

PERFORMANCE AUDIT  
Management of Oil and Gas and  
Commercial Leasing on State Trust Lands  
Department of Natural Resources and Conservation

OCTOBER 2013

13P-03

REPORT SUMMARY

The Montana Department of Natural Resources and Conservation's (department) controls over the oil and gas bid process ensures that information is secure and not used to inappropriately influence the price of oil and gas leases at public auction. However, the department should more proactively identify commercial leasing opportunities on state trust land to maximize revenue for beneficiaries.

## Context

The department generated over \$20 million in gross revenue from approximately 6,100 oil and gas leases in fiscal year 2013. As for commercial leasing, state law outlines the various requirements of the department for commercial leasing on state trust land, including maximizing the long-term revenue accruing to the beneficiaries by issuing commercial leases on land where the chief value exists in its use for commercial purposes. Commercial leases generated approximately \$5 million in gross revenue in fiscal year 2012. As of March 2013, there are 133 active commercial lease agreements on state trust land.

Audit work determined that the department has controls in place to ensure that oil and gas lease bid information is not used to inappropriately influence sale process at public auction. However, during our review, we determined the department should strengthen commercial leasing activities on state trust land by proactively identifying potential commercial leases, complying with appraisal and request for proposal (RFP) requirements, implementing policies and procedures for RFPs and lease monitoring, and documenting commercial leasing activities.

## Results

Audit recommendations address the need for the department to proactively identify commercial leases on state trust land and strengthen the identification, issuance, and monitoring of commercial leasing activities on state trust land. Conclusions and recommendations include:

- ◆ Controls over the bid process for oil and gas leases protect the integrity of the lease bidding process.
- ◆ Proactively identify and develop commercial leases on state trust land.
- ◆ Set annual rates for commercial leases based on an appraised value of the land, or seek authority for alternative valuation methodologies.
- ◆ Review and approve land appraisals and document appraisal reviews for commercial lease land appraisals.
- ◆ Issue commercial leases to the highest and best bidder responding to department request for proposals.
- ◆ Develop and implement policies and procedures for request for proposals, including scope, scoring, and selection.

- ◆ Develop and implement policies and procedures for the physical and financial monitoring of commercial leases.
- ◆ Develop and implement policies and procedures for documenting commercial leasing activities.

| Recommendation Concurrence                                     |   |
|--|---|
| Concur   | 5 |
| Conditionally Concur   | 2 |
| Do Not Concur  | 0 |
| <b>Source: Agency audit response included in final report.</b> |   |

For a complete copy of the report (13P-03) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <http://leg.mt.gov/audit>  
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