



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

The Bureau of Land Management Montana/Dakotas State Office Misused Oil and Gas Funds

This is a revised version of the report prepared for public release.

In recognition of Secretarial Order No. 3380, we are providing estimated costs associated with certain work products. Applying a formula involving prior salary and benefit expenses, we estimate the cost of preparing this report to be \$319,000.



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

SEP 30 2020

Memorandum

To: William Perry Pendley
Deputy Director for Policy and Programs
Bureau of Land Management

From: Mark Lee Greenblatt
Inspector General

Subject: Final Evaluation Report – *The Bureau of Land Management Montana/Dakotas State Office Misused Oil and Gas Funds*
Report No. 2019-CR-010

This memorandum transmits our final evaluation report on the Bureau of Land Management (BLM) Montana/Dakotas State Office's compliance with oil and gas (O&G) fund expenditure requirements. We found that the BLM Montana/Dakotas State Office did not comply with O&G fund expenditure requirements from fiscal years 2015 through 2018.

We make 12 recommendations that, if implemented, will help the BLM improve program accountability for its O&G funding. Based on the BLM's response to our draft report, we consider eight recommendations resolved and implemented, one recommendation unresolved, and three recommendations resolved but not implemented. We will refer the four open recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and/or implementation tracking.

If you have any questions regarding this memorandum or the subject report, please contact me at 202-208-5745.

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

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Results in Brief

We evaluated the Bureau of Land Management (BLM) Montana/Dakotas State Office's use of oil and gas (O&G) funds. We found that the BLM Montana/Dakotas State Office did not comply with O&G fund expenditure requirements from fiscal years (FYs) 2015 through 2018.

Specifically, BLM employees incorrectly charged more than \$1 million in labor costs to the O&G program. We also found that the BLM transferred more than \$3.5 million in labor hours originally charged to non-O&G accounts (e.g., rangeland management) to O&G accounts. In addition, the BLM incorrectly charged \$268,251 to the O&G program for retention bonuses and awards for employees who did not perform related duties. The BLM also incorrectly charged \$144,000 in miscellaneous operations expenses to O&G accounts. In total, we identified more than \$4.8 million of questioned costs and funds that could have been put to better use for FYs 2015 through 2018.

We make 12 recommendations that, if implemented, will help the BLM improve program accountability for its O&G funding.

The BLM concurred with 11 of the 12 recommendations in its response to our draft report. Based on the BLM's response, we consider eight recommendations resolved and implemented, one recommendation unresolved, and three recommendations resolved but not implemented. We will refer the four open recommendations to the Assistant Secretary for Policy, Management and Budget for resolution and/or implementation tracking.

Introduction

Objective

Our objective was to determine whether the Bureau of Land Management (BLM) Montana/Dakotas State Office complied with requirements for expenditures of oil and gas (O&G) funds.

See Appendix 1 for the scope and methodology of our evaluation.

Background

The BLM is a steward of the Nation's public lands and minerals. As such, the BLM's O&G Management Program is responsible for providing access to onshore energy resources after planning for potential environmental impacts. Oil and natural gas development is an important economic driver for Montana, North Dakota, and South Dakota. The BLM Montana/Dakotas State Office administers more than 5,000 Federal O&G leases on nearly 3.5 million acres.

The BLM handles leasing, well permitting, inspections and oversight of ongoing operations, and reclamation and abandonment activities for onshore Federal minerals. As part of its permitting activities, the BLM processes O&G applications for permits to drill (APDs)¹ and subsequent modifications of the permits, by evaluating and prescribing conditions for both the subsurface and surface operations.² The BLM also inspects existing O&G authorizations and producing leases.³

The Energy Policy Act of 2005 established the BLM Permit Processing Improvement Fund to improve Federal O&G permit processing. In accordance with 30 U.S.C. § 191, this fund is available for the BLM to coordinate and process O&G use authorizations on onshore Federal lands. Additionally, the 2015 National Defense Authorization Act (NDAA) increased the BLM's O&G permit processing fee for each new application and states that the BLM can only use the rental and fee funds to coordinate and process APDs and related training programs on onshore Federal and Indian trust mineral estate land. Using these funds for any other activity violates the Energy Policy Act, 30 U.S.C. § 191, and the NDAA.

Congress clarifies its annual Consolidated Appropriations Act and its intent through language in the Joint Explanatory Statement (JES) each year. The JES specifically allocated funding for the BLM's inspection and enforcement activities (I&E) for the years under our review. Furthermore, the BLM states that the I&E subactivity⁴ can be used only for I&E-related work in its directives.⁵ Additionally, the BLM's *Fund Code Handbook* states that it is not appropriate to charge work

¹ Operators may not initiate any drilling operations or related surface-disturbing activities without an approved APD.

² 43 C.F.R. § 3162.3-1 details requirements for drilling applications and plans.

³ 43 C.F.R. § 3161.3 mandates O&G inspections.

⁴ Congress allocates money to the BLM for general programs using fund codes. The BLM then further breaks those fund codes down into subactivity accounts that relate to specific work such as energy and minerals management.

⁵ The BLM Headquarters provides spending instructions per program area in compliance with laws, regulations, and administrative policy through its directives. Compliance with BLM directives is mandatory.

and time to subactivities with available funds if the related programs do not benefit from the work.⁶ Using congressionally appropriated I&E funds for other BLM subactivities is inconsistent with conditions and restrictions contained in the Consolidated Appropriations Act and violates BLM policy.

⁶ BLM Handbook H-1684-1, *Fund Code Handbook*, Chapter 3, “Benefitting Subactivity Concept.”

Findings

We found that the BLM Montana/Dakotas State Office did not comply with O&G fund expenditure requirements. Specifically, BLM employees incorrectly charged time to APD and I&E subactivities. In addition, the BLM did not document labor transfers, and it incorrectly charged retention bonuses, awards, and miscellaneous operations expenses to O&G subactivities.

Employees Incorrectly Charged Time to APD and I&E Subactivities

We found that employees who did not directly work on APD processing or I&E activities incorrectly charged more than \$1 million during fiscal years (FYs) 2015 through 2018 (see Figure 1). Of the 42 employees we interviewed, we identified 24 employees charging labor to subactivities that did not directly relate to their work responsibilities. According to 30 U.S.C. § 191, the 2015 NDAA, and the Consolidated Appropriations Act (as clarified by the JES), the APD processing funds must be used to coordinate and process O&G use authorizations and related training programs, while I&E funds must be used for I&E activities.

Figure 1: Incorrect APD and I&E Charges for FYs 2015 – 2018

FY	APD (\$)	I&E (\$)	Total (\$)
2015	–	30,765	30,765
2016	172,279	86,831	259,110
2017	254,506	52,323	306,829
2018	380,839	95,940	476,779
Total	\$807,624	\$265,859	\$1,073,483

During our evaluation, we found that 15 employees at the BLM Montana/Dakotas State Office, Eastern Montana/Dakotas District Office, and the North Dakota Field Office charged 11,448 labor hours to the APD subactivities even though they did not work on APD activities. For example, a [REDACTED] incorrectly charged 544 labor hours and a [REDACTED] incorrectly charged 225 labor hours to the APD subactivities over the 4-year period. In total, the BLM incorrectly charged \$807,624 to the APD subactivities in FYs 2015 through 2018.


Similarly, we found that nine employees in the same locations charged 5,075 labor hours to the I&E subactivity over the 4-year period even though they did not work on I&E-related activities. For example, the same [REDACTED] charged 1,319 labor hours and another [REDACTED] charged 1,431 labor hours to the I&E subactivity during that timeframe. In total, the BLM incorrectly charged \$265,859 to the I&E subactivity in FYs 2015 through 2018.

BLM employees must code their time to the “subactivity where they are performing their work” according to the BLM’s *Fund Code Handbook*. The BLM employees we interviewed reported that the time they coded for their labor hours did not match the work duties performed for any

given pay period because they were following instructions to code their time differently. The State office emailed individual staff with specific instructions on how to code their labor hours each pay period to match a management-determined budget regardless of work performed during that pay period. Employees said they either coded their time proportionately based on the amount of labor hours the State office individually allocated across various subactivities or would code to one subactivity until they depleted the allocated labor hours and then would start coding their time to another subactivity. The email in Figure 2 is an example of instructions for one employee who had minimal involvement with both the APD and the I&E programs to code time to those subactivities.

Figure 2: BLM Email with Employee Labor Hour Instructions*

2019 DEPARTMENT OF THE INTERIOR Mail - How to code time sheet to match budget

 @blm.gov>

How to code time sheet to match budget
1 message

to: @blm.gov> 2019 at 8:37 AM

Good morning,

There have been some ongoing issues with coding labor hours in Quicktime. Please use the formula below, that is specific to you, to complete week 1 and week 2 of your time sheet beginning this PP which is due no later than 8 a.m. Friday due to the potential shutdown.

If the codes differ please verify with your immediate supervisor and let me know so we may get it corrected.

NAME	ORG CODE	FUNCTIONAL CODE	HOURS FOR WEEK 1	HOURS FOR WEEK 2	TOTAL
		1310	20	0	20
		1314	20	20	40
		1315	0	7	7
		9141	0	7	7
		9145	0	6	6
TOTAL			40	40	80

Thank you,

***Functional Code Descriptions:**

1310: O&G Management

1314: I&E

1315, 9141, 9145: APD processing

Source: BLM.

During our evaluation, we reviewed the O&G spending for only the BLM Montana/Dakotas State Office. If other State offices follow similar procedures, these issues may exist in other BLM offices, so we have included recommendations for Bureauwide improvements.

Recommendations

We recommend that the Montana/Dakotas State Office:

1. Identify employees and associated work duties that benefit the APD subactivities, and allow only employees benefiting those subactivities to charge labor to those accounts
2. Identify employees and associated work duties that benefit the I&E subactivity, and allow only employees benefiting the subactivity to charge labor to the account

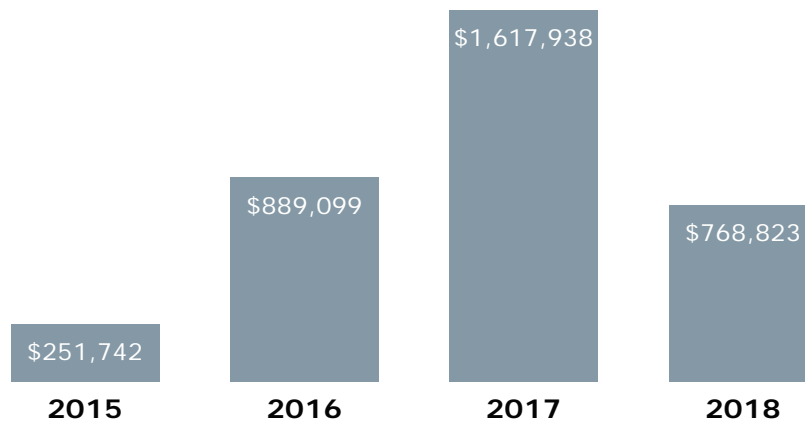
We recommend that the BLM:

3. Monitor State office compliance with applicable laws and directives for employees charging to the APD and I&E subactivities
4. Review internal controls for all offices that manage APD and I&E subactivities to determine whether they are charging labor to the appropriate accounts

The BLM Did Not Document Labor Transfers

We found that the BLM Montana/Dakotas State Office made nearly 3,000 labor transfers from non-O&G subactivities to O&G subactivities after employees had submitted their timesheets. The labor transfers resulted in more than \$3.5 million of labor charges to O&G subactivities from FYs 2015 through 2018 (see Figure 3). The BLM did not document and could not provide us with the rationale for these transfers. Therefore, we could not determine whether these labor transfers were allowable under 30 U.S.C. § 191, the 2015 NDAA, the Consolidated Appropriations Act (as clarified by the JES), and the BLM directives.

Figure 3: Labor Transfers for FYs 2015 – 2018



We found that the BLM transferred labor hours that employees originally charged to 32 non-O&G subactivities to O&G subactivities. For example, the BLM transferred more than \$1.2 million in labor charges from the rangeland management program and \$256,513 in labor charges from the riparian program to O&G subactivities from FYs 2015 through 2018 (see Figure 4).

Figure 4: FYs 2015 – 2018 Labor Transfers from Non-O&G to O&G Subactivities

Original Subactivity Description	Transfer Amount (\$)
Soil, Water, Air Management	191,285
Rangeland Management	1,209,527
Riparian*	256,513
Wildlife Management	198,762
Cadastral,† Lands & Realty Management	357,975
Resource Management Planning	268,210
Management of Lands & Resources Annual & Operations Maintenance	252,881
Other non-O&G‡	792,449
Total	\$3,527,602

*The BLM's program that manages wetlands adjacent to rivers and streams.

†The BLM's program that surveys, defines, and marks the boundaries and subdivisions on public lands.

‡We consolidated 25 non-O&G subactivities such as forestry and renewable energy into "Other non-O&G."

The U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government* outlines the standards that Federal Government entities should have in place to design, implement, and operate an effective internal control system. It specifically addresses documenting transactions and communicating control activities through policies and procedures. While the BLM Montana/Dakotas State Office used the BLM National Operations Center's (NOC's) step-by-step instructions on how to perform labor adjustments, the instructions did not include guidance for obtaining approval or maintaining documentation supporting the adjustments. The BLM told us that it is in the process of creating a more comprehensive standard operating procedure (SOP) for labor adjustments.

Recommendation
<p>We recommend that the Montana/Dakotas State Office:</p> <ol style="list-style-type: none">5. Update policies and procedures to include a process for performing labor adjustments, including a requirement to create and retain documentation that supports the rationale and approval for labor adjustments

The BLM Incorrectly Charged Retention Bonuses and Awards

From FYs 2015 through 2018, the BLM Eastern Montana/Dakotas District Office incorrectly charged \$268,251 to the I&E subactivity for retention bonuses and awards for employees who did not perform I&E duties. These charges were inconsistent with conditions and restrictions contained in the Consolidated Appropriations Act (as clarified by the JES) and violated the BLM directives. According to the directives, the BLM can only use the I&E subactivity for I&E-related work.

In May 2014, the BLM established a 10 percent retention incentive for petroleum engineers (PEs) and petroleum engineering technicians (PETs) throughout the Bureau to offset the disparities in compensation between the U.S. Government and private industry.⁷ The PEs and PETs conduct the BLM's primary I&E-related activities. The NOC created one code that charged the incentives to the I&E subactivity so the Montana/Dakotas budget analysts would not have to manually enter the subactivity into the Financial Business Management System (FBMS) each pay period. In November 2014, all employees in the Eastern Montana/Dakotas District Office, regardless of position, began receiving a 10 percent retention incentive using the code the NOC established. The BLM, however, never updated the code to reflect the change in non-I&E employees receiving the retention incentive.

Recommendations
<p>We recommend that the Montana/Dakotas State Office:</p> <ol style="list-style-type: none">6. Resolve the \$268,251 of retention bonus and award charges7. Develop and implement a policy to ensure that retention bonuses are applied to the correct subactivity based on each employee's job duties8. Develop and implement a policy to monitor retention bonuses to ensure they are applied to the proper subactivity

⁷ BLM Instruction Memorandum No. 2014-089, "Group Retention Incentive for Petroleum Engineers and Petroleum Engineering Technicians" (2014).

The BLM Incorrectly Charged Miscellaneous Operations Expenses to O&G Subactivities

We found that the BLM charged at least \$144,000 of operations expenses to the APD subactivities from FYs 2015 through 2018, violating 30 U.S.C. § 191 and the 2015 NDAA, which states that the APD processing funds must be used to coordinate and process O&G drilling applications and related training programs.

Each month, the Montana/Dakotas State Office budget officer generated and reviewed a report to ensure that the office charged miscellaneous operations expenses to the proper subactivity. This report, however, did not include the APD subactivities. At our request, the State budget analyst generated a miscellaneous operations expense report that included the APD subactivities. The report showed that the BLM charged year-end variances for utilities, wireless communications, contracts, and space rental to the APD subactivities. For example, in FY 2018, we found an adjustment of \$47,780 for “space rent GSA” for the NOC with no supporting documentation. When asked about the charge, the State office claimed that the NOC was responsible for the adjustment. The NOC, however, provided documentation that a State office employee made the account adjustment but could not provide documentation supporting the rationale or approval for the adjustment. Further, BLM staff told us that there was not a policy or SOP for these monthly operations expense reports.

Recommendations

We recommend that the Montana/Dakotas State Office:

9. Resolve the \$144,000 of miscellaneous operations expenses
10. Require justification and supporting documentation for miscellaneous operations expenses and adjustments charged to APD subactivities
11. Develop and implement a policy to monitor miscellaneous operations expenses charged to APD subactivities for possible accounting errors or misuse of funds, and correct any issues identified

We recommend that the BLM:

12. Confer with fiscal law experts in the Office of the Solicitor to determine whether the incorrect charges identified in this report implicate the Antideficiency Act

Conclusion and Recommendations

Conclusion

We found that the BLM Montana/Dakotas State Office did not comply with O&G fund expenditure requirements, which resulted in the BLM incorrectly charging nearly \$1.5 million in labor and miscellaneous operations costs. Furthermore, the BLM made more than \$3.5 million in unsupported labor transfers from non-O&G subactivities to O&G subactivities.

While the BLM had policies in place that outline how these funds should be used, the BLM Montana/Dakotas State Office did not ensure that its offices followed those policies. Given the magnitude of oil and gas development the Montana/Dakotas State Office manages and the gaps in policies we identified, the BLM is at risk of not fulfilling its duty to Congress and to the public as trusted stewards of public funding for the purpose for which it was intended.

The BLM's important O&G responsibilities impact the economy, public safety, and national interests. If our Montana/Dakotas State Office findings reflect a Bureauwide pattern, the issues could significantly impact the BLM's ability to effectively manage its O&G program.

Recommendations Summary

The BLM responded to our draft report on July 20, 2020, concurring with 11 of the 12 recommendations and providing target dates and responsible officials for implementation (see Appendix 3 for the full BLM response). Based on the BLM's response, we consider eight recommendations resolved and implemented, one recommendation unresolved, and three recommendations resolved but not implemented (see Appendix 4 for the status of our recommendations).

We recommend that the Montana/Dakotas State Office:

1. Identify employees and associated work duties that benefit the APD subactivities, and allow only employees benefiting those subactivities to charge labor to those accounts

BLM Response: The Montana/Dakotas State Office concurred. It stated that it has increased oversight and will ensure that employees code their time to the correct subactivities associated with their duties in compliance with the BLM's *Fund Code Handbook*.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

2. Identify employees and associated work duties that benefit the I&E subactivity, and allow only employees benefiting the subactivity to charge labor to the account

BLM Response: The Montana/Dakotas State Office concurred and will ensure that employees code their time to the correct subactivity associated with their duties in compliance with the BLM *Fund Code Handbook*.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

We recommend that the BLM:

3. Monitor State office compliance with applicable laws and directives for employees charging to the APD and I&E subactivities

BLM Response: The BLM concurred and said that it conducts regular monitoring for compliance with applicable laws and directives. The BLM will also implement a new FBMS program to automatically distribute and re-allocate support costs across contributing accounts "using proportional representation of funding" in the accounts in FY 2021.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved but not implemented. The BLM does not specifically address how it will periodically monitor direct labor charges to the subactivities to verify compliance with applicable laws and directives. We will refer this recommendation to the Assistant Secretary for Policy, Management and Budget (PMB) to track implementation.

4. Review internal controls for all offices that manage APD and I&E subactivities to determine whether they are charging labor to the appropriate accounts

BLM Response: The BLM concurred and identified internal controls it has put in place for the APD and I&E accounts. The BLM specifically stated that these controls will include the new FBMS module in FY 2021.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved but not implemented. While the controls the BLM listed address upfront planning for its annual budget and spending throughout the year, they do not address monitoring whether the offices are charging labor to the appropriate accounts. The BLM should develop a process to review the effectiveness of the internal controls in place for all offices that manage APD and I&E subactivities. We will refer this recommendation to the PMB to track implementation.

We recommend that the Montana/Dakotas State Office:

5. Update policies and procedures to include a process for performing labor adjustments, including a requirement to create and retain documentation that supports the rationale and approval for labor adjustments

BLM Response: The Montana/Dakotas State Office concurred and developed SOPs on how to code time and work performed to the APD, I&E, and other subactivities. The SOPs include a requirement to correct erroneous coding and post documentation supporting any corrections to a shared budget folder.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

6. Resolve the \$268,251 of retention bonus and award charges

BLM Response: The Montana/Dakotas State Office concurred and moved the erroneous charges of \$268,251 from the I&E subactivity and to the correct non-I&E subactivity.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

7. Develop and implement a policy to ensure that retention bonuses are applied to the correct subactivity based on each employee's job duties

BLM Response: The Montana/Dakotas State Office concurred and developed retention incentive SOPs and established a list of the appropriate subactivities to use for employees receiving retention bonuses. In addition, the SOPs require the State office budget officer and budget analysts to monitor labor reports for accuracy and verify and validate that expenses are properly charged to the correct subactivities on a quarterly basis.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

8. Develop and implement a policy to monitor retention bonuses to ensure they are applied to the proper subactivity

BLM Response: The Montana/Dakotas State Office concurred and reiterated that, as noted in its response to Recommendation 7, it has established retention incentive SOPs. It also noted that the SOPs require the State office budget officer and budget analysts to monitor labor reports for accuracy and verify that expenses are properly charged to the correct subactivities on a quarterly basis.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

9. Resolve the \$144,000 of miscellaneous operations expenses

BLM Response: The Montana/Dakotas State Office concurred and moved the \$144,000 of miscellaneous operations expenses to an appropriate account and documented the changes.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

10. Require justification and supporting documentation for miscellaneous operations expenses and adjustments charged to APD subactivities

BLM Response: The Montana/Dakotas State Office concurred and created an APD fund status report in FBMS that the budget officer will post monthly on the Montana/Dakota's State Office internal budget website for program leads, budget analysts, field leads, and managers to review and ensure operational expenses are charged to the appropriate subactivities.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved and implemented.

11. Develop and implement a policy to monitor miscellaneous operations expenses charged to APD subactivities for possible accounting errors or misuse of funds, and correct any issues identified

BLM Response: The Montana/Dakotas State Office concurred and noted that the budget officer and budget analysts will review the APD fund status reports to ensure all funds are correctly allocated and include appropriate supporting documentation.

OIG Comment: Based on the BLM's response, we consider this recommendation resolved but not implemented. In addition to the steps that it has already taken, the BLM needs to develop and implement a policy to monitor miscellaneous operations expenses to APD subactivities. We will refer this recommendation to the PMB to track implementation.

We recommend that the BLM:

12. Confer with fiscal law experts in the Office of the Solicitor to determine whether the incorrect charges identified in this report implicate the Antideficiency Act

BLM Response: The BLM did not concur with our finding and contends that the allocation of support costs among benefitting subactivities is consistent with the Statement of Federal Financial Accounting Standards 4 and applicable appropriation laws.

OIG Comment: We contacted the BLM for clarification on its response to this recommendation. The Bureau stated that, because the BLM disagreed with our finding, the Office of the Solicitor "did not review the charges or issue an opinion related to the Anti-deficiency Act." Based on the BLM's response, we consider this recommendation unresolved. We acknowledge that indirect charges can be allocated to the APD and I&E subactivities on a reasonable and consistent basis. As set forth in our report, however, the direct charges that we reviewed did not benefit the APD and I&E functions. Accordingly,

we do not believe that the Statement of Federal Financial Accounting Standards 4 is pertinent to this recommendation. We reiterate our recommendation that the BLM confer with fiscal law experts in the Office of the Solicitor to determine whether the Antideficiency Act was implicated and, if so, to take appropriate action. We will refer this recommendation to the PMB for resolution.

Appendix 1: Scope and Methodology

Scope

We evaluated the Bureau of Land Management (BLM) Montana/Dakotas State Office's compliance with oil and gas fund expenditure requirements, specifically the Permit Processing Improvement Fund, the application for permit to drill subactivities, and the inspection and enforcement subactivity from fiscal years 2015 through 2018.

Methodology

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

To accomplish our objective, we:

- Reviewed BLM laws and regulations for oil and gas revenue, including prohibitive and allowable expenditures
- Reviewed policy defining the BLM State Director's and budget director's discretionary authority
- Reviewed the BLM/s budget subactivity descriptions and requirements
- Reviewed BLM Montana/Dakotas State Office documents, including:
 - Cost Target Sheets
 - Subactivity sheets
 - Position descriptions
 - Budgets and Annual Work Plans
 - Table of Organization
- Visited and conducted interviews at the following BLM locations:
 - Montana/Dakotas State Office, Billings, MT
 - Eastern Montana/Dakotas District Office, Miles City, MT

- North Dakota Field Office, Dickinson, ND
- National Operations Center, Lakewood, CO
- BLM Headquarters, Washington, DC

We relied on computer-generated data the BLM provided, including the Financial Business Management System, but we did not review the data reliability of the various information systems.

Appendix 2: Monetary Impact

This table presents questioned costs for fiscal years 2015 through 2018. Because the Bureau of Land Management Montana/Dakotas State Office told us that it cannot adjust its labor costs for prior years, we have presented those costs as funds to be put to better use.

Description of Cost	Questioned Costs (\$)	Funds To Be Put To Better Use (\$)
Miscellaneous operations costs	144,000	–
APD charges	–	807,624
I&E charges	–	265,859
Labor adjustments	–	3,527,602
Retention bonuses	–	268,251
Total	\$144,000	\$4,869,336

Abbreviations: APD = application for permit to drill,
I&E = inspection and enforcement

Appendix 3: Bureau Response

The Bureau of Land Management's response follows on page 19.



United States Department of the Interior
BUREAU OF LAND MANAGEMENT
Washington, D.C. 20240
<http://www.blm.gov>



In Reply Refer To:
1245/3071/1690/3160 (830/310/880)

Memorandum

To: Mark Lee Greenblatt
Inspector General

Through: Casey Hammond
Principal Deputy Assistant Secretary,
Exercising the Authority of the Assistant Secretary,
Land and Minerals Management

CASEY
HAMMOND

Digitally signed by
CASEY HAMMOND
Date: 2020.07.20
17:42:12 -04'00'

From: William Perry Pendley
Deputy Director for Policy and Programs,
Exercising the Authority of the Director

WILLIAM
PENDLEY

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WILLIAM PENDLEY
Date: 2020.07.20
15:07:13 -06'00'

Subject: Office of the Inspector General Draft Evaluation Report, "The Bureau of Land Management Montana/Dakotas State Office Misused Oil and Gas Funds" (2019-CR-010)

Thank you for the opportunity to review and comment on the Office of the Inspector General's (OIG) draft report entitled, "The Bureau of Land Management Montana/Dakotas State Office Misused Oil and Gas Funds." Effective management of the Bureau of Land Management's (BLM) oil and gas funding is a top priority for the agency. The BLM welcomes this opportunity to review our policies and procedures for budgeting, specifically oil and gas expenditures, and the analysis offered by the OIG on this issue. The BLM recognizes the importance of accurate accounting to enable informed decision-making and program planning to comply with all applicable appropriation laws. The OIG issued twelve recommendations regarding use of oil and gas funding by the BLM Montana/Dakotas State Office (MT/DAKs).

The BLM continues to appropriately use sub-activities for all necessary support service functions. The Statement of Federal Financial Accounting Standards (SFFAS) 4 requires the BLM to separate direct costs (costs that can be specifically or readily identified with producing a specific product or service) from indirect costs (costs that cannot be specifically identified with producing specific products or services, but can be shown to bear a relationship to results or be in support of the products or services). Additionally, SFFAS 4 requires the BLM to spread these

indirect costs to the direct costs of output program elements to determine the full cost of producing specific products or services.

The BLM, and the BLM MT/DAKs specifically, allocate support costs among dozens of benefiting sub-activities, including the oil and gas program. Examples of support costs include information technology staff and systems, human resources (HR) operations, budget and contracting operations, data and records management, Freedom of Information Act processing, facility security, safety programs, and public contact operations, etc. Each of these functions meet the SFFAS 4 definition of “can be shown to bear a relationship to results or be in support of the product or services.” For example, an Application for Permit to Drill (APD) cannot be processed without a customer service representative to accept the application, a computer program to host the application, HR staff to hire the customer service representative, a building to house the public access room, and a financial system to accept the funds.

Using the SFFAS 4 as governing direction, the BLM generally agrees with the findings and concurs with eleven of twelve recommendations. We non-concur with Recommendation 12 since the allocation of support costs among benefiting sub-activities is consistent with the SFFAS 4.

Provided below are the corrective actions taken or planned by the BLM as well as the name of the responsible officials and the target dates of implementation.

Recommendation 1: Identify employees and associated work duties that benefit the APD sub-activities and allow only employees benefiting those sub-activities to charge labor to those accounts.

BLM Response: Concur. The BLM MT/DAKs has increased oversight to ensure only employees with duties related to the APD and inspection and enforcement (I&E) accounts are charging to those accounts as direct costs. Specifically, the state leadership worked with the Branch Chiefs and Field Managers to update the work months by assigning the appropriate number of work months to the program offices and to ensure employees were coded correctly to the APD sub-activity associated with their duties in compliance with the BLM Fund Code Handbook. Direction in the BLM’s annual Planning Target Allocations (PTA) and Annual Work Plan (AWP) was given to all employees to achieve compliance. For the indirect costs, the BLM MT/DAKs will continue to equitably allocate support costs among the contributing sub-activities, following SFFAS 4 direction as previously described.

Target Date: Completed.

Recommendation 2: Identify employees and associated work duties that benefit the I&E sub-activity, and allow only employees benefiting the sub-activity to charge labor to the account.

BLM Response: Concur. As noted in the response to Recommendation 1, the BLM MT/DAKs state leadership has increased its oversight to ensure that employees charging direct costs are assigned to perform work in a sub-activity with funding provided in the AWP. Employees charging to the sub-activity as indirect costs are likewise identified and tracked.

Target Date: Completed.

Recommendation 3: Monitor State Office compliance with applicable laws and directives for employees charging to the APD and I&E sub-activities.

BLM Response: Concur. The BLM conducts regular monitoring to confirm compliance with applicable laws and directives; including reviewing the BLM Fund Coding Handbook (H-1684-1) which contains appropriate funding procedures for all BLM programs. The BLM also publishes annual Budget Planning Directives, which include procedures for expending funds for all BLM programs, including the APD and I&E sub-activities.

The BLM is implementing a new Financial Business Management System (FBMS) program to automatically distribute support costs among contributing accounts. The “L0777 Program Support Cost” effort will re-allocate support costs using proportional representation of funding in the accounts. This will provide for fair and equitable distribution.

Target Date: June30, 2021

Responsible Official: Barbara L. Eggers, Assistant Director, Business, Fiscal and Resources Management, and Nicholas E. Douglas, Assistant Director, Assistant Director, Energy, Minerals, and Realty Management.

Recommendation 4: Review internal controls for all offices that manage APD and I&E sub-activities to determine whether they are charging labor to the appropriate accounts.

BLM Response: Concur. As noted in the response to Recommendation 3, internal controls are in place to monitor proper expenditure of the APD and I&E accounts, as well as all program areas. These include, but are not limited to: annual PTA and AWP general directives, annual PTA and AWP program directives, the annual mid-year budget reviews, monthly budget reports, performance certifications, the Fund Code Handbook, Washington Office program lead specific reviews, and in FY21, the L0777 Program Support Cost FBMS module.

Target Date: Completed.

Responsible Official: Barbara L. Eggers, Assistant Director, Business, Fiscal and Resources Management, and Nicholas E. Douglas, Assistant Director, Energy, Minerals, and Realty Management.

Recommendation 5: Update policies and procedures to include a process for performing labor adjustments, including a requirement to create and retain documentation that supports the rationale and approval for labor adjustments.

BLM Response: The BLM MT/DAKs developed Standard Operating Procedures (SOPs) on how to code time and work performed to the APD, I&E, and other sub-activities. The SOPs also require the State Office (SO) Budget Officer and Budget Analyst to generate detailed labor reports and to take immediate actions to correct erroneous coding and any labor adjustments. The

labor reports and the documentation to support the corrections are posted online to a restricted MT/DAKs Budget Folder.

Target Date: Completed.

Recommendation 6: Resolve the \$268,251 of retention bonus and award charges.

BLM Response: Concur. The BLM MT/DAKs has reviewed the fiscal years 2015 through 2018 retention bonus charges and took the required actions to reconcile its records and transfer the charges. The erroneous charges of \$268,251 were removed from the I&E sub-activities and charged to the correct non-I&E sub-activities.

Target Date: Completed.

Recommendation 7: Develop and implement a policy to ensure that retention bonuses are applied to the correct sub-activity based on each employee's job duties.

BLM Response: Concur. The BLM MT/DAKs developed Retention Incentive SOPs and established a list of the appropriate sub-activities to be used for employees receiving retention bonuses and any other related bonuses. The SOPs require the SO Budget Officer and Budget Analysts to monitor the labor reports for accuracy and to verify and validate the expenses were properly charged to the correct sub-activities on a quarterly basis.

Target Date: Completed.

Recommendation 8: Develop and implement a policy to monitor retention bonuses to ensure they are applied to the proper sub-activity.

BLM Response 8: Concur. As noted in the response to Recommendation 7, the BLM MT/DAKs developed Retention Incentive SOPs and established a list of the appropriate sub-activities to be used for employees receiving retention bonuses and any other related bonuses. The SOPs require the SO Budget Officer and Budget Analysts to monitor the labor reports for accuracy and to verify and validate the expenses were properly charged to the correct sub-activities on a quarterly basis.

Target Date: Completed.

Recommendation 9: Resolve the \$144,000 of miscellaneous operations expenses.

BLM Response: Concur. The BLM MT/DAKs has moved the \$144,000 of identified miscellaneous operations expenses to an appropriate account and appropriately documented these changes. The SO Budget Officer will run reports monthly to ensure miscellaneous operations expenses are charged to the appropriate sub-activity. This report has been expanded to include all fee accounts, which includes the APD sub-activity.

Target Date: Completed.

Recommendation 10: Require justification and supporting documentation for miscellaneous operations expenses and adjustments charged to APD sub-activities.

BLM Response: Concur. The BLM MT/DAKs created a Fund Status Report for L91XX accounts in the Financial Business and Management System (FBMS). The SO Budget Officer will post this report monthly on the MT/DAKs Budget Intranet Website to serve as a summary of operational expenses to ensure that SO Program Leads and Budget Analysts, Field Leads, and Managers will have access to review and monitor that operational expenses are charged to the appropriate sub-activities.

Target Date: Completed.

Recommendation 11: Develop and implement a policy to monitor miscellaneous operations expenses charged to APD sub-activities for possible accounting errors or misuse of funds, and correct any issues identified.

BLM Response: Concur. As noted in the response to Recommendation 10, the allocation of L91XX funds will be uploaded in FBMS upon receipt of BLM MT/DAK's PTA and AWP. The MT/DAKs will use the Cost Target Sheets to obtain funding amounts to allocate the funds in FBMS. The SO Budget Officer and Budget Analysts will be required to update and review the L91XX allocation of funds to ensure all funds are correctly used and supporting documentation is submitted.

Target Date: Completed.

Recommendation 12: Confer with fiscal law experts in the Office of the Solicitor to determine whether the incorrect charges identified in this report implicate the Anti-deficiency Act.

BLM Response: Non-Concur. The BLM conferred with the SOL and the allocation of support costs among benefitting sub-activities is consistent with the SFFAS 4 and applicable appropriation laws.

If you have any questions about this response, please contact Barbara L. Eggers, Assistant Director, Business, Fiscal and Resources Management at 202-208-4864; Nicholas E. Douglas, Assistant Director, Energy, Minerals, and Realty Management at 202-208-4201; or John Mehlhoff, Montana/Dakotas State Director at 406-896-5012.

cc:

ASLM (2) (6628 – MIB)

WO-100 (5662 – MIB)

WO-300 (5625 – MIB)

WO-800 (5623 – MIB)

MT/DKs

WO-310 (M Street)

WO-830 Official Copy (M Street)

WO-830 rf/hold (M Street)

WO-830: LStevenson: 6/24/2020:912-7077:DOC-ID: final_Draft Response OIG-2019-CR-010

6.12 Mary

Appendix 4: Status of Recommendations

In its response to our draft report (see Appendix 3), the Bureau of Land Management concurred with 11 of the 12 recommendations. We consider eight recommendations resolved and implemented, one recommendation unresolved, and three recommendations resolved but not implemented. Based on the response, we will refer the four open recommendations to the Office of Policy, Management and Budget (PMB) for resolution and/or implementation tracking.

Recommendation	Status	Action Required
1, 2, 5 – 10	Resolved and implemented	No additional action is required.
12	Unresolved	We will refer this recommendation to the PMB for resolution.
3, 4, 11	Resolved but not implemented	We will refer these recommendations to the PMB to track implementation.

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