

Audit Highlights



Highlights of performance audit report on the Division of Minerals issued on January 7, 2014. Legislative Auditor report # LA14-12.

Background

The 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 Division's offices are located in Carson City and Las Vegas. As of June 30, 2013, the Division had 11 full-time employees. The Division is funded primarily from fees paid by the mining industry. In fiscal year 2013, mining claim fees collected totaled about \$2.1 million. Fees collected from the oil, gas, and geothermal industries amounted to about \$173,000. Division expenditures totaled approximately \$2.5 million in fiscal year 2013.

The Division's responsibilities include permitting, inspecting, and monitoring all oil, gas, and geothermal drilling activities on both public and private lands in Nevada. In addition, the Division's Abandoned Mines Program was established in 1987. Program activities include identifying dangerous mines sites, ranking the sites according to the degree of danger, and notifying responsible parties of their obligation to secure dangerous conditions. The Division is responsible for securing abandoned mines where no responsible party can be found.

Purpose of Audit

The purpose of this audit was to evaluate the Division's efforts to: (1) monitor oil, gas, and geothermal drilling operations for compliance with regulatory requirements; and (2) secure abandoned mines by notifying responsible parties.

This audit focused on the Division's activities from July 1, 2010, through June 30, 2013.

Audit Recommendations

This audit report contains three recommendations to improve monitoring of oil, gas, and geothermal operations. In addition, one recommendation was made to improve efforts to secure abandoned mines by notifying responsible parties.

The Division accepted the four recommendations.

Recommendation Status

The Division's 60-day plan for corrective action is due on April 3, 2014. In addition, the six-month report on the status of audit recommendations is due on October 3, 2014.

Division of Minerals

Commission on Mineral Resources

Summary

The Division can enhance its monitoring of oil and geothermal drilling operations in the State. Specifically, by performing periodic inspections of operations, it can obtain greater assurance that these operations are complying with requirements in regulations adopted by the Commission on Mineral Resources. The regulations are intended to ensure safety, protect the environment, and minimize the waste of natural resources. Furthermore, the Division needs to witness geothermal pressure tests to ensure geothermal operators perform the test in accordance with regulations adopted by the Commission. The tests are intended to ensure well safety equipment is working effectively to minimize the risk of a blowout incident.

The Division's efforts to secure abandoned mines by notifying responsible parties have been effective. In the past 3 years, hundreds of mines have been secured through the Division identifying and informing parties of abandoned mines that the parties were responsible for securing. However, the Division can enhance the results of its efforts by following up when responsible parties do not provide evidence that abandoned mines have been secured. Follow-up should include notifying counties of responsible parties that have failed to secure the abandoned mines. Improved follow-up may prevent physical harm to persons or animals from occurring at hazardous abandoned mines.

Key Findings

The Division has not established an inspection process to help ensure oil and geothermal operations are meeting regulatory requirements. Although the Division reviews an entity's operating plans for compliance with the regulations before approving drilling permits, inspections are not regularly performed. Inspections would provide greater assurance that an entity is complying with requirements related to the construction, operation, and abandonment of wells. Management indicated wells are visited on an exception basis if problems arise, but the inspections are not sufficiently documented. Near the end of the audit, the Division began taking steps to establish an inspection process. Currently, there are 430 geothermal-related wells and 111 oil-related wells in Nevada. About 40% (181 of 430) of the geothermal-related wells and almost all (107 of 111) of the oil-related wells are on federally-managed land. The Bureau of Land Management (BLM) is responsible for regulating wells on federal lands. However, the Division also has oversight responsibility since it issues operating permits for wells on federal lands. (page 6)

The Division did not witness safety tests performed at geothermal well operations. Regulations adopted by the Commission require the Division to witness the testing of blowout prevention equipment immediately after it is installed at a well site. We randomly selected 10 safety tests and found none were witnessed by Division personnel. This problem was noted in the last audit of the Division. (page 8)

Recent efforts by the Division to secure abandoned mines by notifying responsible parties have been effective. Based on our testing of Division records, responsible parties secured 642 hazards (abandoned mines) in the last 3 years after the Division notified them of their responsibility. This occurred because the Division researched county records to determine who was responsible for securing the abandoned mines it investigated. When the research identified a responsible party, the Division notified the party of their responsibility to secure the dangerous condition. Parties were notified about the specific hazards on their claims, timeframes for taking action, documentation that had to be provided upon securing the hazard, and contact information for assistance. Pursuant to NAC 513.380, dangerous conditions had to be secured within 60 to 180 days depending on the danger rating assigned by the Division. The actual number of mines secured may be higher than found through examining Division records. Management indicated that based on its experience, some responsible parties secure mines, but fail to provide documentation to the Division. (page 11)

From our testing of Division records, we found the Division did not perform sufficient follow-up when responsible parties failed to adequately respond upon notification of their responsibility to secure abandoned mines. From the hazards that remained unsecured after the Division notified the responsible parties, we randomly selected 40 hazards and reviewed agency records for documentation of follow-up efforts. Our test found that after the initial notification, the Division did not follow up with the responsible party for all 40 hazards. Counties are authorized by state law to take enforcement action against responsible parties failing to secure abandoned mines. (page 12)