

# **Implementation Report**

## **Reorganization of the Minerals Management Service**

**July 14, 2010**

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## Executive Summary

*“Our reorganization is not cosmetic, it is systemic... [W]hat we have done under the Secretarial Order and will be implementing is a complete reconstruction of the MMS function.”*

-Secretary Ken Salazar – June 9, 2010

Secretary Salazar announced the restructuring of the Minerals Management Service (MMS) on May 19, 2010, by issuing Secretarial Order No. 3299. By this Order the Secretary separated the responsibilities currently performed by MMS and reassigned those responsibilities to the newly established Office of Natural Resources Revenue (ONRR), the Bureau of Ocean Energy Management (BOEM) and the Bureau of Safety and Environmental Enforcement (BSEE).<sup>1</sup> The Order further established a process for providing the Secretary with an Implementation Plan for the restructuring, which is the substance of this document.

The reorganization of MMS is a substantial endeavor that will pose significant challenges. The reorganization process must be planned both to achieve important structural goals and to engage employees and managers in an important and precedent-setting governmental transition. Internal and external communications will be critical throughout this process of change.

The structure established in the Secretarial Order is based on the premise that the missions within MMS – including Outer Continental Shelf (OCS) resource management, safety and environmental oversight and enforcement, and revenue collection – need to be clearly defined and distinct from each other. The following section briefly describes the missions and roles of each of the three new organizations, as well as the Investigations and Review Unit established by Secretarial Order 3304 on June 29, 2010.

### Office of Natural Resources Revenue

*The mission of the Office of Natural Resources Revenue is to ensure the full and fair return to the American people of royalties and other monies owed for the utilization of public resources in the production of conventional and renewable energy and mineral resources both onshore and in the OCS.*

The ONRR will help ensure that every dollar due to the public (which owns the resources), is received, accounted for and appropriately distributed. The means of collecting royalties, rents, and other revenues must be transparent and robust. The new Office will report to a Deputy Assistant Secretary for Natural Resources Revenue Management and Oversight within the Office of the Assistant Secretary of Policy, Management and Budget.

### Bureau of Ocean Energy Management

*The mission of the Bureau of Ocean Energy Management is to foster environmentally responsible and appropriate development of the Outer Continental Shelf for both*

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<sup>1</sup> Secretarial Order No. 3302, dated June 18, 2010, changed the name of MMS to the Bureau of Ocean Energy Management, Regulation, and Enforcement. For ease of reference and consistency with prior orders and documents related to the planned reorganization, this Implementation Report generally refers to the legacy agency subject to reorganization as MMS.

*conventional and renewable energy and mineral resources in a manner that is efficient and effective, and that ensures the American people receive fair market value for the rights conveyed.*

The BOEM will function as the resource manager for conventional and renewable energy and mineral resources on the Outer Continental Shelf. The BOEM will be the primary contact for the public (including coastal states) interested in energy uses of the Federal offshore estate, amounting to some 1.7 billion acres. The BOEM will be headed by a Director under the supervision of the Assistant Secretary for Land and Minerals Management.

#### **Bureau of Safety and Environmental Enforcement**

*The mission of the Bureau of Safety and Environmental Enforcement is to promote and enforce safety in offshore energy exploration and production operations and assure that potential negative environmental and other impacts on marine ecosystems and coastal communities are appropriately considered and mitigated.*

Applying independent regulation, oversight, and enforcement powers, BSEE will develop and enforce policy, rules, and regulations related to safe and environmentally sound development of OCS energy resources. Its program will include necessary engineering and safety reviews, inspecting operations for compliance, approving spill response plans, and reviewing National Environmental Policy Act (NEPA) activities. The new Bureau will be headed by a Director under the supervision of the Assistant Secretary for Land and Minerals Management.

#### **Investigations and Review Unit**

In addition to the reorganization of MMS, the Secretary issued a Secretarial Order establishing an Investigations and Review Unit (IRU) within the Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE), formerly MMS. The purpose of the IRU is to establish the internal capability in BOEMRE to: (1) promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by BOEMRE employees as well as by industry; (2) oversee and coordinate BOEMRE's internal auditing, regulatory oversight and enforcement systems and programs; and (3) assure BOEMRE's ability to respond swiftly to emerging issues and crises, including significant incidents such as spills and accidents. As appropriate, the IRU's functions and capabilities will continue in the new organizations.

#### **Summary Objectives and Implementation Timeline**

The DOI is undertaking this restructuring in the context of the following central objectives:

- Eliminate real and perceived conflicts within the existing organization by creating separate entities focused on each of the critical elements of MMS's current mission, namely responsible resource development; safety and environmental protection and enforcement; and effective and appropriate revenue collection;
- Provide each organization with the structure and necessary resources to successfully achieve its individual mission and objectives;
- Establish necessary checks and balances in the relationship among the three new entities, so stakeholders can be assured that all mission elements are appropriately addressed;
- Maintain critical linkages among the three organizations to provide a predictably administered offshore energy and minerals development and regulatory program;
- Support enhanced offshore renewable energy production; and
- Provide effective and appropriate administrative support for each new entity without creating unnecessary redundancy.

The Implementation Plan balances the imperative to move quickly with necessary analysis and planning required to effectively achieve each of the above objectives. Specifically, we must engage productive and effective employees in the process of change; undertake detailed process mapping and redesign; address facilities needs; fully evaluate budgetary impacts and needs; evaluate existing employee skills; recruit new talent; and establish information technology (IT) plans. Timing and planning will be affected by ongoing Deepwater Horizon spill response efforts, as well as the organizational attention required to identify and implement new safety regulations.

The Office of Natural Resources Revenue can be transitioned most quickly and will begin operations on October 1, 2010, with the transfer of the largely intact Minerals Revenue Management function to the Assistant Secretary for Policy, Management and Budget. The Plan calls for further analysis and optimization of the operation following the transition.

The Plan envisions 6 months of detailed analysis and planning to establish the new Bureau of Ocean Energy Management and Bureau of Safety and Environmental Enforcement, with a phased implementation program beginning in January 2011 and continuing for at least the following 12 months.

## **Reorganization of the Minerals Management Service**

### **Introduction and Background**

The Minerals Management Service was created by Secretarial Order on January 19, 1982. Since its inception, MMS has been challenged by real and perceived conflicts of interest.

These challenges have been identified in critical reports issued by the Office of the Inspector General (OIG) and the Government Accountability Office (GAO) describing ethical lapses, structural weaknesses in auditing, and other management issues. Beginning in January 2009, the new Administration initiated significant reform efforts with respect to MMS, including the publication of the MMS Code of Ethics and new ethics training at MMS offices. Further the troubled Royalty-in-Kind program, which had been the subject of numerous OIG and GAO reports, was terminated.

The new Administration has taken a new direction in the leasing program as well. The public comment period for the previous Administration's Draft Proposed 5-Year Program for the Outer Continental Shelf (OCS) was extended by 180 days. Lease sales were cancelled in the Chukchi and Beaufort Seas and the North Aleutian Basin, as well as offshore Virginia, because of concerns about their potential environmental or community impacts. On March 31, 2010, the Secretary and the President announced a new and balanced strategy for exploring and developing oil and gas resources on the OCS. The plan proposes consideration of development – in the right ways and in the right places – that would provide order and certainty to industry and investors and deliver a fair return to American taxpayers for the use of these public resources.

Reorganization is not the sole means of addressing the problems in offshore energy management, but it is an essential element of a broader program that includes major new safety requirements, investigation of the Deepwater Horizon accident, legislative and regulatory reform, and programs to enhance enforcement and inspection activity.

### **Overview**

The Deepwater Horizon tragedy and the resulting BP oil spill in the Gulf of Mexico have underscored the need for fundamental structural and functional reform of MMS.

The structure established in Secretarial Order No. 3299 reflects DOI's conclusions regarding how best to achieve the goals of mission independence, appropriate checks and balances, and rigorous oversight, while maintaining ongoing communication and coordination necessary to facilitate an effective, efficient, and predictable process.

Specifically, MMS's successor organization will be divided into three new entities. First, the Office of Natural Resources Revenue will perform the roles of the former Minerals Revenue Management organization and report to the Assistant Secretary for Policy, Management and Budget. Second, the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement will divide the duties of the former Offshore Energy and Minerals Management organization, with the former managing the development of conventional and renewable resources and minerals on the OCS, and the latter providing safety and environmental oversight. These new Bureaus will report to the Assistant Secretary for Land and Minerals Management.

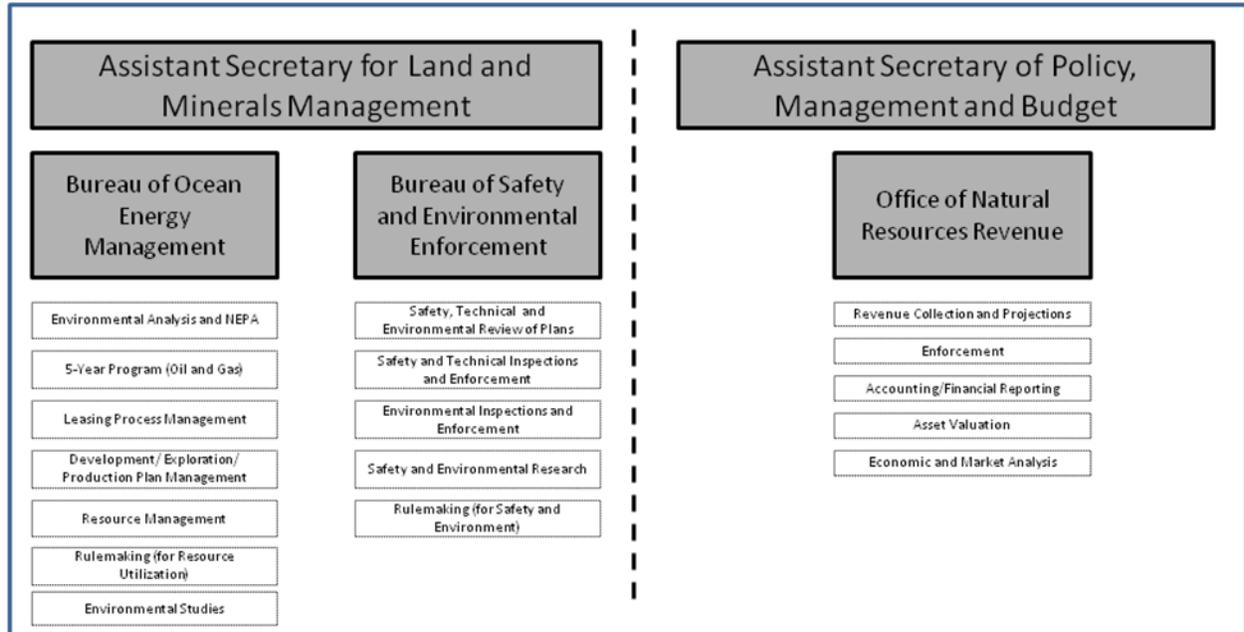
In addition to the reorganization of MMS, the Secretary ordered the establishment of an Investigations and Review Unit (IRU) within the Bureau of Ocean Energy Management, Regulation, and Enforcement (BOEMRE), formerly MMS. The purpose of the IRU is to establish the internal capability in BOEMRE to: (1) promptly and credibly respond to allegations or evidence of misconduct and unethical behavior by BOEMRE employees as well as by industry; (2) oversee and coordinate BOEMRE's internal auditing, regulatory oversight and enforcement systems and programs; and (3) assure BOEMRE's ability to respond swiftly to emerging issues and crises, including significant incidents such as spills, accidents and other crises. As appropriate, the IRU's functions and capabilities will continue in the new organizations.

The diagrams below depict the pre- and post-reorganization structures within DOI:

Pre-reorganization



## Post-reorganization



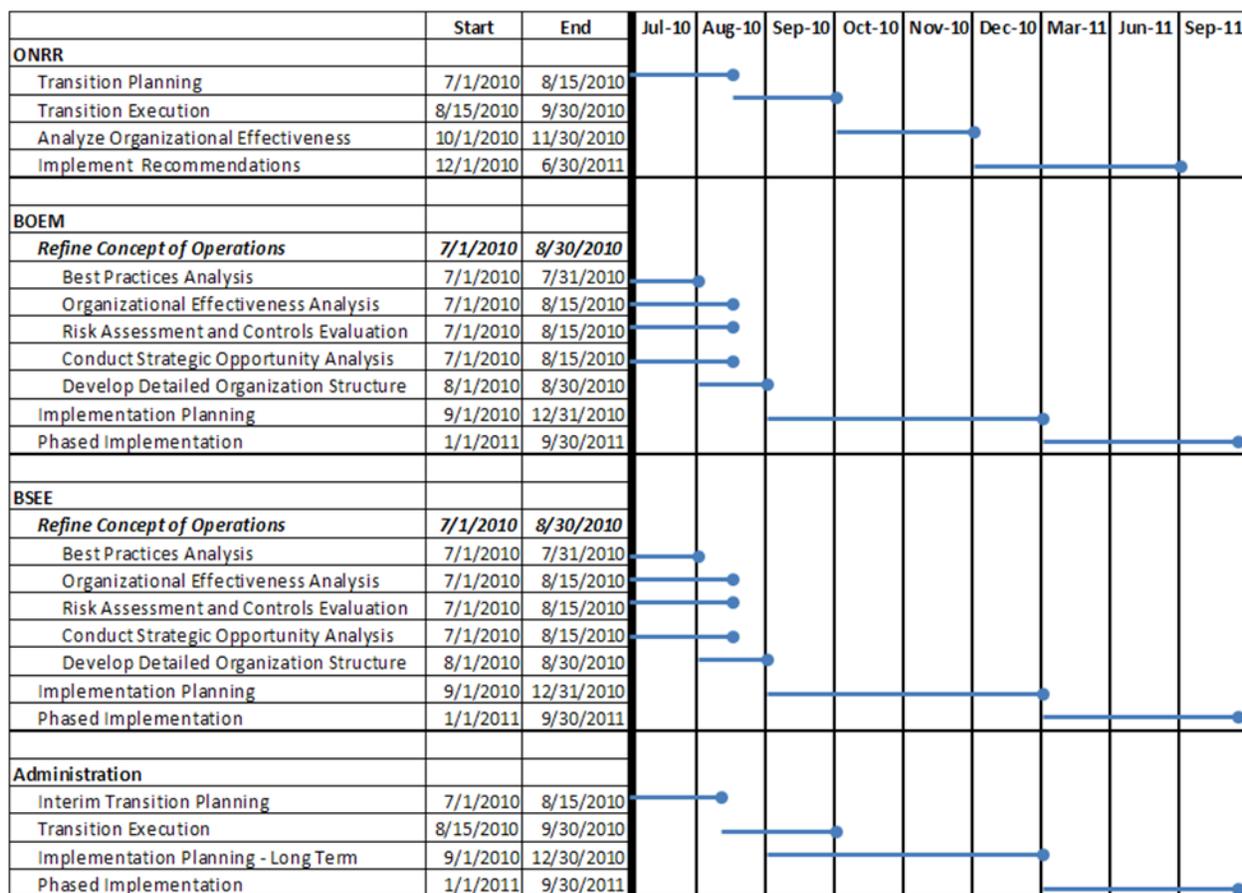
The Implementation Plan balances the need for an expedited transition with the extensive analysis and planning required to successfully implement an organizational change of this scope and complexity.

Among other things, we must engage and involve employees, undertake detailed process mapping and design, address facilities needs, fully evaluate effects on budgets, evaluate existing employee skills, recruit new talent, and establish information technology plans. Timing and planning must take into account ongoing BP oil spill response efforts, and the organizational attention required to implement new safety regulations.

The ONRR will be transferred to the Office of the Assistant Secretary for Policy, Management and Budget. This process can proceed on an accelerated timetable with the objective of making the transfer on October 1, 2010.

The creation of the Bureau of Ocean Energy Management and the Bureau of Safety and Environmental Enforcement will be more complex. The two Bureaus will be created from a single bureau in which functions and process are tightly interconnected, making the separation complicated and demanding. For that reason, the task of separating the bureau into two new Bureaus will require a careful and deliberate process to clearly define how roles and responsibilities will be divided, how ongoing interactions will be managed, what administrative resources each entity will need, where and when new personnel will be added, etc. Thus, the Plan calls for 6 months of employee engagement and communication, detailed analysis, and planning to effect the creation of the new Bureau of Ocean Energy Management and Bureau of Safety and Environmental Enforcement, with a phased implementation beginning in January 2011 and continuing for at least the following 12 months.

The chart below provides an overview of the implementation for ONRR, BOEM and BSEE, and administrative functions.



## Office of Natural Resources Revenue

### Mission

*The mission of the Office of Natural Resources Revenue is to ensure the full and fair return to the American people of royalties and other monies owed for the utilization of public resources in the production of conventional and renewable energy and mineral resources both onshore and in the OCS.*

### Functional/Organizational Overview

The new office will report to a Deputy Assistant Secretary for Natural Resources Revenue Management and Oversight within the Office of the Assistant Secretary for Policy, Management and Budget. The ONRR will be responsible for collecting and disbursing funds which have recently averaged \$13 billion per year. Collections come from the Bureau of Land Management, the Bureau of Indian Affairs, and BOEM energy programs -- from the development of oil and gas resources, renewable sources (including geothermal), coal, lead, limestone, phosphates, potash, and other minerals. The office will perform a variety of critical functions in pursuit of its mission, including:

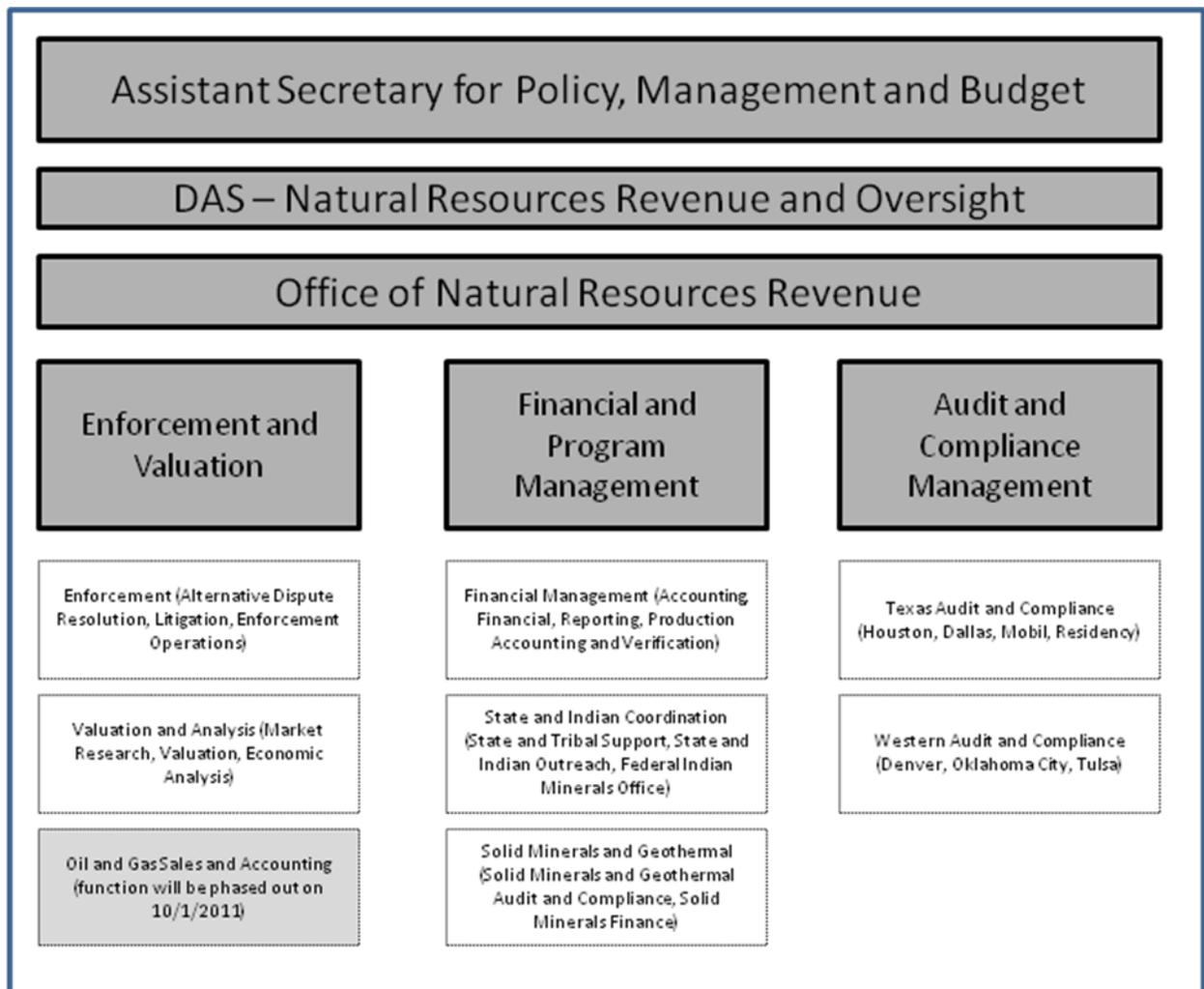
- Transparent and robust collections of royalties, rents, fees, and other revenues.
- Vigorous auditing of industry in compliance with the terms of each lease.
- Enforcement against violators.

- Development of regulations with respect to revenue valuation and collection and enforcement activities.
- Assessment of civil and criminal penalties related to royalty and revenue collection.
- Cooperate with criminal investigations and prosecutions.
- Asset management.

The ONRR will include the following components:

- Enforcement and Valuation. The Valuation and Analysis function includes market research, valuation, and economic analysis. Enforcement operation actions range from informal resolution through legal action. The Oil and Gas Sales and Accounting program, also known as the Royalty in Kind (RIK) program, will wind down over the next year with final closeout by September 2011.
- Financial and Program Management. Financial and Program Management includes accounting and financial management; coordination of state and Indian audits; and solid minerals and geothermal audit and compliance and financial reporting.
- Audit and Compliance. Audit and Compliance includes lessee investigation and accountability, with units in Denver, Houston, Dallas, Oklahoma City, and Tulsa.

A high level organization chart for the new ONRR is shown below:



## Implementation Timeframe

The Minerals Revenue Management function will be moved to the Office of the Assistant Secretary for Policy, Management and Budget as the Office of Natural Resources Revenue by October 1, 2010. A 45-day transition planning period will begin in July 2010, focusing on identification of transition risks and mitigation strategies for the migration. Implementation issues will be identified such as assessing the impacts to budget, workforce, business processes and functions, systems and information technology, physical location and administrative functions. Equally important will be the impact of the planned migration on completing modifications to address recommendations from the OIG, GAO, and Royalty Policy Committee. Mitigation strategies will be developed to address the implementation issues and an accelerated implementation plan will be developed. The execution of the implementation plan will occur from mid-August to the end of September in preparation for the target October 1, 2010 migration.

After the migration is complete, we will undertake a 60-day organizational effectiveness analysis to identify opportunities to improve performance in all areas of ONRR operations. This will include a risk assessment to identify risks inherent in the existing organizational structure and business processes, as well as an assessment of the adequacy of existing controls. At the conclusion of the 60-day period, a set of recommendations regarding organizational structure, internal controls, checks and balances, and performance metrics will be developed. The recommendations will be prioritized and implemented in a phased manner over at least 6 to 12 months.

## Bureau of Ocean Energy Management

### Mission

*The mission of the Bureau of Ocean Energy Management is to foster environmentally responsible and appropriate development of the Outer Continental Shelf for both conventional and renewable energy and mineral resources in a manner that is efficient and effective, and that ensures the American people receive fair market value for the rights conveyed.*

### Functional/Organizational Overview

The BOEM will function as the resource manager for conventional and renewable energy and mineral resources on the Outer Continental Shelf. It will be the primary contact for the public, including coastal states, interested in offshore energy development issues. The BOEM will be headed by a Director under the supervision of the Assistant Secretary for Land and Minerals Management. The Bureau will manage and oversee the following activities:

- OCS resource planning processes, including developing the 5-year plans
- NEPA reviews at all relevant phases
- Leasing
- Rulemaking with respect to resource access and utilization
- Plan reviews
- Issuance of any applicable permits<sup>2</sup>
- Lease adjudication (including approval of lease assignments and establishment of bond requirements)

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<sup>2</sup> The division of various permitting processes between BOEM and BSEE will be subject to further analysis during the implementation of the reorganization.

- Resource management decisions, such as timing of reservoir abandonment and shared reservoir issues
- Environmental studies program

To provide an important and equitable voice for environmental concerns within the BOEM decision-making, the environmental function will be structured within a separate line of reporting answering to the Bureau Director. The new organization and process will also include enhanced review of environmental decisions by BSEE.

## Implementation Timeframe

The implementation process will begin in July with a 60-day effort to develop a new concept of operations and organizational structure for BOEM. This process will incorporate many elements, including:

- A detailed analysis of the current MMS organization to identify opportunities for improvement and document critical interdependencies that will require careful coordination as the new organizations are designed.
- An assessment of the risks inherent within the existing organization and business processes, and the adequacy of existing controls in mitigating those risks.
- An evaluation of measures necessary to effectively support the development of renewable energy in the OCS.
- A strategic assessment to identify opportunities for improvement based on domestic and international best practices, technology trends and advances, and recommendations and advisories produced by OIG, GAO, and others.

These efforts will help develop options for the new Bureau's organizational structure.

Having established a new concept of operations, we will initiate a detailed 120-day implementation planning period focused on smooth and effective transition to the new organization. This work will include many different elements, but the following represent some of the most significant efforts required:

- Engagement of and communication with employees.
- Detailed resource planning including human resources, facilities and information technology.
- Refined reporting and decision-making protocols.
- Development of phasing approach for implementation to minimize disruption and potential for performance loss during the transition.
- Detailed internal and external communication plans to support the changes.

The implementation of the BOEM organization is expected to occur in a phased manner over an approximately 9 to 12 month period.

## Bureau of Safety and Environmental Enforcement

### Mission

*The mission of the Bureau of Safety and Environmental Enforcement is to promote and enforce safety in offshore energy exploration and production operations and assure that potential negative environmental and other impacts on marine ecosystems and coastal communities are appropriately considered and mitigated.*

## Functional/Organizational Overview

The BSEE will be headed by a Director under the supervision of the Assistant Secretary for Land and Minerals Management. The BSEE will be responsible for fostering safe and environmentally sound offshore energy operations. In general, BSEE will pursue these objectives through its powers to issue rules and regulations, inspect operations, and pursue enforcement actions. More specifically, BSEE will be responsible for the following activities within the process of energy development on the OCS:

- Review NEPA activities throughout the process, including contributing to the development of mitigation measures.
- Issuance of all safety and environmental protection related rules and regulations.
- Continuing research activities to support evolving regulatory needs as technologies advance.
- Review and approval of spill response plans.
- Providing an independent safety, engineering and technical authorization before any exploration, development or production plans are implemented.
- Inspection of all offshore operations.
- Use of compliance and enforcement tools, including authority to temporarily or permanently suspend development activities as circumstances warrant.

To maintain a functioning and effective process, BSEE will maintain close program coordination with the BOEM.

## Implementation Timeframe

The establishment of BOEM and BSEE must be closely coordinated. Similar to the process for BOEM, BSEE implementation will begin in July with a 60-day process to develop a new concept of operations. This process will incorporate most of the same elements as that for BOEM as well as some others, including:

- An evaluation of the evolving statutory and regulatory environment for implications on the new organization.
- An assessment of best practices from similarly chartered domestic and international regulatory bodies.

These efforts will be used to develop options for an organizational structure.

Having established a new concept of operations, the Department will undertake a detailed 120-day implementation planning period similar to that described above for BOEM. The implementation of the BSEE organization is expected to occur in a phased manner over at least a 9 to 12 month period.

## Administrative Functions

### Functional Overview

The current plan calls for MMS administrative functions to be moved to the Assistant Secretary for Policy, Management and Budget. The MMS Directorate for Administration and Budget supports budget, equal employment opportunity, finance, human resources, information management, and procurement. Staff is primarily located in Herndon, Virginia, with service centers in Colorado and Louisiana.

These offices provide the full suite of administrative services for MMS employees including time and attendance, email and desktop services, funding allocations and financial reporting, facilities and space support, and acquisition and procurement. The MMS has a unique and sophisticated information technology program that provides full client services for email and desktop support. The contract for this set of services is in the second year of a five-year period. In addition, the MMS has deployed the new Financial and Business Management System (FBMS). Keeping these support services intact will optimize the efficiency of this group of professionals, preserve ongoing operations during the reorganization, and make the best use of FBMS.

In connection with the initiation of the reorganization, maintaining administration and budget functions as a substantially single unit (except for necessary business and budget functions and a PMB liaison, which will be established within each of the new bureaus) has the following benefits:

- Ensure minimal disruption to the ongoing programs that support oil spill response, reorganization, and creation of the two new bureaus.
- Maintain a cadre of professionals with expertise related to ONRR, BOEM, and BSEE programs and who know the people and how to best address their needs.
- Minimize duplication of administrative entities across three entities.
- Allow for a timely reorganization with uninterrupted support for the new Bureaus.
- Provide a centralized administrative function that can, over time, allow Department to pursue additional efficiencies.
- Enable the Department to take advantage of the email and desktop support contract, thereby preventing a costly renegotiation.
- Eliminate the need for reassignment of budget or financial services to another entity that would require a costly and wasteful transition to a legacy financial system.
- Provide the best opportunity to retain talented and skilled professionals.
- Maximize the use of the existing staff and grade structure, thereby preventing the need to relocate, reassign, or downgrade staff.<sup>3</sup>

### **Implementation Timeframe**

The Administration and Budget function will be moved to the Office of the Assistant Secretary for Policy, Management and Budget by October 1, 2010, the beginning of FY 2011. A 45-day transition planning period will begin in July focusing on the identification of transition risks and the mitigation strategies for the migration. Implementation issues will be identified to include assessing the impacts to budget, workforce, business processes and functions, systems and information technology, physical location and administrative functions. Implementation plan execution will occur from mid-August to the end of September in preparation for the target October 1, 2010, migration. After migration to the Policy, Management and Budget organization, a long-term implementation planning period will occur in alignment with the operational analysis efforts for ONRR, and the implementation planning for BOEM to BSEE, to ensure the administration and budget functions provide adequate support to each of the three new organizations.

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<sup>3</sup> The structure of administrative and budget functions will be subject to further analysis during the implementation of the reorganization.