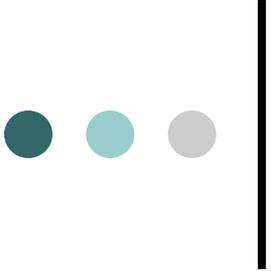




Department of the Interior
Office of Inspector General
Royalty Initiatives Group

Minerals Management Service
Royalty-In-Kind Oil Sales Process



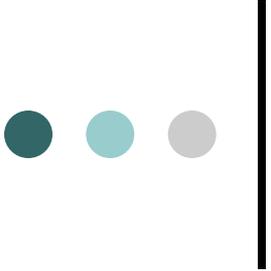
Recommendation One

- OIG Recommendation:

- *Develop a comprehensive operations manual to guide the Crude Oil Front Office similar to the Leasing Handbook developed by the Offshore Minerals Management program. The RIK operations manual should address the selection of properties, solicitation, bidding, award, and amendment processes.*

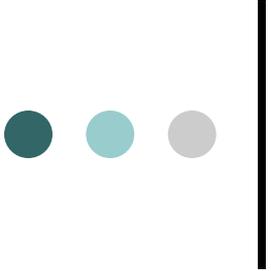
- MMS Response:

- Similar to a RPC Subcommittee recommendation
- The RIK Program is developing additional procedures regarding calculation of minimum acceptable bids, solicitation, bidding, award, security, and roles and responsibilities of the participants
- RIK anticipates completion of these procedures by February 2009



Recommendation Two

- **OIG Recommendation:**
 - *Obtain legal review of all existing contract documents and implement changes as appropriate.*
- **MMS Response:**
 - Similar to RPC Subcommittee recommendation that MMS secure dedicated legal support
 - The Office of the Solicitor (SOL) and MMS already had agreed to establish an attorney position dedicated to the RIK program
 - The new attorney has been onboard as of August 4th, 2008
 - Attorneys have been working closely with personnel in procurement and RIK Program offices



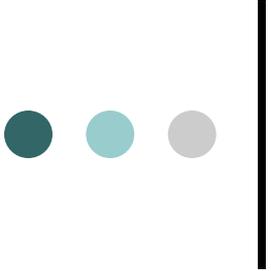
Recommendation Three

- **OIG Recommendation:**

- *In consultation with the SOL and the Procurement Office, develop guidelines for oil sales contracting and implement guiding principles and processes. Specifically, RIK should either identify whether there is existing guidance, or in the absence of existing guidance, identify aspects of the FAR or any other contract-related regulations that could be adapted to the process to provide greater control.*

- **MMS Response:**

- The MMS has been using standard industry contracts
- RIK will coordinate and consult with the SOL in review and development of any contractual terms that need to be strengthened for future sales
- The Western Administrative Service Center Procurement Offices provides advice for all RIK sales
- We anticipate completion of the contract sales review and any resulting changes by February 2009



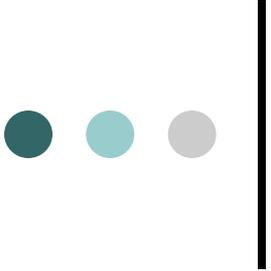
Recommendation Four

- OIG Recommendation:

- *In a comprehensive staffing plan, RIK should address staffing needs, position qualifications, and training. This plan should also include rotation of responsibility for properties on a periodic basis to foster objectivity and independence, and cross-training of staff to ensure business continuity in the Oil Front Office.*

- MMS Response:

- The RIK Program developed a personnel plan in response to the RPC report that addresses:
 - Staffing Needs
 - Position Qualifications
 - Training
- RIK completed in August 2008



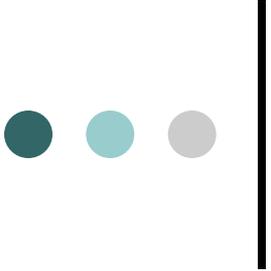
Recommendation Five

- OIG Recommendation:

- *RIK should implement a pilot project to evaluate the viability of other sales methods, such as the FCC's simultaneous multiple-round auction or an outside marketing agent.*

- MMS Response:

- Similar to the RPC Subcommittee's recommendation
- In April 2007, staff from the RIK Program visited the FCC Offices in Washington, D.C. and received a demonstration of their auction process
- A pilot project would be appropriate only after MMS reviews the literature and analyzes alternative auction types
- MMS will evaluate alternative auction types by April 2010



Recommendation Six

- OIG Recommendation:

- *To reduce the workload and administrative costs, RIK should use longer term oil sales contracts.*

- MMS Response:

- The MMS offered both 6-month and 12-month contracts in its unrestricted oil sale held on August 12, 2008
- For this sale, 10 of 11 packages were sold for a 12-month term
- RIK is currently evaluating the results of this sale and further analysis will be done for each bid package in future sales