

Summary: Investigation of Production Records for Nine Mineral Leases in the Wayne National Forest

Report Date: January 20, 2015

OIG conducted a joint investigation with the Bureau of Land Management's (BLM) Special Investigations Group into allegations that the owner of an oil and gas production company refused to provide production records and sales information for nine private acquired leases for mineral resources located in the Wayne National Forest, OH. Allegedly, the company owner sent one small royalty payment to the Office of Natural Resources Revenue (ONRR), claimed that the payment applied to a specific lease, and then when payment problems surfaced on another of his leases the owner claimed that the payment actually applied to that lease, and so on—creating a cycle in which the owner would change the lease number attributed to the payment as soon as a new payment default was discovered. BLM's Northeastern States Field Office, Mineral Resources staff suspected that the company owner was falsely reporting production on inoperative wells to "hold" the leases (preventing resale by the Federal Government) because they are located in the resource-rich Utica and Marcellus shale gas production areas.

We reviewed inspection and oil purchase records, and subpoenaed the company's production records to calculate estimated royalties for the leases in question. Based on the documentation that the company provided, we were unable to determine a loss to the Government for the company's wells and were unable to corroborate the allegation that the company owner had changed payment attribution. We found one well with repetitive reporting and identified monthly discrepancies between the price listed on ONRR royalty summaries prepared by the company and the price listed on the producer's production payment reports. Given the limited damages and ONRR's limited authority with these types of leases, we did not refer the reporting errors to ONRR. We did send a management advisory to ONRR based on similar issues in another case.

We referred the case to the U.S. Attorney's Office for the District of Colorado, which declined to prosecute. We closed this investigation with no further action required.

This is a summary of an investigative report that was issued internally to the U.S. Department of the Interior. This summary was posted to the web on September 4, 2015.

