with BIA, BLM and industry for allottees



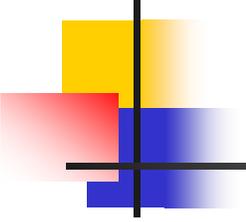
MRM Strategic Business Plan

- Published MRM Strategic Business Plan in December 2005
- Five mission areas:
 - Compliance
 - Financial
 - Indian Trust
 - Resource and Information Management
 - Asset Management



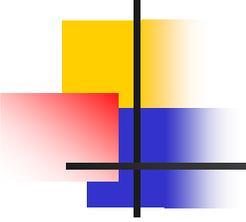
Compliance Business Plan

- Three Phases for Compliance Business Plan:
 - Assessment / As Is – completed November 2006--focused on the following areas:
 - Compliance Business Processes;
 - Organization and Human Resources;
 - Information Management and Systems Support; and
 - Performance Measures and Internal Controls.
 - Blueprint / To Be – September 2007
 - Implementation – February 2008



Focus Areas for Blueprint Phase of Compliance Business Plan

- Risk- based strategy / cost-benefit methodology for compliance which will support numerous strategies and objectives.
- Reengineer (enhance) the Compliance Process to identify all properties or sources of revenue on which royalties are due.
- Coordinate and expedite review of major companies.
- Align and integrate MRM, State and Tribal processes, standards and resources.
- Comprehensive strategy for future compliance/collection systems (Information Management and Systems Support).

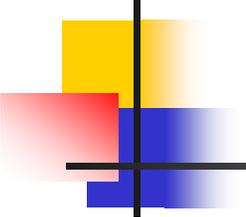


Indian Trust Business Plan

Business Objectives include:

- Achieve most effective business model for delivery of Indian mineral revenue trust services in partnership with BIA, BLM, and OST.
- Provide trust management and mineral revenue services to Indian mineral interest owners in a timely and effective manner.
- Promote American Indian tribal engagement in the royalty management process.
- Fully and effectively manage and protect Indian trust records.

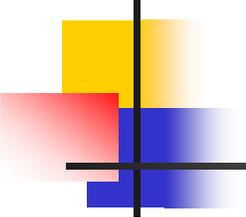
Blueprint / To Be Phase completion scheduled for November 2007



Indian Trust Business Plan

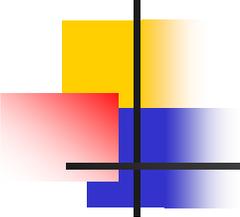
Assessment Team Focus includes:

- Assess efficiency and effectiveness of current business processes
- Evaluate potential of processes to meet MRM strategic business goals and objectives
- Evaluate organization and human resources
- Assess adequacy of information management and system support
- Address performance measures and internal controls
- Examine reports and communications



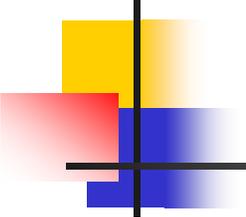
2006 OIG Audit Report on the Compliance Review Process

- Office of Inspector General (OIG) Final Report on Compliance Review Process issued to MMS in December 2006.
- Overall the OIG audit concluded that compliance reviews can serve a useful role as part of the compliance and asset management program.
- The OIG also concluded that compliance reviews:
 - Are a legitimate tool for evaluating reasonableness of company-reported royalties;
 - Allow broad coverage of royalties; and
 - Require fewer resources than audits.



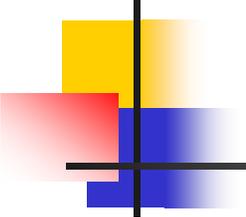
2006 OIG Audit Report on the Compliance Review Process

- In response, CAM developed a comprehensive Action Plan.
- The Action Plan includes:
 - detailed steps,
 - targeted completion dates, and
 - a designated MMS management official with implementation responsibility.



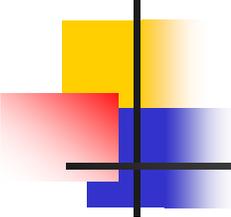
2006 OIG Audit Report on the Compliance Review Process

- The Action Plan sets forth specific actions to:
 - Provide reliable data for managing and reporting on CAM Program operations including:
 - Establishing additional controls to ensure procedures for GPRA and CIM tracking tools are consistent and controls to ensure these procedures are effective;
 - Amending Compliance Review Manual to establish consistent procedures for verifying production volumes and allowances; and
 - Evaluating alternatives to enhance MRM's current compliance cost/benefit analyses.



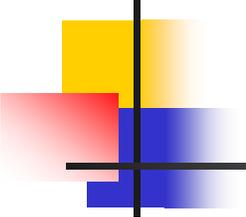
2006 OIG Audit Report on the Compliance Review Process

- The Action Plan sets forth specific actions to:
 - Strengthen the compliance review process by:
 - Restoring MMS access to BLM's Automated Fluid Minerals Support System which tracks property and well data for onshore Federal leases;
 - Developing new materiality or tolerance limits for pursuing potential underpayments;
 - Establishing and implementing a pilot project to further develop risk-based compliance strategies; and
 - Ensuring the state and tribal auditors have access to necessary compliance review tools.



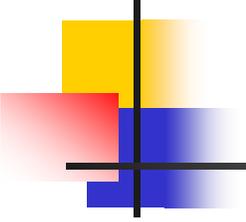
2006 OIG Audit Report on the Compliance Review Process

- The Action Plan sets forth specific actions to:
 - Improve performance measures to better reflect CAM Program operations including:
 - Evaluating potential for separate performance measures for companies and properties subjected to compliance coverage based on the results of the risk-based pilot project;
 - Evaluating potential changes to performance measures based on the results of the risk-based pilot project and cost/benefit analyses; and
 - Establishing efficiency measures for audits and compliance reviews based on the results of the cost/benefit analyses.



2006 OIG Audit Report on the Compliance Review Process

- The Action Plan includes:
 - A total of 23 action items addressing the recommendations;
 - 16 action items currently underway;
 - 2 action items completed--(removed compliance index performance measure; restored access to BLM's Automated Fluid Minerals Support System);
 - Extensive oversight and frequent implementation status reporting to MRM senior management and Director; and
 - Targeted completion of all action items by February 2008.



2006 OIG Audit Report on the Compliance Review Process

- As part of the program-wide strategic business planning effort in FY 2006, MMS already began addressing a number of OIG recommendations in the compliance area of this planning initiative.