



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**PROCESSING NOTIFICATIONS
FOR THE STRIPPER OIL WELL PROPERTY
ROYALTY RATE REDUCTION PROGRAM,
MINERALS MANAGEMENT SERVICE**

**REPORT NO. 99-I-782
AUGUST 1999**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

AUG 31 1999

AUDIT REPORT

Memorandum

To: Assistant Secretary for Land and Minerals Management

From: Robert J. Williams *Robert Williams*
Assistant Inspector General for 4 udits

Subject: Audit Report on Processing Notifications for the Stripper Oil Well Property
Royalty Rate Reduction Program, Minerals Management Service (No. 99-I-782)

INTRODUCTION

This report presents the results of our audit of the Minerals Management Service's processing of royalty rate reduction notifications submitted by operators participating in the Stripper Oil Well Property Royalty Rate Reduction Program. The Program was initiated by the Bureau of Land Management in 1992 to provide royalty relief on low-producing Federal oil properties. The Service is responsible for processing royalty rate reduction notifications and ensuring that the approved rates are paid by operators and payors participating in the Program. The overall objective of the audit of the Program was to determine whether (1) the Bureau of Land Management used accurate data and appropriate methodology to identify the Program's benefits and costs that were used to justify the Program's indefinite extension, (2) the Service effectively processed and confirmed royalty rate reduction notifications, and (3) the Bureau provided effective oversight of well classification and production rates used in determining eligibility for the Program. This report addresses the second part of the objective, that is, the Minerals Management Service's processing of the notifications. The remaining parts of the objective will be addressed in separate reports.

BACKGROUND

The Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 171 l(a)) requires the Secretary of the Interior to

establish a comprehensive inspection, collection and fiscal and production accounting and auditing system to provide the capability to accurately determine oil and gas royalties, interest, fines, penalties, fees, deposits, and

other payments owed, and to collect and account for such amounts in a timely manner.

In terms of the Minerals Management Service, most royalty management functions are the responsibility of the Royalty Management Program, which ensures that bonuses, rents, and royalties from Federal and Indian lands are properly determined, collected, and distributed. The Service's Royalty Management Program also has an automated process that can compare the actual royalty rate paid with the reduced royalty rate approved for each stripper well property. Further, the Service is responsible for monitoring oil and gas production from Federal leases on the Outer Continental Shelf. The Bureau of Land Management is responsible for monitoring oil and gas production from onshore Federal and Indian leases.

The Mineral Leasing Act of 1920 (30 U.S.C. 209) allows the Secretary of the Interior to adjust royalty rates to encourage the maximum amount of oil or gas to be removed. To promote development on leases that cannot be operated economically under the existing lease terms, the Secretary may waive, suspend, or reduce the royalty on all or any portion of the leasehold.

The Stripper Oil Well Property Royalty Rate Reduction Program, initiated by the Bureau, became effective on October 1, 1992. The Program was to provide an economic incentive for operators to maintain or restart production of marginal or uneconomic oil wells on Federal onshore leases by drilling new wells and/or by implementing enhanced oil recovery projects. The policies and procedures for the Program are contained in the Code of Federal Regulations (43 CFR 3 103.4-2). The Code (43 CFR 3 103.4-2(5)) requires that the Secretary evaluate the effectiveness of the Program and allows the Secretary to terminate any or all royalty rate reductions granted under the Program upon a 6-month notice at any time after September 10, 1997. On February 18, 1998, the Department of the Interior extended the Program for an indefinite period. The Code (43 CFR 3103.4-2) defines a stripper well property as

any Federal lease or portion thereof segregated for royalty purposes, a communitization agreement, or a participating area of a unit agreement, operated by the same operator, that produces an average of less than 15 barrels of oil per eligible well per well-day for the qualifying period.'

The operator is required to submit a notification of Program participation on Service Form MMS-4377, "Stripper Royalty Rate Reduction Notification," which includes the operator's lease or agreement number, qualifying period, and reduced royalty rate. The reduced royalty

'According to "Oil and Gas Terms" (by Howard R. Williams and Charles J. Meyers, Matthew Bender. Sew York, 198 1), communitization agreements refer to a "bringing together of small tracts [of land] sufficient for the granting of a well permit under applicable spacing rules" and a unit agreement as a "plan of development and operation for the recovery of oil and gas made subject thereto as a consolidated unit without regard to separate ownership." This publication further states, "The best results in conservation can be obtained only by unitization."

rate becomes effective on the first day of the month after the Service receives the notification. Properties included in the Program are allowed to pay Federal royalty rates ranging from 0.5 to 11.7 percent of the value of a barrel of oil (see Appendix 2). These rates are below the standard onshore rate of 12.5 percent.

To qualify for the Program, eligible wells must either produce oil or serve as an injection well² for any period of time during the initial 12-month qualifying period, a preceding period, or a subsequent 12-month period. The qualifying period is used to determine the amount of production and the royalty rate that would be effective on October 1, 1992. In calculating the royalty rate, operators are required to use either the initial qualifying period, which was August 1, 1990, through July 31, 1991, or, if shut-in³ during this period, the 12-month production period immediately prior to the shut-in. Further, properties not qualifying during or prior to the initial qualifying period are required to use the first consecutive 12-month qualifying period beginning after August 31, 1990. In addition, participating operators can submit notifications for further reduced royalty rates subsequent to their initial participating rate if production levels continue to decline (these subsequent periods are referred to as outyears). After the first outyear notification is filed, a notification is required thereafter for each subsequent 12-month period or the royalty rate reverts to the initial reduced royalty rate. Each outyear notification is due within 60 calendar days after the applicable 12-month period.

The Service compares information submitted in the notification with production and well status data previously submitted in the "Monthly Report of Operations" (Form 3160-6).⁴ The information confirmed by the Service includes the following: the Federal mineral interest in the property, the identification and the proper description of the property, and the operator's status as the current operator of the property. The Service also confirms that wells meet the Program definition of a producing oil or injection well, that reported production is complete, and that the corresponding reduced royalty rate is accurate. Upon completion of this review, the Service notifies the operator that the calculated rate has been confirmed, adjusted, or disqualified.

Service records indicated that during the period of August 28, 1992, through September 2, 1998, the Service received 7,254 initial and outyear notifications and confirmed the information on 6,665 notifications. Of the 6,665 notifications confirmed, 4,067 notifications

²According to the Code (43 CFR 3103.4-2(a)(4)), an eligible injection well is a "well that injects a fluid for secondary or enhanced oil recovery, including reservoir pressure maintenance operations."

³ Shut-in wells are wells from which the lease operator has temporarily stopped producing oil and gas because of economic or other considerations but for which production may be restarted by opening a valve or turning on a switch.

⁴The "Monthly Report of Operations" contains monthly production data reported by operators for individual leases and wells, including data on lease identification; well location; well production of oil, gas, and water; number of days during the month that each well produced or injected; and other data about well-site conditions and operations.

had rates confirmed as submitted, 793 had rate adjustments, and 49 1 were disqualified from the Program.

The Service's confirmation of a notification may identify production anomalies, which are unexplained differences between reported production from the operator's "Monthly Report of Operations," the notification, and the "Report of Sales and Royalty Remittance" (Form MMS-2014)' submitted by the royalty payor. The production anomalies identified are referred to the Bureau of Land Management field office that has jurisdiction over the stripper well property. The Bureau is responsible for performing an "on-the-ground" inspection of all production anomalies referred by the Service. In addition, the Bureau requires operators to provide a detailed written explanation of all Service-referred production anomalies. The Bureau uses the information obtained from the operators and from its field inspections to resolve Service-referred anomalies.

SCOPE OF AUDIT

Our audit fieldwork was conducted at the Service's Royalty Management Program office in Lakewood, Colorado, and the Bureau's Fluid Minerals Office in Washington, D.C. To meet this part of our audit objective, we examined data related to the Service's verification of notifications submitted by operators participating in the Program and interviewed Service officials knowledgeable of this aspect of the Program. We judgmentally selected 35 notifications to verify the adequacy of Service notification processing. In addition, we randomly sampled 116 Program notifications to verify the accuracy of the reduced royalty rates paid by operators participating in the Program.

Our audit was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary to accomplish this part of our objective. We also reviewed the Departmental Report on Accountability for fiscal year 1997, which includes information required by the Federal Managers' Financial Integrity Act of 1982, and the Bureau's annual assurance statement on management controls for fiscal year 1997 to determine whether any reported weaknesses were within the objective and scope of our audit. Neither the Accountability Report nor the Service's assurance statement addressed the Service's involvement in the Stripper Oil Well Property Royalty Rate Reduction Program. In addition, we evaluated the Service's system of internal controls related to the Stripper Oil Well Property Royalty Rate Reduction Program to the extent that we considered necessary to accomplish our objective. The internal control weaknesses we found are discussed in the Results of Audit section of this report. Our recommendations, if implemented, should improve the internal controls in the areas identified.

⁵The "Report of Sales and Royalty Remittance" contains monthly sales data on royalties and other lease-related transactions reported by royalty payors. This report is used by the Service's automated auditing and financial system to process and account for revenues collected from Federal and Indian leases.

PRIOR AUDIT COVERAGE

Neither the Office of Inspector General nor the General Accounting Office has issued any audit reports during the past 5 years on the Stripper Oil Well Property Royalty Rate Reduction Program.

RESULTS OF AUDIT

The Minerals Management Service did not timely confirm notifications it received and did not timely input the confirmed rates or review differences in the royalty rates confirmed with the royalty rates paid for properties participating in the Stripper Oil Well Property Royalty Rate Reduction Program. The Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 171 ~~h~~ ~~(~~ ~~)~~) requires the Secretary of the Interior to accurately determine oil and gas royalties and to collect and account for the amounts in a timely manner. Further, the Code of Federal Regulations (43 CFR 3103.4-1) requires operators to submit notifications to the Service of their claimed reduced royalty rates, which become effective the first day of the month after the Service receives the notifications. However, the Service did not assign sufficient personnel to (1) process all the Program notifications in a timely manner, (2) input all data into the automated financial system, or (3) resolve differences between the confirmed royalty rate and the actual royalty rate paid. Of the 116 sampled properties, we identified 17 properties (14.7 percent) that had underpaid royalties totaling about \$6 1,000, or an average of \$3,600 per property. Based on this determination, we believe that royalties may have been underpaid by as much as \$3.5 million, excluding interest, on the properties participating in the Program.

Confirmation of Program Notifications

During the period of August 28 through December 31, 1992, the Service received 3,430 notifications for reduced royalty rates and, over the next 6 years (through September 2, 1998), received 3,824 additional notifications, for a total of 7,254 notifications. As of September 2, 1998, the Service had confirmed 6,665 of the 7,254 notifications received. However, the Service had not confirmed 589 notifications, even though some of the notifications had been received by the Service at least 2 years earlier. Our review of Service records indicated that the amount of time to confirm a notification ranged from 1 day to 72.2 months, with verification time averaging 9.3 months (see Appendix 3). During our audit, Service officials acknowledged that the notifications were not confirmed on a timely basis. In its response to our draft report, Service officials said that incomplete notification packages, as well as the length of time between notification and submission of related reports, frequently delayed the process.

Reduced rates that are not calculated properly can result in significant royalty underpayments. Of the 6,665 Service-confirmed notifications, 5,351 had been entered into the automated system and 1,314 had not been entered. (See "Identification of Differences in Royalty Rates Paid" in this section.) The Service identified 1,284 errors (24 percent) in

the 5,351 royalty rate reduction notifications processed and entered into the automated system. The 1,284 errors consisted of 793 notifications that had improperly calculated rates and 491 notifications that did not qualify for the Program. Examples of the types and the significance of errors found by Service personnel when confirming notifications are as follows:

- In December 1993, an operator submitted an initial notification claiming a reduced royalty rate of 4.21 percent to be effective in January 1994. The Service denied this notification in July 1995 because, although the wells on the property produced some oil, the wells did not meet either of the two oil and gas well eligibility criteria. The estimated lost royalties on this property would have totaled about \$827,000 from January 1994 through June 1998 (the last reporting period in the automated system at the time of our review) had the Service not denied the notification.

- In October 1992, an operator submitted an initial notification claiming a reduced royalty rate of 3.7 percent effective November 1992. The Service denied this notification in October 1994 because the property produced more than 15 barrels of oil per well per day during the qualifying period (see Appendix 2). The estimated lost royalties on this property would have totaled about \$290,000 during November 1992 through June 1998 had the Service not denied the notification.

- In March 1998, an operator that had an initial Service-confirmed reduced royalty rate of 11.7 percent submitted an outyear notification claiming a further reduced royalty rate of 10.9 percent to be effective in April 1998. The Service denied this notification in June 1998 because the property produced more than 15 barrels of oil per day during the outyear qualifying period. The estimated lost royalties on this property would have totaled more than \$2,500 per month had the Service not denied the notification.

Since royalty rate notification errors are not detected from 1 day to 72 months after the rate has been used by the royalty payor, we believe, based on our analysis, that the number of corrections made to monthly royalty payments is significant. These calculation errors require the Service to correct the errors and the royalty payor to correct each monthly royalty payment made for the property since the rate change was submitted. We believe that more timely reviews would help to ensure that only confirmed rates are used, which should reduce the number of royalty payments that need to be corrected.

Identification of Differences in Royalty Rates Paid

As of September 2, 1998, the Service had not entered the confirmed royalty rates on 1,314 notifications into the Service's automated system and, according to Service officials, did not review differences in the confirmed reduced royalty rates and the actual royalties paid on most of the 6,665 confirmed notifications. The Service's automated system compares the royalty rate paid on the monthly royalty payment with the royalty rate authorized by the Service for the individual property. According to the Service, this comparison generated thousands of erroneous exceptions because the Service had not entered all of the confirmed

reduced royalty rates into the automated system. **As** a result, in March 1994, Service officials deferred the review of royalty rate exceptions for stripper oil well properties until the data entry backlogs were eliminated. The Service's deferral of the review of royalty rate exceptions for stripper oil well properties resulted in underpaid royalties for reporting periods dating back as far as October 1992.

We selected a random sample of 116 of the total 6,659 stripper oil properties listed on the 4,231 initial notifications⁶ that were included in the Service's database as of September 1, 1997 (the most recent information available at the time of our audit). For the purpose of this sample, we considered a lease or an agreement to be stripper oil property. However, if an agreement contained 30 Federal leases receiving a stripper oil royalty rate reduction, we counted the agreement as 30 separate stripper oil properties. In cases where multiple operators were on a lease-basis property receiving stripper oil royalty rate reductions, we counted each operator/lease combination as a separate property. For the properties selected, we compared the Service-confirmed reduced royalty rate with the actual royalty rates paid, including all subsequent outyear rates. Of the 116 properties, we identified 17 properties (14.7 percent) that had underpaid royalties totaling about \$61,000, or an average of \$3,600 per property. Examples of the types and significance of the royalty underpayments we identified were as follows:

- In November 1992, an operator submitted, and the Service subsequently confirmed, an initial notification claiming a reduced royalty rate of 11.7 percent for a property. Subsequently, for the period of May 1995 through April 1996, the operator submitted, and the Service subsequently confirmed, an outyear notification claiming a further reduction in the royalty rate to 6.9 percent. However, the operator did not submit a subsequent outyear notification for the period of May 1996 through April 1997 and did not return to the initial royalty rate of 11.7 percent, of which both actions were required by the Program's policies and procedures. We estimated that underpaid royalties on this property totaled almost \$26,000 for the period of May 1996 through February 1998.

- In October 1992, an operator submitted, and the Service subsequently confirmed, an initial notification claiming a reduced royalty rate of 6.9 percent on a property. However, the operator paid royalties on this property at a 6.8 percent rate from the initial qualifying period through February 1998. We estimated that underpaid royalties on this property totaled almost \$16,000 during this period.

- In October 1992, an operator submitted, and the Service subsequently confirmed, an initial notification claiming a reduced royalty rate of 8.5 percent for a property. Subsequently, for the period of December 1993 through November 1994, the operator submitted, and the Service subsequently confirmed, an outyear notification for a further reduced royalty rate of 6.9 percent. However, the operator did not submit an outyear notification for the period of December 1994 through November 1995 and paid the 6.9 percent rate rather than return to the initial royalty rate of 8.5 percent, of which both

⁶A notification may include one or more properties

actions were required by the program's policies and procedures. We estimated that underpaid royalties on this property totaled more than \$9,400 for the period of December 1994 through February 1998.

We believe that if the 14.7 percent error rate, averaging \$3,600 per property, identified in our sample is representative of the 6,659 properties included in the initial notifications, the estimated total underpayments could exceed \$3.5 million. Therefore, the Service should review the comparison of the confirmed Program royalty rates and the rates paid in a more timely manner because of the record-keeping requirements of the Federal Oil and Gas Royalty Management Act and the statute of limitations applicable to the recovery of royalty underpayments. In particular, the Act (30 U.S.C. 1713(b)) requires the lessee, the operator, or others directly involved with oil and gas leases to maintain records "for six years after the records are generated unless the Secretary notified the record holder that ... such records must be maintained for a longer period." While the issue of the applicability and the interpretation of the 6-year statute of limitations (28 U.S.C. 2415(a)) for production prior to August 13, 1996,⁷ has been the subject of years of litigation between the Service and industry in several judicial circuits, the limitations period presents a potential obstacle to the recovery of underpayments of royalties for the initial Program production months, according to our Office of General Counsel. Further, the Service will need to eliminate the processing and data entry backlogs so that the automated exception process can identify only valid royalty rate exceptions for the Program and be used for its intended purpose.

According to Service officials, the Service did not confirm notifications in a timely manner, input all of the confirmed reduced royalty rates into its automated system, or review actual royalties paid because it did not assign sufficient personnel to administer the Program. These duties are conducted by personnel from the Production Accountability Branch of the Royalty Management Program's Compliance Verification Division. Service officials stated that six personnel were initially assigned to the Program in 1992 on a full-time basis. However, by 1998, the staffing was reduced to three employees on a part-time basis.

During a June 29, 1998, teleconference with Bureau and Service officials to discuss the continuing backlog of notifications and the shortage of Service personnel to administer this Program, the officials agreed to review the issue of Program staffing. In December 1998, the Service provided us with a draft strategy paper to reduce the backlog. The strategy paper stated that the Service intended to hire three new employees and to complete enhancements to the automated system, of which both actions would allow for notifications to be processed more expeditiously.

⁷ The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (30 U.S.C.A. 1724) established a new statute of limitations that requires royalties to be collected and royalty claims to be enforced within 7 years of the month following the date of production of oil or gas upon which the obligation to pay royalties arises. However, this new limitation period applies only to oil and gas produced from Federal leases subsequent to August 13, 1996, and does not affect obligations arising from the production prior to that date (30 U.S.C.A. 1701 note).

Recommendations

We recommend that the Director, Minerals Management Service:

1. Develop, using the draft strategy paper, and implement a plan to eliminate the Stripper Oil Well Property Royalty Rate Reduction Program notification processing and data entry backlog and to approve future notifications for the Program in a timely manner.

2. Develop and implement a plan to review Program exceptions generated by the automated matching process and collect underpaid royalties fi-om operators.

Minerals Management Service Response and Office of Inspector General Reply

In the July 16, 1999, response (see Appendix 4) to the draft report from the Director, Minerals Management Service, the Service concurred with our two recommendations. We also considered the Service's comments in the preparation of this final report. Based on the response, we consider Recommendation 1 resolved and implemented and Recommendation 2 resolved but not implemented. Accordingly, the unimplemented recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

Additional Comments on Audit Finding

In its response, the Service also commented on incomplete notification packages and royalty rate exception processing as follows:

- The Service stated that "it should be recognized that incomplete notification packages as well as the lag time between notification and submission of related reports (on which the notifications are based) frequently delay the process."

During our audit, Service officials did not tell us that incomplete notification packages were a significant factor in delaying the processing of the royalty rate reduction notifications. However, we have clarified the report to include the Service's comments.

- The Service said that the section of our report entitled "Identification of Differences on Royalty Rates Paid" (page 6) "might lead the reader to believe that all royalty rate exception processing had been deferred pending resolution of the data entry and system problems. In fact, royalty rate exception processing was deferred for only those cases where the reported royalty rate appeared to be a valid stripper royalty rate."

We are aware that all royalty rates used in determining royalty payments are subjected to an automated exception processing routine. We have clarified the report to indicate that the Service deferred royalty rate exception processing only for the stripper properties.

Since the report's recommendations are considered resolved, no further response to the Office of Inspector General is required (see Appendix 5).

The legislation, as amended, creating the Office of Inspector General requires semiannual reporting to the Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

We appreciate the assistance of Service personnel in the conduct of our audit.

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding Area</u>	<u>Potential Additional Revenues</u>
Royalties underpaid because of incorrect royalty rates	\$61,000 to \$3.5 million

**ROYALTY RATES FOR THE
STRIPPER OIL WELL PROPERTY
ROYALTY RATE REDUCTION PROGRAM**

<u>Average Barrels of Oil Produced Per Well Per Day</u>	<u>Royalty Rate Percent</u>
0	0.5
1	1.3
2	2.1
3	2.9
4	3.7
5	4.5
6	5.3
7	6.1
8	6.9
9	7.7
10	8.5
11	9.3
12	10.1
13	10.9
14	11.7
15 or more	12.5*

*This was the standard onshore Federal royalty rate as of May 1999

**MINERALS MANAGEMENT SERVICE
TIMELINESS OF NOTIFICATION VERIFICATION**

<u>Year Notification Received</u>	<u>Minimum Number of Days to Confirm</u>	<u>Maximum Number of Days to Confirm</u>	<u>Average Number of Days to Confirm</u>
1992'	18	2,166	194
1993	13	1,379	462
1994	1	1,224	391
1995	2	1,107	338
1996	34	808	376
1997	77	473	258
1992-1997	1	2,166 (72.2 months)	280 (9.3 months)

*For the period of August 28 through December 31, 1992.



United States Department of the Interior

MINERALS MANAGEMENT SERVICE
Washington, DC 20240



JUL 16 1999

Memorandum

To: Assistant Inspector General for Audits

Through: Sylvia V. Baca *Sylvia V. Baca for* JUL 19 1999
Acting Assistant Secretary, Land and Minerals Management

From: Walt Rosenbusch *Walt Rosenbusch*
Director, Minerals Management Service

Subject: Office of Inspector General Draft Audit Report, "Processing Notifications for the Stripper Oil Well Property Royalty Rate Reduction Program, Minerals Management Service," [C-IN-MOA-OOI-98(A)-D]

Thank you for the opportunity to respond to this draft report on our processing of the royalty rate reduction notifications submitted by operators participating in the Stripper Oil Well Property Royalty Rate Reduction Program.

We're sending you our general comments on the audit findings and specific ones on the two Recommendations. As you can see in the attachment, we agree with both recommendations and are in the process of implementing them.

Please contact **Bettine** Montgomery at (202) 208-3976 if you have any further questions.

Attachment

**MINERALS MANAGEMENT SERVICE RESPONSE TO DRAFT AUDIT
REPORT ‘PROCESSING NOTIFICATIONS FOR THE STRIPPER OIL WELL
PROPERTY ROYALTY RATE REDUCTION PROGRAM,
MINERALS MANAGEMENT SERVICE’**

Audit Agency: Office of Inspector General (OIG)

Audit Number: C-IN-MOA-00 1-98(A)-D

GENERAL COMMENTS

MMS appreciates the opportunity to comment on this draft report. We generally agree with the facts presented, have already implemented the first recommendation, and are in the process of implementing the second recommendation. However, we are offering clarifications to some of the findings as discussed below.

The introductory paragraph under the Results of Audit caption summarily holds that MMS did not assign sufficient resources to perform eligibility determinations for the Stripper Oil Well Property Royalty Rate Reduction Program. While this program became understaffed in recent years, this condition largely resulted from retirements and an employee’s major illness. The function is now adequately staffed to handle the current and backlogged eligibility determination workload.

Actions already taken by MMS will foster the more timely eligibility determinations called for by page 6 and the first recommendation. Nonetheless, it should be recognized that incomplete notification packages as well as the lag between notification and submission of related production reports (on which the notifications are based) frequently delay the process. We believe that such inherent factors contributed to the lengthy timeframes cited in the report.

Also, the section entitled Identification of Differences on Royalty Rates Paid (page 6) might lead the reader to believe that all royalty rate exception processing had been deferred pending resolution of the data entry and system problems. In fact, royalty rate exception processing was deferred for only those cases where the reported royalty rate appeared to be a potentially valid stripper royalty rate (about 40 percent of the total royalty rate cases). We continue to make such evaluations in all other situations.

COMMENTS ON RECOMMENDATIONS

1. Develop, using the draft strategy paper, and implement a plan to eliminate the Stripper Oil Well Property Royalty Rate Reduction Program notification processing and data entry backlog and to approve future notifications for the Program in a timely manner.

AGREE: - Based on the plan in the strategy paper, MMS has hired three technicians for the project team. The team has also been relieved of all competing duties. Additionally, two systems enhancements were initiated to improve the process. The first provides an interface between the Automated Royalty Reduction Tracking System (ARRTS) and the mainframe reference data system, eliminating a problematic download process and the need to enter double records. The second enhancement (Calculation Report and File Translation System or CRAFTS) has greatly improved efficiency by automatically gathering much of the required data and making many of the necessary calculations. Both of these enhancements have been completed. We estimate the backlog of Stripper Royalty Rate Reduction Notifications will be reduced to an acceptable level by November 1999.

Responsible Official: Donald Sant, Deputy Associate Director

2. Develop and implement a plan to review Program exceptions generated by the automated matching process and collect underpaid royalties from operators.

AGREE - As noted in the audit report, many royalty rate exceptions for stripper program properties were deferred pending updates to the Common Reference Database (CRD). We are developing a plan to 1) compile and merge all deferred royalty rate exceptions detected from cycle month March 1994 to present, 2) reprocess these exceptions against the updated CRD (eliminating spurious exceptions), and 3) work the remaining exceptions from the oldest periods forward. This is a very complex process, but we expect to complete this review by March 2000.

Responsible Official: Donald Sant, Deputy Associate Director

STATUS OF AUDIT REPORT RECOMMENDATIONS

Finding/Recommendation Reference	Status	Action Required
1	Implemented.	No further action is required.
2	Resolved; not implemented.	No further response to the Office of Inspector General is required. The recommendation will be referred to the Assistant Secretary for Policy, Management and Budget for tracking of implementation.

ILLEGAL OR WASTEFUL ACTIVITIES
SHOULD BE REPORTED TO
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