IV. Oil and Gas Lessee Qualifications Audit System

Keywords

The qualifications of entities currently holding Federal oil and gas leases are checked for compliance with the MLA through a systematic audit for acreage holdings as described in Section IVA, below. In addition, oil and gas lessees are subjected to an audit to ensure compliance with Section 2(a)(2)(A) of the MLA which was added by Section 3 of the Federal Coal Leasing Amendments Act of August 4, 1976. This section of the MLA prohibits certain holders of Federal coal leases from acquiring new mineral leases (see Section IB10, above). Section IVB, below, describes an annual audit process to verify that current lessees are not in violation of the MLA Section 2(a)(2)(A) prohibition.

A. Qualifications Audit System for Acreage Holdings

QUALIFICATIONS AUDIT SYSTEM - ACREAGE HOLDINGS

The Oil and Gas Lessee Qualifications Audit System, with the centralized qualifications audit functions located in the BLM Wyoming State Office, performed in conjunction with all the BLM State Offices, routinely selects a sample of oil and gas lessees for audit on an annual basis to ensure that unqualified persons or entities do not hold leases or interests therein. See Illustration 4 for a diagram of work flow.

1. Information from Case Recordation System

CASE RECORDATION INFORMATION

Relying heavily on the Automated Land and Mineral Record System (ALMRS) Case Recordation System, the Oil and Gas Lessee Qualifications Audit System checks the following qualifications criteria:

CHARGEABLE ACREAGE

a. Holdings in excess of the maximum allowable acreage for leases in the lower 48 States, as established by 43 CFR 3101.2. Acreage chargeable to a proprietor includes leases held under option, record title ownership, and operating rights ownership. Leases committed to any unit or cooperative plan or subject to an operating, drilling, or development contract, other than communitization agreements, shall not be included in computing accountable acreage. Overriding royalty interests are not chargeable against acreage limitations. Lease applications and competitive bids which have not yet been issued as leases also are not to be included against acreage limitations. Separate acreage limitations per geographic State apply to public domain (PD) minerals and acquired (ACQ) lands minerals.

Keywords

b. Lease interests held by aliens of nonreciprocal countries. Currently there are no countries deemed to be nonreciprocal, i.e., that do not grant reciprocal privileges to United States citizens. Accordingly, this portion of the audit process is not currently performed.

2. Information from Private Publications

INFORMATION FROM PRIVATE PUBLICATIONS

To ensure compliance with pertinent regulatory and statutory requirements relating to qualifications, various non-Government publications, including Directory of Corporate Affiliations, Who Owns Whom (National Register Publishing Co.), and Standard & Poor's Corporation Records (Standard & Poor's Corporation, Publishers), are used by the Central Audit Office in the Wyoming State Office to identify:

INTERRELATED CORPORATIONS

a. Links among corporate proprietors so that leaseholdings by interrelated corporations can be identified and calculated against allowable acreage. The Central Audit Office requests those proprietors who are potentially in violation of 43 CFR 3102 and 3101.2 to submit documentation concerning their qualifications, including their leaseholdings.

NONRECIPROCAL COUNTRIES

b. Corporate lessees owned or controlled by foreign citizens of nonreciprocal countries, whenever this provision should become necessary. However, since none of the nations reviewed to-date by the Department of the Interior has been determined to be nonreciprocal under the MLA, the focus of the Qualifications Audit System currently is on lease acreage holdings of entities.

3. Qualifications Audit Sampling by Central Office

RANDOM AUDIT SELECTION - ACREAGE HOLDINGS

a. Oil and gas lessees are randomly selected for audit by the Central Audit Office. In addition, those proprietors reported to be suspect by the public, State, and Federal agencies, or considered to be suspect by BLM personnel, automatically are to be audited.

Keywords

RANDOM SAMPLING CONDUCTED BY WYOMING STATE OFFICE

b. The Central Audit Office conducts stratified random sampling of lessees to select those lessees to be subjected to an audit. Lease offers and applications are not included in the acreage subject to audit (see 43 CFR 3101.2-3). By the end of the first quarter of each calendar year, the Central Audit Office selects the entities to be audited and initiates the audit procedure with each selected entity. Initially, the total population of lessees is divided into two groups (strata) based on their apparent acreage in leaseholdings according to the Case Recordation System. Each group (strata) is subjected to the sampling procedures discussed below.

4. Defining and Sampling Strata No. 1

AUDIT SAMPLING STRATA NO. 1

a. Using the most current Public Land Statistics, the Central Audit Office identifies those geographic States, excluding Alaska, in which there are more than 500,000 acres of either PD or ACQ minerals under oil and gas lease. (In 1989, there were 11 States with more than 500,000 acres of PD minerals and 3 States with more than 500,000 acres of ACQ lands minerals under oil and gas lease.)

ALMRS M14 REPORT

b. For each of these geographic States, the Central Audit Office runs the Case Recordation Acreage Holding by Proprietors M14 Report using the following selection criteria:

AUDIT SELECTION CRITERIA

(1) Case Type: Select either "2" for Public Domain, or "3" for Acquired, depending on which type of minerals has more than 500,000 acres under lease in that geographic State. In some States, a report needs to be run for each type.

(2) Acreage Level: Enter "050000," i.e., the threshold of 50,000 acres per entity.

(3) Type of Acreage: Select "1" for Chargeable Acres, i.e., leases not committed to a cooperative agreement or plan.

c. Step IVA4b, above, yields Strata No. 1, comprised of approximately 400 names of lessees. The Central Audit Office manually, sequentially numbers each of these named lessees. Lessees whose names appear in more than one acreage report receive more than one number.

Keywords

d. Using a computer random number generator program, the Central Audit Office selects 51 numbers from 1 to the total number of numbered names in step IVA4c, above (from 1 to approximately 400). The selections are made without replacement. The 51 numbers generated are matched with the numbered names. The 51 names selected are the sample for audit from Strata No. 1.

e. If the chargeable acreage indicated on the Acreage Holding by Proprietors M14 Report for the selected sample name is equal to or greater than 200,000, the proprietor is subject to a full audit of leases of that type (PD or ACQ) in that geographic State.

f. If the chargeable acreage is less than 200,000, the proprietor's name is located in the Directory of Corporate Affiliations. The Central Audit Office lists all affiliates of the proprietor which have Standard Industrial Classification (SIC) codes of 1300, 1400, 2900, and 5500. The affiliates are located in the Case Recordation Special Proprietor List M06 Report by the Central Audit Office to see if the affiliates hold any lease interests in the same geographic State in which the proprietor is being audited. A Case Recordation Acreage Figures by Proprietor M07 Report is run for each affiliate in the geographic State for which the proprietor is being audited. If the sum of the acreage held by the affiliates and the proprietor is less than 200,000, the audit for that proprietor stops at this phase.

ALMRS M06 REPORT

ALMRS M07 REPORT

However, if the sum of the chargeable acreage (PD and ACQ lands minerals separately) for the proprietor and its affiliates is 200,000 acres or more, a full audit of the proprietor is required to be conducted.

ALMRS Entry - (1) Case Type 310220 - O&G LESSEE QUAL FILE

AUTOMATED NOTATION

(2) Enter Action Date: Date Case Established and Serialized by Central Audit Office in Wyoming State Office; DE 2960 Action Code 001/DE 2910 Action Code 387; Action Remarks: Optional.

5. Defining and Sampling Strata No. 2

Keywords

AUDIT
SAMPLING
STRATA No. 2

Proprietors not identified by the Case Recordation System as having more than 50,000 chargeable acres in their own name are not likely to be in violation of the acreage limitation. The number of such proprietors is about 11,000. To perform an audit of a statistically valid sample, assuming an incidence of violation of 10 of every 2,000 (plus or minus 5), would require a sample size of 796. Auditing such a large sample with such a small expected incidence of violation is not cost effective or warranted. Therefore, a smaller, varying number of proprietors is selected to be audited in order to provide a reasonable level of deterrence from violating any of the qualifications criteria. The following method is used to select proprietors from this group for audit:

a. The Central Audit Office runs the Special Proprietor List M06 Report to provide a listing of all proprietors in the Case Recordation System, the number of leases in which they have an interest, and the administrative State in which the leases are located. There are approximately 700 double pages presently in the proprietor index, each containing 47 names. The Central Audit Office must sequentially number each double page from 1 to 700.

b. Using a computer random number generator program, the Central Audit Office selects 33 odd numbers from 1 to 700 (plus or minus, depending on the number of pages). Again, using the computer, The Central Audit Office selects one random number between 1 and 94 and choses the proprietor for that number from each group. For example, if the number generated is 18, the 18th name is selected in each group of 94 names. This yields the names of 33 proprietors' to audit. If any of the 51 names drawn was selected previously for audit in Strata No. 1 due to acreage holdings, such proprietors are to be deleted from this Strata No. 2 sample, with a new name randomly drawn from the same group of 94 as a replacement for each such case.

Keywords

c. Using the Special Proprietor List M06 Report, the Central Audit Office identifies the administrative State in which the proprietor has the greatest number of leases. If the proprietor has an interest in 24 or fewer leases [246,080 (maximum allowable acreage) = 245,760 acres divided by 10,240 (maximum noncompetitive lease size) = 24 (nearest whole number)] in any administrative State, the audit is complete and stops at this phase. If the proprietor has an interest in more than 24 leases, the Central Audit Office runs a Acreage Figures by Proprietor M07 Report by proprietor name.

d. The selection criteria for the Acreage Figures by Proprietor M07 Report in Step IVA5c, above, are the following:

AUDIT SELECTION CRITERIA

(1) Administrative State: A report for the administrative State in which the proprietor has an interest in more than 24 leases is run by the Central Audit Office. The Central Audit Office then determines the geographic State in which the proprietor has the greatest number of leases.

(2) Geographic State: The Central Audit Office then runs a report for each geographic State in which the proprietor has more than 24 leases and more than 500,000 acres of PD or ACQ minerals under lease in the administrative State selected.

(3) Disposition code selected is "5" (Authorized Cases).

(4) Case group/case type selected is "31" (Oil and Gas).

(5) Proprietor: The Central Audit Office examines the various name entries found in the Special Proprietor List M06 Report for the name selected.

NOTE: The beginning of the name entry that is common to all or most of the name entries for that proprietor is entered, e.g., if ABC CORP. is listed as ABC CO., ABC INC., ABC PROD. CO., and ABC OIL, enter only ABC.

Keywords

(6) Name Category: Select all. If this report shows that the proprietor may have chargeable acreage of 200,000 or more acres in a geographic State (PD and ACQ minerals separately), the proprietor is required to be subjected to a full audit.

e. If the chargeable acreage is less than 200,000, the proprietor's name is to be researched using the Standard and Poor's, Dun & Bradstreet, etc., publications indicated in Step IVA4f, above, to identify affiliated entities. An Acreage Figures by Proprietor M07 Report is run by the Central Audit Office for each affiliate in the State for which the proprietor is being audited. If the sum of the total acreage held by the proprietor and all related entities is less than 200,000, the audit for that proprietor stops at this phase.

If the sum of the chargeable acreage (PD and ACQ minerals separately) for the proprietor and its affiliates is 200,000 or more acres, a full audit on the proprietor is required to be conducted.

f. A serialized case file is established by the Wyoming State Office for each selected entity (proprietor) to whom a Notice of Audit is sent (see Illustration 5). A listing of all proprietors sampled is maintained by geographic State and sample data.

CASE FILE ESTABLISHED BY WYOMING STATE OFFICE

ALMRS Entry - (1) Case Type 310220 - O&G LESSEE QUAL FILE

AUTOMATED NOTATION

(2) Enter Action Date: Date Case Established and Serialized by Central Audit Office in Wyoming State Office; DE 2960 Action Code 001/DE 2910 Action Code 387; Action Remarks: Optional.

NOTE: All the above steps (Steps IVA1 through IVA5) are to be initiated and completed during the first quarter of every calendar year.

6. Proprietor Submissions

Keywords

To ensure compliance with 43 CFR 3101.2, all sampled proprietors which appear to have interests in oil and gas leases in excess of 200,000 acres of PD and ACQ minerals separately, in any single State in the lower 48 States, automatically are to be audited. Those proprietors who are audited due to their acreage holdings will be requested by the Central Audit Office, pursuant to 43 CFR 3102.5, to provide the following in response to a Notice of Audit (see Illustration 5).

NOTICE OF AUDIT

a. An itemized list of all holdings in Federal oil and gas leases for the specific geographic State, including operating rights and options (but not overriding royalty interests).

PROPRIETOR DOCUMENTS SUBMITTED

b. Information as to whether leases are included in unit or cooperative plans, or are subject to an operating, drilling, or development contract approved by the authorized officer (see Illustration 6).

NOTE: When a lease overlaps the unit boundaries and part is in and part is outside of the unit, due to contraction of the unit, when the audit information is submitted, the lease serial number should be shown twice, listing the acreage which is inside the unit boundary and the acreage which is outside. The acreage in the unit is not chargeable.

c. The data requested from the subject proprietor is required to be current as of the date that the Acreage Figures by Proprietor M07 Report is run by the Central Audit Office.

d. Documentation verifying qualifications with respect to alien interests (when appropriate).

e. Submission of the requested information to the BLM Wyoming State Office within 60 days, with an extension of an additional 30 days granted if the proprietor makes such a request prior to the termination of the 60-day period.

ALMRS Entry - Enter Action Date: Date Acreage Audit Information is Requested from Proprietor; DE 2960 Action Code 112/DE 2910 104; Action Remarks: AC Int State).

AUTOMATED NOTATION

7. Notification to State Office of Audit

Keywords

At the same time the notice of audit is sent to the proprietor, the Central Audit Office notifies the appropriate State Office that an audit is being initiated (see Illustration 7).

STATE OFFICE NOTIFIED OF PROPRIETOR AUDIT

8. Central Audit Office Review

a. Upon receipt of the requested documentation from the proprietor, the Central Audit Office reviews the lease interests indicated by the proprietor, including that of all other related entities, to determine if additional information is required. When all relevant information is received, the Central Audit Office compares the gross acreages submitted by the subject proprietor with those identified on the Acreage Report M07. This review and comparison is to be completed within 30 days of receipt of the information from the proprietor.

COMPARISON OF PROPRIETOR DATA SUBMITTED WITH ALMRS M07 REPORT

ALMRS Entry - Enter Action Date: Date Information Received from Proprietor in Central Audit Office; DE 2960 Action Code 113/DE 2910 Action Code 103; Action Remarks: AC Int.

AUTOMATED NOTATION

b. If the review of the gross acreages provided by the proprietor indicates that the entity is likely to be in compliance with acreage limitations, the information is forwarded to the appropriate State Office so that its records and the Case Recordation System can be reconciled with the data submitted by the proprietor (see Illustration 8).

DATA FROM PROPRIETOR SENT TO STATE OFFICE TO RECONCILE RECORDS

ALMRS Entry - Enter Action Date: Date Report Requested from State Office by Central Audit Office; DE 2960 Action Code 152/DE 2910 Action Code 910; Action Remarks: Compliance Likely.

AUTOMATED NOTATION

c. The proprietor is informed by the Central Audit Office of the preliminary results of the audit, and that the appropriate State Office may contact it to reconcile records (see Illustration 9).

NOTIFY PROPRIETOR OF PRELIMINARY RESULTS

NOTE: Except where the reconciliation by the State Office indicates significant problems with the information submitted, to the extent that an audit may be justified, this step will end the review by the Central Audit Office.

Keywords

d. If the review of the gross acreages provided by the proprietor indicates a likely violation of the acreage limitations, the data is forwarded to the appropriate State Office for audit, including the reconciliation and determination of chargeable acreage. The appropriate State Office must contact the subject proprietor for any additional information relating to reconciliation of data or divestiture of acreage. When the audit is complete, the appropriate State Office must inform the Central Audit Office (see Illustration 10). For procedures for divestiture of excess acreage, see H-3101-1.

DATA FROM PROPRIETOR FORWARDED FOR STATE OFFICE AUDIT

ALMRS Entry - Enter Action Date: Date Report Requested from State Office by Central Audit Office; DE 2960 Action Code 152/DE 2910 Action Code 910; Action Remarks: Compliance Violation Likely.

AUTOMATED NOTATION

9. State Office Adjudicative Action

a. The Central Audit Office forwards the data received from the subject proprietor to the appropriate State Office for either reconciliation or audit. Such reconciliation or audit must be completed by not later than the end of the third quarter of each calendar year.

b. If the file is forwarded for reconciliation purposes only, the appropriate State Office has the discretion to conduct a lease-by-lease comparison of the data submitted by the subject proprietor against that contained in the Acreage Figures by Proprietor M07 Report. Only data for which the BLM maintains accurate case file documentation will be verified and corrected in the Case Recordation System. If questions arise during the reconciliation process, the State Office is to directly contact the subject proprietor as necessary. The proprietor will already have been informed by the Central Audit Office that an initial review of data indicates compliance with acreage limitations. Therefore, further communication relating to that topic is not necessary from the State Office unless a large discrepancy between the proprietor data and State Office records is discovered.

RECONCILIATION COMPARISON OF DATA BY STATE OFFICE

Keywords

c. Upon completion of the State Office reconciliation of records and the Case Recordation System, the State Office is to notify the Central Audit Office that the review is completed (see Illustration 10).

ALMRS Entry - Enter Action Date: Date Report is Received from State Office that Compliance Review is Completed; DE 2960 Action Code 153/DE 2910 Action Code 911; Action Remarks: In compliance or not in compliance.

AUTOMATED NOTATION

NOTE: If in compliance - Enter Action Date: Date Case Closed Upon State Office Report Indicating Compliance Met; DE 2960 Action Code 967/DE 2910 Action Code 967; Action Remarks: Optional.

d. In the event that State Office reconciliation finds a discrepancy that indicates violations of acreage limitations, the State Office is to inform the Central Audit Office that the State Office will conduct an audit. The audit is to be conducted as described in Step IVA9e, below.

REQUEST BY STATE OFFICE FOR AUDIT

e. When a possible violation of the acreage limitations is indicated in the Central Audit Office review of the data submitted by the proprietor and all related entities, the data from the Central Audit Office is forwarded to the State Office for an audit. The audit by the State Office initially involves verification of approximate chargeable acreages. Record title interests, options, and operating rights are to be verified. Overriding royalty interests and pending lease offers or competitive bids are not chargeable against acreage limits. Verification means comparison of the proprietor-submitted records with data contained in the case files and/or the Case Recordation System, although abstracting by the State Office may be appropriate in certain specific cases (except no abstracting of operating rights transfers should be made). Also, verification does not imply reconciliation of very minor variances in reported data (either from the proprietor or the Central Audit Office), unless it is likely to materially affect compliance with the regulations and the MLA. Verification by the State Office is to be made by the following procedures:

AUDIT - VERIFICATION AND RECONCILIATION BY STATE OFFICE

Keywords

(1) The lease serial numbers submitted by the proprietor are compared against the Acreage Figures by Proprietor M07 Report. Case abstracts of the serial numbers on the M07 Report that are not on the proprietor submission are to be run from the Case Recordation System. If the proprietor does not have a present interest in the lease, the chargeable acreage is to be subtracted from the M07 Report total. Check the case file of any lease serial number on the proprietor submission that is not on the M07 Report. If necessary, correct the Case Recordation System by adding the acreage to the M07 Report acreage total.

(2) The audit stops at this phase if the proprietor-submitted acreage total and the M07 Report's adjusted acreage total both are less than 246,080 acres (including all related entities' acreages).

(3) Upon completion of the State Office audit of records and the Case Recordation System, the State Office is to notify the Central Audit Office that the audit is completed (see Illustration 10).

(4) If the M07 Report's adjusted acreage is more than 246,080 acres, the case files of those leases with the largest acreage discrepancies between the M07 Report and the proprietor's submission are to be reviewed, with corrections made to the Case Recordation System as necessary. In accordance with 43 CFR 3101.2-3, leases committed to any unit or cooperative plan, other than communitization agreements, and leases subject to an operating, drilling, or development contract are not included in computing chargeable acreage. After any such subtractions, if the M07 Report's adjusted acreage is decreased below 246,080 acres, the audit stops at this phase.

(5) Upon completion of the State Office audit of records and the Case Recordation System, the State Office is to notify the Central Audit Office that the audit is completed (see Illustration 10).

Keywords

ALMRS Entry - Enter Action Date: Date Report is Received from State Office that Audit is Completed; DE 2960 Action Code 153/DE 2910 Action Code 911; Action Remarks: In compliance or not in compliance.

AUTOMATED NOTATION

NOTE: If in compliance - Enter Action Date: Date Case Closed Upon State Office Report Indicating Compliance Met; DE 2960 Action Code 967/DE 2910 Action Code 967; Action Remarks: Optional.

(6) If significant discrepancies in the data cannot be reconciled, the State Office is to contact the proprietor to resolve the problem as necessary.

NOTE: Normally it will not be necessary to reconcile data, such as options or operating rights, which are not maintained precisely in the Case Recordation System.

(7) If the audit reveals that a proprietor is exceeding the acreage limitations, the State Office is to initiate action to require divestiture to bring the proprietor into compliance (see H-3101-1). Initiation of this action by the State Office is to be made not later than by the end of October each year.

DIVESTITURE

(8) Upon conclusion of the audit, the State Office must inform the Central Audit Office of the results and of the efforts underway or completed which would bring a violator into compliance with the MLA (see Illustration 11). This State Office report is to be completed by the end of November each year.

NOTIFICATION OF AUDIT RESULTS TO CENTRAL AUDIT OFFICE

10. Central Audit Office Adjudicative Action

ALMRS Entry - (1) Enter Action Date: Date Compliance Report Initiated by State Office for Proprietor to Divest Excess Acreage; DE 2960 Action Code 120/DE 2910 Action Code 040; Action Remarks: Optional.

AUTOMATED NOTATION

Keywords

(2) Enter Action Date: Date Report is Received from State Office that Proprietor Completed Compliance Requirements; DE 2960 Action Code 121/DE 2910 Action Code 041; Action Remarks: Optional.

NOTE: When Proprietor in Compliance - Enter Action Date: Date Case Closed When State Office Reports Compliance Met; DE 2960 Action Code 967/DE 2910 Action Code 967; Action Remarks: Optional.

11. Annual Report to Washington Office

a. The Central Audit Office is to prepare an annual summary report on all audit and reconciliation activities conducted by the State Offices each year. This report is to be transmitted to the Washington Office (620) by not later than the end of each December.

ANNUAL AUDIT REPORT TO WASHINGTON OFFICE

b. A copy of each notice and memorandum prepared by the Central Audit Office and each State Office concerning the acreage reconciliation and audit for each entity selected also must be provided to Washington Office (620) in order to monitor the activities and progress of the Oil and Gas Lessee Qualifications Audit System.

COPIES OF NOTICES AND MEMORANDUMS PROVIDED TO WASHINGTON OFFICE

c. A final report concerning the annual activities of the Qualifications Audit System is to be prepared by Washington Office (620), with transmittal to the Assistant Director, Energy and Mineral Resources not later than January each year.

FINAL REPORT TO ASSISTANT DIRECTOR ANNUALLY

B. Qualifications Audit of Federal Coal Lessees and Related Entities

Keywords

1. General

Annual audits have been conducted beginning with calendar year 1988 to ascertain whether certain holders of Federal coal leases and related entities are in compliance with the provisions of Section 2(a)(2)(A) of the MLA (see Section IB10, above). These audits are conducted solely by the Central Audit Office.

ANNUAL AUDITS OF COAL LESSEES

Section 2(a)(2)(A) of the MLA requires that any entity that holds and has held a Federal coal lease for 10 years beginning on or after August 4, 1976, and who is not producing coal in commercial quantities from each such lease, cannot qualify for the issuance of any other mineral lease granted under the MLA. This deadline was extended to December 31, 1986, by the Department of the Interior Appropriations Act for Fiscal Year 1986.

By a Federal Register notice published on December 19, 1986 (51 FR 45559), the public was advised that the Bureau-approved oil and gas lease Form 3100-11 has been modified so that prospective oil and gas lessees now certify by signature that they are in compliance with the qualifications requirement of Section 2(a)(2)(A) of the MLA.

Keywords

2. Audit Procedures for Section 2(a)(2)(A)

The following methodology is used in conducting the annual audits of self-certification to determine if oil and gas leases were acquired in violation of Section 2(a)(2)(A) of the MLA. As the prohibition was effective beginning on December 31, 1986, the first audit, as initiated in January 1988, covered the preceding calendar year. Annual audits are conducted by the Wyoming State Office Central Audit Office in January of each year for leases acquired by entities in the previous year.

LIST OF POTENTIALLY PROHIBITED ENTITIES - MLA SECTION 2(a)(2)(A)

a. The initial identification of firms and related entities potentially prohibited from holding other Federal mineral leases is prepared by the Washington Office using an auxiliary file to the Solid Leasing Minerals System (SLMS). This file contains the current total number of coal lessees and coal leases which are estimated to have the greatest potential of violating Section 2(a)(2)(A) of the MLA. The Washington Office updates this file on a monthly basis with information submitted by the Bureau Field Offices. The type of information submitted includes whether the subject leases: (1) went into qualifying production; (2) were included in a Logical Mining Unit (LMU) or have such applications pending; (3) were relinquished or have such requests pending; or (4) were involved in an arms-length transaction or have such applications pending. Leases/lessees which fall into any one or more of these categories are not subject to the prohibitions and are removed from the file.

b. The Central Audit Office takes a 5 percent random sample of the firms which have appeared during the previous year on the list described in Step IVB2a, above.

c. With the 5 percent sample taken in Step IVB2b, above, the Central Audit Office identifies the subsidiaries, affiliates, and other related entities of those firms not qualified to be issued leases pursuant to Section 2(a)(2)(A) of the MLA. Identification of the firms and all related entities is done using the source materials identified in Step IVA2, above, and the Keystone Coal Industry Manual (McGraw-Hill Publications). Each identified coal company is estimated to have approximately 4 to 5 subsidiaries, affiliates, or other related entities.

Keywords

d. The Central Audit Office verifies whether any of the firms identified in Step IVB2c, above, actually hold or have held oil and gas leases. This involves a manual check of each company against the Special Proprietor List M06 Report.

CENTRAL AUDIT OFFICE VERIFICATION

e. An Acreage Figures by Proprietor M07 Report is run for each of the prohibited companies in each State in which it has acquired an interest in oil and gas leases during the previous year. This report lists the proprietors' names and the serial numbers of those leases held, but does not differentiate whether the lease interests were acquired through record title or operating rights transfers. A second Case Recordation Report, either the Multiple Serial Register Page S03 Report or the Case Listing S04 Report, is run for those leases in which the company has a record title interest. This report displays the date the lease was issued and whether it was acquired directly or through a lease transfer. This step is necessary because Federal oil and gas leases interests acquired by transfer are not in violation and will not have to be audited. Those leases directly acquired are to be reviewed to see if any were obtained after the effective date of the prohibitions, i.e., January 1, 1987. If the case abstract indicates that the proprietor being audited directly acquired the lease on or after January 1, 1987, the Central Audit Office must forward the information to the appropriate State Office for adjudicative action.

f. The appropriate State Office is to audit any leases identified in Step IVB2e, above, to decide if a company was in violation of Section 2(a)(2)(A) of the MLA at the time the subject lease was acquired. This State Office audit must be completed promptly. The company is to be requested to submit information relating to the status of such a lease. Upon receipt, this information is to be used in conjunction with BLM records to determine if a violation has occurred.

STATE OFFICE AUDIT

g. If a violation occurred, the appropriate State Office must initiate cancellation action for each subject lease.

CANCELLATION ACTION