

# Audit Highlights



Highlights of Legislative Auditor report on the Division of Minerals, issued on May 16, 2006. Report # LA06-15.

## Background

The Nevada Division of Minerals, a part of the Commission on Mineral Resources, is responsible for administering programs and activities to promote, advance, and protect mining and the development and production of petroleum and geothermal resources in Nevada. The Commission on Mineral Resources is responsible for advising the Governor and Legislature on mineral related issues. The Commission also adopts the regulations administered by the Division.

The Division focuses its efforts on three main areas: industry relations and public affairs; regulation of oil, gas, and geothermal drilling activities and well operations; and abandoned mine lands. The Division administers the following programs: Abandoned Mine Lands (AML), Reclamation Bond Pool, Education, Mining, and Oil, Gas, and Geothermal.

The Division's offices are located in Carson City and Las Vegas. As of June 30, 2005, the Division had nine full-time employees. In addition, six summer interns were assigned to the AML program. The Division is self-funded primarily from fees and grants and had expenditures totaling approximately \$1 million in fiscal year 2005.

## Purpose of Audit

The purpose of this audit was to evaluate the Division of Minerals' financial and administrative practices, including whether transactions were carried out in accordance with applicable state laws, regulations, and policies. Our audit included a review of the Division's financial and administrative activities for the fiscal year ended June 30, 2005.

## Audit Recommendations

This audit report contains six recommendations to improve the Division's oversight of wells and performance bonds and controls over performance indicators and accounts receivable. Specifically, the Division should witness geothermal well pressure tests as required, and ensure performance bonds meet minimum requirements and are terminated in accordance with regulations. In addition, the Division should implement controls to help ensure performance indicators are reliable and all accounts receivable are properly recorded and reported.

The Division accepted all six audit recommendations.

## Status of Recommendations

The Division's 60-day plan for corrective action is due on August 10, 2006. In addition, the six-month report on the status of audit recommendations is due February 12, 2007.

## Division of Minerals

### Commission on Mineral Resources

## Results in Brief

The Division of Minerals substantially complied with laws, regulations, and policies significant to its financial administration. However, we noted some weaknesses in the Division's oversight of wells and performance bonds and reporting performance indicators and accounts receivable. Specifically, the Division did not witness pressure tests of all geothermal wells, and performance bonds did not always meet the Division's requirements. In addition, performance indicators were not always accurate, supported by adequate documentation, or clearly defined. Finally, additional procedures will help ensure that all accounts receivable are properly recorded and reported.

## Principal Findings

Although required by regulations, the Division did not witness all tests of blowout prevention devices during the drilling of geothermal wells. Of the seven wells drilled in fiscal year 2005, the Division witnessed three and relied on engineering test reports for the remaining four. Regulations require all necessary precautions must be taken to keep wells under control and operating safely at all times.

Four of nine oil and gas well operators' bonds were less than the amount required. Each operator submitted a \$25,000 bond. However, the minimum bond required by the Division's regulations ranged from \$30,000 to \$50,000. Bonds help ensure that an oil or gas well is properly operated, repaired and plugged.

The Division did not always terminate participation in the state's Reclamation Bond Pool as required. Participation must be terminated if an operator fails to pay their premium within 70 calendar days after the due date. However, two operators were allowed to participate even though they had not paid a premium within the 70-day limit. Timely premium payments help ensure the bond pool has sufficient funds to reclaim land disturbances if an operator fails to do so.

Our analysis of the Division's five performance indicators presented in the 2005-2007 Executive Budget, showed that one was reliable, one was unreliable, and three could not be verified because the underlying data was not readily available. In addition, the description of one indicator did not properly describe the reported information. Unreliable indicators can misrepresent the actual results of an agency's operational activities.

The Division's procedures should be revised to ensure all accounts receivable are properly recorded and reported. Specifically, procedures lacked clear direction on how to define, age, and report accounts receivable. As a result, not all bond pool premiums were billed timely. In addition, the Division's June 30, 2005, accounts receivable report submitted to the Office of the State Controller was understated.