APPENDICES

APPENDIX A

Charter
Commission on
Fiscal Accountability of the Nation's
Energy Resources

1. The official designation of the Commission is the Commission on Fiscal Accountability of the Nation's Energy Resources.

2. The purpose of the Commission is to advise the Secretary of the Interior concerning the accountability for revenues generated from minerals activity on Federal and Indian lands. To complete its mission, it will:

   a. Examine the allegations of waste and loss of minerals royalty revenues due the Federal government, States, and Indian tribes;

   b. Evaluate and recommend improvements to the Department's royalty management system; and

   c. Recommend improvements in the internal controls in areas related to revenues generated from Federal and Indian lands.

3. The Commission will be in existence not to exceed six months from appointment of the last Commissioner.

4. The Commission will deliver its final report to the Secretary of the Interior, and will function independently of, but in cooperation with, established organizations of the Department.

5. Staff support for the Commission is to be provided by the Office of the Secretary.

6. The duties of the Commission are advisory in nature in accordance with this document.

7. The estimated operating cost of the Commission is $187,943, including approximately 1.5 staff-years of support.

8. The Commission will meet approximately 12 times at the call of the Chairman. All meetings of the Commission and all agenda must have prior approval of the Federal Representative. The Federal Representative will be a member of the Interior Department's Office of Financial Management.

9. The Commission shall submit a final report to the Secretary of the Interior within six months after appointment of the last Commissioner, or no later than March 15, 1982, whichever comes earlier, and shall terminate on that date unless extended by the Secretary of the Interior.

10. The Commission is composed of 5 members, who shall be appointed by the Secretary, one of whom shall be designated as Chairman.

11. Creation of this Commission is by the authority of the Secretary of the Interior under 43 U.S.C. 1457, the Mineral Leasing Act of 1920 (30 U.S.C. 191 and 30 U.S.C. 226) and the Outer Continental Shelf Lands Act, as amended (43 U.S.C. 1337, 1338). It is in the public interest in conjunction with the responsibilities of the Department of the Interior to manage royalty receipts from energy resources.

12. Members of the Commission may receive compensation, travel and per diem expenses for each day such member is engaged in the work of the Commission. Travel and per diem reimbursement shall be up to a daily rate in accordance with the Federal Travel Regulations.

13. In carrying out its responsibilities, the Commission is authorized to:

    a. Use the support services within the Department of the Interior as appropriate in carrying out its functions;

    b. Select an Executive Director and other required personnel in accordance with an established budget;

    c. Conduct hearings (swearing in witnesses as appropriate), interviews, and reviews at regional centers and field offices, or wherever deemed necessary to fulfill its duties; and

    d. Confer with contractors, lessees, Indian tribes and individuals, and other parties dealing with the Department on matters pertaining to the Commission's mission.

14. The Chairman or a Commissioner specifically designated by the Chairman shall be the spokesperson for the Commission for contact with the Congress, public, media, and others.

15. All Commission meetings and activities will operate in accordance with the Federal Advisory Committee Act (5 U.S.C. Appendix I, §10).

/s/ JAMES G. WATT
Secretary of the Interior

July 17, 1981
Date Filed

July 8, 1981
Date Signed

APPENDIX B

WITNESSES WHO TESTIFIED AT COMMISSION HEARINGS

August 27, 1981 (Washington, D.C.)

- Milton Socolar, Acting Comptroller General; John Simonette, Associate Director, Accounting and Financial Management Division; Darby Smith, Supervisory Auditor, Glen Baughman, Evaluator, U.S. GENERAL ACCOUNTING OFFICE.

- Don Kash, former Director of the Conservation Division of U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Theodore Rosack, former Head of the Denver Office of the FBI and former Director of Security for DAVIS OIL COMPANY.

- Charles Thomas, former Field Inspector for U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Allen L. Reynolds, former Director of AUDIT AND INVESTIGATIONS, DEPARTMENT OF THE INTERIOR

August 28, 1981 (Washington, D.C.)

- George Kinsel, former District Engineer of U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Kenneth A. Wahl, former Special Agent for Bureau of Land Management, Department of the Interior, and President, FAR WEST ENERGY SERVICES, INC.

- Byron K. Pompeo, former Special Agent for Bureau of Land Management, Department of the Interior, and Executive Vice President; FAR WEST ENERGY SERVICES, INC.

- Richard Mulberry, Inspector General; Robert Beuley, Assistant Inspector General for Auditing; James M. Yohe, Assistant Inspector General for Investigations; OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF THE INTERIOR

- Honorable John Melcher (D-Montana), U.S. SENATOR.

- Doyle G. Frederick, Acting Director; R. Michael Gall, Associate Chief, Computer Center Division; John Dragonetti, Deputy Division Chief for Onshore Minerals Regulations; James Sims, Supervisory Petroleum Engineer; Ronald Alexander, Supervisory Petroleum Engineering Technician, U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

September 22, 1981 (Washington, D.C.)

- Sylvester J. Tinker, Principal Chief; Mr. Ralph Adkisson; Mr. Charles Tillman; Mr. Franklin Shannon; Ms. Camille Pangburn; Members of the Tribal Council; OSAGE TRIBE.

- Carol A. Connor, Attorney for ASSOCIATION OF WIND RIVER ALLOTTEES.

- James H. Stevens, Acting Director, Office of Trust Responsibilities; David Baldwin, Acting Chief, Division of Energy and Minerals; Richard Whitesell, Superintendent of the Wind River Agency; BUREAU OF INDIAN AFFAIRS, DEPARTMENT OF THE INTERIOR.

- George Campbell, Petroleum Engineering Technician; John Fraher, District Oil and Gas Supervisor; U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Pat Goggles, Member of Arapahoe Business Council; Orville St. Clair, Chairman of the Shoshone Oil and Gas Commission; John St. Clair, Member of Shoshone Oil and Gas Commission; John Washakie, Member of Shoshone Business Council; Saul Goodman, Attorney for the SHOSHONE AND ARAPAHOE TRIBES.

- Andrew V. Bailey, Acting Chief, Conservation Division; John Dragonetti, Deputy Chief for Onshore Minerals Regulations, Conservation Division; U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Leland Ground, BLACKFEET TRIBAL BUSINESS COUNCIL.

- Ed Gabriel, Executive Director; Ahmed Kooros, Chief Economist; John Butler, Economist; COUNCIL OF ENERGY RESOURCE TRIBES.

- Terry Knight, Vice Chairman; John Donofrio, Attorney; UTE MOUNTAIN UTE TRIBE.

- Richard TeCube, Vice President; Thurman Velarde, Tribal Administrator for Oil and Gas; William Haltom, Attorney; JICARILLA APACHE TRIBE.

- John W. Samuels, Chairman; Ronald Gutierrez, Member; James T. Wynne, Secretary; SPOKANE TRIBAL BUSINESS COUNCIL.

September 23, 1981 (Washington, D.C.)

- Hal N. Helterhoff, Chief of White Collar Crime Section, Criminal Investigation Division; FEDERAL BUREAU OF INVESTIGATION.

- Rowena Rogers, President, WESTERN STATES LAND COMMISSIONERS ASSOCIATION

- Kenneth Cory, Controller of the State of California, and Chairman of the State Lands Division; William Northrop, Executive Officer, State Lands Division; STATE OF CALIFORNIA.

- W. Timothy Dowd, Executive Director, INTERSTATE OIL COMPACT COMMISSION.

- Joe D. Ramey, Director of Oil Conservation Division, Department of Energy and Minerals; Alice Herter, Legal Counsel to the Secretary of Department of Finance and Administration; Antonio Martinez, Division Director, Oil and Gas Accounting Division; Denise Fort, Assistant Attorney General; STATE OF NEW MEXICO.

- Jerry Hill, Under Secretary, Department of Natural Resources; Ray Sutton, Commissioner of Conservation; Tena Elkins, Chief Production Analyst, Office of Conservation; STATE OF LOUISIANA.

October 19, 1981 (New York, N.Y.)

- Robert Blaylock, Division Manager, Rocky Mountain Division, DAVIS OIL COMPANY.

- J. D. Milliken, Manager, TRUE OIL COMPANY.

- George W. Streib, President, CRUDE PROCESSING, INC.

- Eugene R. Morin, Deputy Division Manager, Western Division; David Beerbower, Assistant General Counsel; SUPERIOR OIL COMPANY.

- Phillip E. Coates, Assistant Commissioner for Compliance; Percy Woodward, Assistant Regional Commissioner for Examination (Dallas, Texas); INTERNAL REVENUE SERVICE.

- Richard C. Adkerson, Audit Partner and Head of Oil and Gas Industry Program; William H. McIntyre, Jr., Consulting Partner, New Orleans Office; ARTHUR ANDERSEN AND COMPANY.

- Charles D. Maggard, Manager, Oil Revenue and Purchases Accounting; Wayne G. Smith, Division Operations Superintendent (Denver); STANDARD OIL COMPANY (INDIANA).

- Harrald H. Lines, Vice President; Robert R. Eades, Director, Gas Settlement Department; L. M. Parrish, Jr., Superintendent, San Juan Division; EL PASO NATURAL GAS.

- Robert C. Homan, Assistant Controller; D. W. Bowers, Area Superintendent (Casper, Wyoming); GETTY OIL COMPANY.

- William K. Dietrich, Manager, North American Production; Glen E. Downing, Director, Exploration, Production and Minerals Accounting; CONOCO, INC.

- W. F. Atwood, Manager, Royalty Owner Relations, EXXON COMPANY, U.S.A.

- Rick L. Carson, Manager of Crude Oil and Natural Gas Production Systems, Houston Accounting Center, GULF OIL CORPORATION.

November 19, 1981 (Denver, Colorado)

- Jim Griffith, State Auditor; Larry Biggio, Chief of Audit Division, State Auditor's Office; Randy Fetterolf, Supervisor, Natural Resources, Production Audit Group; STATE OF WYOMING.

- Saul Goodman, Firm of Rogovin, Huge and Lenzner, Attorney for SHOSHONE AND ARAPAHOE TRIBES.

- David L. Duncan, Chairman; Robert O. Bowen, Commissioner; Roy Heagren, Internal Auditor; UTAH STATE TAX COMMISSION.

- William F. Northrop, Executive Officer, State Lands Commission; Virgil Tandem, Director of School District Administration Advisory Services, Kern County; Gene Abadie, Assistant Chief Auditor, State Controller's Office; STATE OF CALIFORNIA.

- Eddie R. Wyatt, Acting Deputy Division Chief for Onshore Minerals Regulation, U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Jack Fuller, Director of Corporate Engineering; Gene Neihaus, Director of Special Projects, Engineering Department; PEABODY COAL COMPANY.

- John J. Gerken, Commissioner, Department of School and Public Lands, STATE OF SOUTH DAKOTA.

- Roy Romer, State Treasurer; Robert Stull, Internal Auditor, Department of Natural Resources; STATE OF COLORADO.

November 20, 1981 (Denver, Colorado)

- Ed Gabriel, Executive Director; Ahmed Kooros, Chief Economist; Jack Rees, Systems Analyst; John Butler, Deputy Director of Policy Analysis; COUNCIL OF ENERGY RESOURCE TRIBES.

- Dallas Peck, Director; R. Michael Gall, Associate Chief, Computer Center Division; Robert Bolt, Deputy Assistant Division Chief for Royalty Management; Milton Dial, Head of Audit, Review and Analysis Section, Royalty Management; Todd McCutcheon, Deputy Chief, Accounting Section, Royalty Management; Eddie R. Wyatt, Acting Deputy Division Chief for Onshore Minerals Regulations; Bill Feldmiller, Deputy Assistant Division Director for Royalty Management; U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- John F. Simonette, Associate Director, Accounting and Financial Management Division; Jeff Steinhoff, Senior Group Director; Darby Smith, Senior Accountant; Ben Ritt, Evaluator; Glen Baughman, Evaluator; U.S.GENERAL ACCOUNTING OFFICE.

December 9, 1981 (Washington, D.C.)

- J. C. Chesser, Chief; H. P. Walter, Petroleum Engineer; Roy Harrison, Petroleum Engineering Technician; G. E. Campbell, Petroleum Engineering Technician; John Duletsky, Petroleum Engineer; Quality Assurance Team, U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

- Charles T. Sawyer, Vice President for Industry Affairs, AMERICAN PETROLEUM INSTITUTE.

December 9, 1981 (Washington, D.C.)

- Douglas Francisco, Senior Government Relations Representative and Secretary of the Public Lands Committee, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA.
- Mitchell Rogovin, Senior Partner; Saul Goodman, Attorney; Rogovin, Huge and Lenzner, Attorneys for SHOSHONE AND ARAPAHOE TRIBES.
- Roy H. Sampsel, Deputy Assistant Secretary for Indian Affairs (Policy); David Baldwin, Chief, Division of Energy and Minerals; Thomas Riggs, Staff Assistant; BUREAU OF INDIAN AFFAIRS, DEPARTMENT OF THE INTERIOR.
- Ed Gabriel, Executive Director; John Butler, Economist; Ahmed Kooros, Chief Economist; COUNCIL OF ENERGY RESOURCE TRIBES.

December 10, 1981 (Washington, D.C.)

- William Radlinski, former Associate Director of U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.
- Russell G. Wayland, former Chief of the Conservation Division, U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.
- Peter L. Jensen, Chairman of Oil and Gas Committee; Richard L. Adkerson, Member; P. Dean Ridenour, Member; American Institute of Certified Public Accountants (AICPA).
- Robert C. Mann, Audit Partner, Fort Worth Office, PRICE WATERHOUSE AND COMPANY.

December 10, 1981 (Washington, D.C.)

- James C. Rosapepe, Washington Representative, MULTISTATE TAX COMMISSION.
- Rowena Rogers, President, WESTERN STATES LAND COMMISSIONERS ASSOCIATION
- W. Timothy Dowd, Executive Director, INTERSTATE OIL COMPACT COMMISSION.
- Robert Brayton, Vice President; Janet Landtbom, Group Leader for Accounting and Financial System; Stuart Edwards, Project Manager for Production Audit and Accounting System; AMERICAN MANAGEMENT SYSTEMS, INC.
- William Jasper, Senior Project Manager, INTERNATIONAL BUSINESS SERVICES, INC.
- Askold Boretsky, Project Manager; Sidney Polk, Program Manager; MITRE CORPORATION.
- Jeffrey F. Brugos, Partner in Charge of Management Advisory Services, Denver; PRICE WATERHOUSE AND COMPANY.
- John F. Simonette, Associate Director, Accounting and Financial Management Division; Glen Baughman, Evaluator; U.S. GENERAL ACCOUNTING OFFICE.
- Dallas L. Peck, Director; Doyle G. Frederick, Associate Director; U.S. GEOLOGICAL SURVEY, DEPARTMENT OF THE INTERIOR.

APPENDIX C

RELATED CONGRESSIONAL HEARINGS

SENATE SELECT COMMITTEE ON INDIAN AFFAIRS

Hearings on
Federal Supervision of Oil and Gas Leases
on Indian Lands

February 27, 1981
Billings, Montana

The purpose of this hearing, chaired by Senator Melcher, was to take testimony regarding the Federal government's procedures for the collecting, accounting, and auditing of royalties derived from oil and gas leases on Indian reservations, and the supervision and monitoring of well sites. Testimony was presented for the purpose of assisting the Committee in formulating recommendations to address a system which must be built to promote good management and supervision of oil and gas leases and reduce opportunities for fraud and abuse to minimal levels. The Committee heard testimony from representatives of the Indian tribes, oil companies, the Wyoming Congressional delegation, the Bureau of Indian Affairs, the U.S. Geological Survey, and the Council of Energy Resource Tribes.

April 6, 1981
Washington, D.C.

The Committee heard witnesses who gave testimony on procedures used by the U.S. Geological Survey to protect oil and gas on both Federal lands and Indian reservations. The Committee sought to review the circumstances which present opportunities for theft. The testimony focused on both the administrative problems which have permitted these conditions to grow and possible gaps in the legislatively defined mandates of the responsible agencies.

The hearing also included testimony on the timely payment of royalties earned from these leases. The Committee heard from a number of witnesses including management officials and petroleum engineering technicians from the Geological Survey.

June 1, 1981
Albuquerque, New Mexico

This third hearing focused on the opportunities for oil theft and the issue of underreporting of royalties. The hearing focused on: (1) whether the Department of the Interior had established a mechanism to show that it was properly fulfilling its trust responsibility; (2) the performance of U.S. Geological Survey in collecting royalty payments, and (3) whether the field personnel were effectively carrying out their assigned responsibilities. The Committee heard testimony from representatives of several Indian tribes, representatives of the Association of the Wind River Allottees, and representatives from the Geological Survey.

August 10, 1981
Great Falls, Montana

The primary purpose of this fourth hearing was to look into allegations of oil theft from the Blackfeet Indian Reservation. Testimony was received from tribal officials and from the companies operating the leases. Much of the testimony centered on the

existing U.S. Geological Survey regulations and the need to implement new regulations or revise some existing regulations in order to discourage oil theft.

SENATE ENERGY AND NATURAL RESOURCES COMMITTEE

Hearing on
The Collection, Accounting and Distribution of Mineral Royalties

August 11, 1981
Casper, Wyoming

The Committee, in a hearing chaired by Senator Malcolm Wallop, heard testimony on several issues relating to the management of royalty collections including: (1) the need for closer coordination between the Federal government and the States, Indian tribes, and others in developing an improved royalty management system; (2) improving auditing activities; (3) eliminating causes for royalty underpayments; and (4) developing more effective penalties for theft. The Committee received testimony from representatives of the U.S. General Accounting Office, the U.S. Geological Survey, States, and Indian tribes, and an oil and gas trade association.

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
SUBCOMMITTEE ON COMMERCE, CONSUMER AND MONETARY AFFAIRS

Hearing on Internal Revenue Service Administration of the Windfall Profit Tax and U.S. Geological Survey Oil and Gas Royalty Collection

April 13, 1981
Washington, D.C.

The subcommittee chaired by Congressman Rosenthal held this hearing to look into the progress of the Internal Revenue Service in administering the Windfall Profit Tax and the Geological Survey's progress in improving its royalty accounting system and procedures. One primary focus was the role of the USGS as a taxpayer and the questions of who should compute the tax on Federal oil royalties and what resources were needed. The Geological Survey testified that approximately 100 person years per year would be required to compute the tax. This estimate was later amended to approximately 50 person years per year.

HOUSE INTERIOR AND INSULAR AFFAIRS COMMITTEE
OVERSIGHT AND INVESTIGATIONS SUBCOMMITTEE AND MINES AND MINING SUBCOMMITTEE

Joint Hearings on Royalty Management

September 23, 1981
Washington, D.C.

The subcommittees, chaired by Congressmen Santini and Markey, focused the first of three hearings on whether many of the USGS' royalty management functions could be shared with State governments and Indian tribes. They also explored the alleged understaffing of the inspection functions and liability/bonding of royalty management employees. Congressman Santini concluded that the need for reorganizing the function was "...obvious and imperative." The hearings involved representatives of the Western States, a number of Indian tribes, and the U.S. Geological Survey.

October 6, 1981
Washington, D.C.

The second hearing centered on coordination between the ongoing Departmental effort and the Commission on Fiscal Accountability of the Nation's Energy Resources, whether the work on the Improved Royalty Management Program would be held up until the Commission completed its review, and whether the audit approach planned by the USGS was sound. Interior's Assistant Secretary for Energy and Minerals agreed royalty management should be separated in some way from its current organizational location. Subsequent questioning emphasized organizational questions and mandatory use of LACT meters. One witness testified that the new accounting system should be held up until the production system could be put into operation. The U.S. General Accounting Office testified that an overall management plan was missing in the royalty management program, and emphasized that the Accounting and Financial System and the Production Audit and Accounting System must be closely linked as quickly as possible to permit validation of lessee data on sales and royalties.

December 15, 1981
Washington, D.C.

The third hearing involved testimony by the Department of the Interior's Deputy Assistant Secretary for Energy and Minerals, and the Director of the Energy and Mineral Division at U.S. General Accounting Office. The Interior representative stated the current administration's commitment to resolving the problems. The subcommittee members focused again on organizational questions and the possibility of an expanded role for the State governments in royalty management. The GAO representative, in responding to questions, stated that additional legislation might be needed to provide effective penalties for late payments.

APPENDIX D

SELECTED PREVIOUS STUDIES

SUMMARY OF U.S. GENERAL ACCOUNTING OFFICE REPORTS ON ROYALTY MANAGEMENT

The following are pertinent excerpts from six GAO reports dated from December 1959 to October 1981.

GAO DECEMBER 1959 REPORT: REVIEW OF SUPERVISION OF OIL AND GAS OPERATIONS AND PRODUCTION ON GOVERNMENT AND INDIAN LANDS

Deficiencies in royalty accounting and related basic weaknesses in financial management

A number of serious deficiencies exist in the Survey's royalty accounting activities. The billing and collection of royalties due the Government are delayed at times for prolonged periods. Large, unexplained differences existed between the Survey's detailed royalty receivable records and (1) the related control records it maintains and (2) the related control accounts maintained by the Bureau of Land Management. The usefulness and accuracy of the Survey's royalty receivable records are further decreased because of inadequate procedures used in accounting for royalties collected before related billings are issued and for prepayments of certain rentals. We discussed the inadequate procedures used in accounting for royalties collected in audit reports issued to the Congress on the Bureau of Land Management for fiscal years 1953 and 1954; to the Administrative Assistant Secretary, Department of the Interior, on a special review of royalty billing and collection procedures at the Northwestern Regional Office of the Oil and Gas Leasing Branch; and to the Director, Geological Survey, for fiscal years 1955 and 1956.

To correct these deficiencies in royalty accounting, we are recommending in this report that the Director, Geological Survey, provide for prompt billing and collection of all unpaid charges; require that royalty accounts receivable records be periodically reconciled and differences resolved; and revise the royalty billing procedures.

We believe that these deficiencies in royalty accounting point up the need to correct certain basic weaknesses in financial management resulting from the manner in which the Survey's responsibilities in this area have been delegated and are being carried out. The Survey's royalty accounting policies and procedures are established and carried out by the Conservation Division, one of its operating divisions, instead of by the Administrative Division which performs the rest of the Survey's accounting functions. Also, the Survey does not maintain a formal up-to-date royalty accounting manual nor does it maintain general ledger control over the royalty accounts receivable. Moreover, the royalty accounting activities are not subject to effective internal audit. In our audit reports to the Director, Geological Survey, for the fiscal years 1955 and 1956, we recommended that an effective internal audit staff be established to cover the Survey's activities.

To correct these weaknesses in financial management, we are recommending that the Director, Geological Survey, transfer technical responsibility over royalty accounting to the Administrative Division; be given authority to maintain general ledger control accounts for all of the subsidiary royalty accounts receivable the Survey maintains; issue and maintain currently a royalty accounting manual, and expand the scope of internal auditing to include adequate coverage of the royalty accounting activities.

GAO AUGUST 1964 REPORT: CERTAIN DEFICIENCIES IN FINANCIAL MANAGEMENT OF OIL AND GAS ACTIVITIES

We are reporting also on the results of a follow-up review of a number of matters contained in our prior report of December 31, 1959, (B-118678) on "Review of Supervision of Oil and Gas Operations and Production on Government and Indian Lands by Geological Survey." In the prior report [1959] we commented on a number of serious deficiencies in the Survey's billing, collecting, and control over royalties due the Government. We commented also on certain basic weaknesses in financial management resulting from (1) the Survey's use of an operating division instead of its Administrative Division to perform royalty accounting functions, (2) the Survey's failure to maintain a formal up-todate royalty accounting manual, and (3) the royalty accounting activities not being subject to effective internal audit.

Our current review of the findings contained in our prior report disclosed a continuation of certain of the deficiencies. However, the Department subsequently advised us that corrective action had been taken or that serious consideration was being given to our recommendations.

GAO FEBRUARY 1972 REPORT: MORE SPECIFIC POLICIES AND PROCEDURES NEEDED FOR DETERMINING ROYALTIES ON OIL FROM LEASED FEDERAL LANDS

The Survey's present system of controls over royalties needs to be strengthened to provide greater assurance that proper royalty payments are made to the Government. In the absence of prescribed guidelines and procedures for uniform application by the regional oil and gas supervisors, reliance is based primarily on the individual supervisor's judgment. In our opinion, this has led to royalty computations being accepted by the regional personnel without examining and evaluating all the circumstances surrounding the determination of the royalties. In many instances, such determinations are based primarily on data furnished by the lessees without verification to other sources. The lack of specific policies and procedures for use on an agencywide basis has resulted in numerous inconsistencies in the manner in which regional oil and gas supervisors have carried out their responsibilities for ensuring that royalties were based on (1) values which approximate the fair market value of the oil, (2) deductions for transportation costs which did not exceed actual costs, and (3) total quantities of oil marketed.

To provide greater assurance that royalty payments to the government are computed properly, we recommend that the Director, Geological Survey, be required to establish more definitive policies and procedures to be followed by the Survey's regional oil and gas supervisors in:

- Establishing the value of oil sold or removed from leased Federal lands;
- Determining the amount of transportation allowances to be deducted from the value of the oil; and
- Verifying the amount of oil sold or removed from leased Federal lands.

GAO MARCH 1976 REPORT: COAL, OIL, AND GAS: BETTER MANAGEMENT CAN IMPROVE DEVELOPMENT AND INCREASE INDIAN INCOME AND EMPLOYMENT

The development of Indian mineral resources for the benefit of American Indians has been hindered by:

- Lack of resource inventories, mineral management plans, and mineral expertise within the Bureau of Indian Affairs;
- No means to determine if Indian preferences in hiring in lease provisions are effective;
- Failure to establish a coal lease royalty rate based on the selling price of coal; and
- Inadequate monitoring of lease terms after issuance of a lease.

To improve USGS management of leases of Indian mineral lands, we recommend that the Secretary of the Interior require the Director of Geological Survey to:

- Establish a penalty fee for late payment of royalties and enforce such requirements as necessary;
- Instruct lessees to submit reports required by Federal regulations and lease terms when they are due and require purchasers of Indian mineral resources to submit reports on products purchased;

- Establish procedures to coordinate reservation reclamation activities among the various agencies involved with this activity on each reservation;
- Determine the level of staffing necessary to satisfactorily perform its oil and gas responsibilities on Indian lands and take steps necessary to obtain such staffing;
- Require its field offices to verify on a random basis that oil and gas wells reported to be shut down are no longer producing;
- Perform all required oil and gas site inspections; and
- Postaudit all Indian oil and gas lease accounts.

GAO APRIL 1979 REPORT:
OIL AND GAS ROYALTY COLLECTIONS--
SERIOUS FINANCIAL MANAGEMENT PROBLEMS
NEED CONGRESSIONAL ATTENTION

The Geological Survey collected about $1.2 billion for oil and gas removed from Federal and Indian Lands in 1977. However, the Survey is not collecting all that is owed by the oil and gas industry because the Survey's accounting and collection procedures are inadequate to identify all royalties due. In addition, $359 million of the payments received in 1977 were past due.

Many factors beyond the control of the Geological Survey contributed to the breakdown in the Survey's financial management system.

Because the need for major changes in the royalty collection system is well recognized, the recommendations which follow are limited to those which can be rapidly implemented without making extensive system changes. These recommended actions should be adopted regardless of the extent of eventual modification or redesign of the collection system.

For the short range, the Secretary of the Interior should require the Director of the Geological Survey to:

- Inform field inspection personel of the the need to assist accounting personnel in verifying sales data by determining the reasonableness of inventory and sales data shown on production reports.
- Accounting personnel should be informed of any discrepancies noted.
- Require that codes identifying reasons for account adjustments be included on lease account records.
- Provide for and charge appropriate administrative fees for late or erroneous reporting. Interest should be charged on delinquent accounts to encourage timely reporting and paying.
- Intensify efforts to encourage companies having computer capabilities to provide report data by direct magnetic tape input.
- Use computer prepared exception reports to follow up and resolve deficiencies to increase the value

of the accounts as controls as well as to reduce the effort currently involved in auditing the accounts.

For the long range, the Secretary of the Interior should require the Director of Geological Survey to:

° Modify or redesign the collection system to reduce the volume of reports submitted by the oil and gas industry to the Geological Survey for processing. In turn, this reduction will enable the Geological Survey to place increased emphasis on lease account reconciliations and audits;

° Consider not only the volume of annual royalties generated by the leases, but also the dependability of the lessees and their prior reporting and paying record in selecting accounts for reconciliations and audit;

° Provide for cross-service audit agreements between the Department of Energy and the Geological Survey when both are auditing the same commercial enterprise;

° Standardize the system used to control royalty collections by designating one office as responsible for establishing agencywide collection policies; and

° Periodically advise the Senate Committee on Energy and Natural Resources of the status of actions taken to modify or redesign the collection system.

GAO OCTOBER 1981 REPORT: OIL and GAS ROYALTY COLLECTIONS-- LONGSTANDING PROBLEMS COSTING MILLIONS

Since 1959, GAO has been reporting on the need for major improvements in the Geological Survey's oil and gas royalty accounting system. Possibly hundreds of millions of dollars in royalties due from Federal government and Indian leases are not being collected annually. Although the Geological Survey has readily acknowledged that it is not collecting all royalties due, it has been slow to correct the reported problems.

In an April 1979 report, GAO recommended both short and long range alternatives to the longstanding problems plaguing the system. In this review, GAO determined that the problems not only persist but have become worse. The Geological Survey is now developing an improved royalty accounting system which may be the ultimate solution, but this system will not be fully operational for several years.

Historically, the Geological Survey has not placed a high priority on collecting oil and gas royalties. Because sufficient management attention has not been focused on correcting deficiencies previously reported financial management problems existing 20 years ago persist today.

We are encouraged by the Geological Survey's decision to finally address seriously the royalty accounting problems that have plagued it for over 20 years.

To ensure that development of the new royalty accounting system is given high priority and sustained effort, we recommend that the Secretary of the Interior closely monitor the work to see that the system is properly planned, designed, developed, and implemented. In this regard, immediate attention must be given to determining how the production phase will operate and how it will interface with the accounting phase which is currently being designed. Also, in developing the accounting phase, the Geological Survey must acquire data on the number of leases and wells for which it is responsible, and provide for verification of the royalty computation. The necessary resources must be provided and milestones must be strictly adhered to.

We further recommend that, to gain control over information reported by the oil and gas companies, the Secretary direct the Geological Survey to include in its current redesign effort a comprehensive, systematic plan for monitoring, reconciling, and auditing lease account records; inspecting leases; and verifying production and sales data. The plan should provide for (1) establishment of a detailed audit plan for periodic reviews of lease accounts and oil and gas companies' accounting records, (2) devotion of additional resources to the inspection of leases using field inspectors to help verify data reported, (3) coordination with the States to arrange the sharing of the audit and lease inspection function, and the exchange of production and sales information, (4) reconciliation of existing lease account records to the extent possible, (5) identification of staff needs and resources for assessing interest on late payments, and (6) faster deposit of royalty payments using electronic funds transfer when possible.

SUMMARY OF INSPECTOR GENERAL REPORTS ON ROYALTY MANAGEMENT

OIG FEBRUARY 1969 REPORT REVIEW OF OIL AND GAS LEASE REVENUE

The audit disclosed that production and minimum royalty payments were not made in a timely manner, penalties for late payments were not assessed, account balances were not reconciled in a systematic

manner, and lessees were not advised of erroneous royalty calculations. The Office of Survey and Review (now the Office of Inspector General) recommended that the USGS establish procedures to assess interest or penalties for delinquent payments, systematically reconcile account balances, identify and advise lessees of recurring computational errors, and improve the royalty accounting system by establishing subaccounts that identify each royalty payor.

OIG JUNE 1975 REPORT REVIEW OF ROYALTY ACCOUNTING SYSTEM FOR ONSHORE OIL AND GAS LEASES

The report recommended that the USGS adopt specific accounting objectives to assure that lease terms are enforced; royalty payments are maximized within legal constraints; collections are prompt; and Indian leases are diligently managed. At the time of the audit, the USGS was aware that these objectives were not being met. Specific audit recommendations included upgrading the quantity, quality, and status of the royalty accounting staff; consolidated reporting in the case of multiple interest leases; revising reporting formats to make reports more useful; requiring purchasers statements for independent verification of production; requiring lessees to use Federal lease numbers on their reports; modifiying the accounting system in a manner similar to the system now being implemented by the USGS; documenting and following up on royalty calculation errors; collecting payments on time; conducting systematic reviews and reconciliations of lease accounts; and establishing a product valuation team to research and develop criteria for product valuation standards.

OIG AUGUST 1975 REPORT
USGS ROYALTY ACCOUNTING SYSTEM STUDY OF SOLID MINERALS LEASING ACTIVITIES

The audit recommended estabishing internal controls over the collection, accounting and billing of royalties; requiring independent certification as to the accuracy of the royalty payments; enforcing royalty payment requirements; and placing Indian leases under the control of the USGS accounting system.

OIG REPORT FEBRUARY 1977
PILOT VERIFICATION OF PRODUCTION DATA

This audit recommended that the USGS explore the potential of entering into agreements with selected States to combine the Federal royalty collection system and the States' tax collection systems, basically to provide a combined production verification system.

OIG JUNE 1977 REPORT
REVIEW OF ROYALTY DETERMINATION, ACCOUNTING, AND COLLECTION ACTIVITIES FOR GULF OF MEXICO OUTER CONTINENTAL SHELF OIL AND GAS LEASES

The report made several recommendations covering administrative and procedural matters, e.g., provide complete written instructions, require lessees to comply with prescribed reporting instructions, change certain reporting formats, improve internal verification efforts and simplify procedures for the sale of royalty oil. In addition, the report recommended position classification studies on the basis that, in some cases, the technical disciplines being used appeared inappropriate in relation to tasks performed.

Other recommendations included changing the method of calculating processing allowances, collecting additional royalties related to lessee reporting errors and resolving conflicts between Interior and Federal Energy Administration regulations. The recommendations would result in additional royalties of $7.4 million the first year and at at least $6 million in subsequent years.

APPENDIX E

Selected Audits of Federal and Indian Leases

The eleven oil and gas audits summarized below were performed by the Office of Inspector General and its predecessor office. Other audits were performed on hard minerals. Substantial additional oil and gas royalty recoveries have been identified by lease reviews by the General Accounting Office and the Geological Survey.

Lessee	Audit Title	Major Problems Identified	Additional Royalties Identified
TEXACO	Review of Royalties Paid on Residue Gas OCS Lease 0310, 1972-1976	Valuation of lessee-used Gas	$2,123,329

Lessee	Audit Title	Major Problems Identified	Additional Royalties Identified
OCEAN	Review of Royalty Payments Made by Ocean Production Company (Ocean) on Natural Gas Removed from Federal OCS Leases G-1023 and G-1526, 1974-1977	Failure to report gas lost, injected, or used as fuel	$ 156,198

Lessee	Audit Title	Major Problems Identified	Royalties Identified
MOBIL	Review of Royalty Payments Made by Mobil Oil Corporation (Mobil) on Natural Gas Removed from Federal OCS Leases G-2041, G-2045, G-2051, G-1440, 1973-1977	Valuation of gas sold	$ 24,634 (103,533)1/

1/ Overvalued Gas Production

Lessee	Audit Title	Major Problems Identified	Additional Royalties Identified
GETTY	Review of Royalties Paid on Residue Gas, OCS Leases G-1752-1 and G-1752-2, Getty Oil Company, 1972-1977	Valuation of lessee-used gas	$ 484,329[2/]
CABOT	Review of Royalty Payments on Natural Gas Removed from Federal Lease OCS G-0992, Block 273, Eugene Island, Offshore Louisiana, 1977-1978	Valuation of lessee-used gas	$ 684

[2/] Reversed by the Interior Board of Land Appeals and subsequently refunded by the USGS. The Office of the Solicitor did not represent the government at this hearing. This reversal may be appealed to the Secretary.

Lessee	Audit Title	Major Problems Identified	Additional Royalties Identified
SUN	Review of Royalties Paid on Residue Gas, OCS Lease G-1752-3, Sun Oil Company, 1972-1978	Valuation of lessee-used gas	$ 245,086
AMOCO	Review of Royalty Payments Made by Amoco Production Company (Amoco) on Natural Gas Produced and Sold from OCS Leases 0572, 0575, 0578 and 0788, 1972-1978.	Valuation of gas sold	$ 44,006
CHEVRON	Review of Royalties Paid on Gas Produced From OCS Leases 0373, 0374, 0375, 0377, 0378, G-1295, G-1297, G-1312, G-1367, G-1372, G-1373, G-1452, G-1623 and G-3338, Chevron USA, 1972-1978	Valuation of Lessee-Used Gas	$ 7,621,755

Lessee	Audit Title	Major Problems Identified	Additional Royalties Identified
TEXACO	Review of Royalties Paid by Texaco Inc., on Residue Gas from OCS Leases 0572, 0575, 0578, and 0788, 1972-1978	Valuation of lessee-used gas	$ 448,351
CONOCO	Review of Royalties Paid by Conoco, Inc. on Natural Gas Removed from Federal Leases	Improper valuation of gas due to the use of incorrect BTU values, failure to compare processed gas values to wellhead values, incorrectly valuing natural gas liquids, failure to file for the stripper well classification for some wells, and mathematical errors were reported.	$ 572,498

Lessee	Audit Title	Major Problems Identified	Additional Royalties Identified
EL PASO	Review of Royalties Paid by El Paso Natural Gas Company on Natural Gas Removed from Onshore Federal and Indian Oil and Gas Leases	The pricing methodology applied by El Paso to production after June 1, 1977 should have been applied retroactively to June 21, 1974.	$10,044,243

APPENDIX F

SOURCE AND DISTRIBUTION OF ROYALTIES

Table No.	
1	Minerals royalty revenues are given for six years (fiscal years 1976-1981) from onshore Federal and Indian leases and from offshore Federal leases; 1981 figures are estimated in part.
2	Minerals royalty revenues projected through fiscal year 1990, as detailed in Table No. 1.
3	Table 3 shows distribution to 23 States from fiscal years 1920 through 1980; subsequent pages detail major disbursements of Outer Continental Shelf, Public Land, Acquired Land, and Indian Land minerals royalty revenues.

DEPARTMENT OF THE INTERIOR
TABLE 1: FEDERAL AND INDIAN ROYALTY REVENUES, 1976-1981
(Figures are in millions of dollars)

Fiscal Year	Outer Continental Shelf	Onshore Oil and Gas Federal	Onshore Oil and Gas Indian**	Onshore Mining Federal	Onshore Mining Indian**	Total Revenues*
1976	$1,001	$207	$ 40	$28	$10	$1,286
1977	805	256	47	33	23	1,164
1978	1,006	286	50	44	21	1,407
1979	1,338	340	60	50	19	1,807
1980	2,004	565	91	47	20	2,727
1981	3,059	819	138	78	21	4,115

*Include Windfall Profit Tax.
**Substantial additional revenues for certain tribes collected by BIA, not USGS, are not included in these data.
Source: Public Land Statistics, 1980, Bureau of Land Management; and USGS Records as of 01/05/82.

Department of the Interior
TABLE 2: ESTIMATED FEDERAL AND INDIAN ROYALTY REVENUES
(Projections in millions of dollars are based on price projections determined by OMB and DOI)

Fiscal Year	Outer Continental Shelf	Onshore Oil and Gas Federal	Onshore Oil and Gas Indian	Onshore Mining Federal	Onshore Mining Indian	Total Royalties	WPT*	Total Revenues
1982	$ 3,077	$ 693	$ 143	$ 97	$ 29	$ 4,039	$ 958	$ 4,997
1983	3,444	756	148	111	29	4,488	983	5,471
1984	3,798	827	153	124	31	4,933	1,022	5,955
1985	5,557	1,107	184	172	37	7,057	1,058	8,115
1986	6,387	1,240	194	202	43	8,066	1,086	9,152
1987	8,512	1,562	225	428	65	10,792	1,108	11,900
1988	9,116	1,677	231	500	74	11,598	1,131	12,729
1989	9,877	1,841	246	577	84	12,625	1,008	13,633
1990	10,888	2,097	251	705	98	14,039	586	14,625

*Windfall Profit Tax
Source of Data: USGS records

Prepared 01/05/82

TABLE 3: HISTORY OF THE SHARE BY STATE IN MINERALS REVENUES, 1920-1980

Revenues by fiscal year, in thousands of dollars, include bonuses, rents, and royalties)

States	1920-1976	1977	1978	1979	1980	1920-1980
Wyoming	$ 454,885	$ 58,971	$ 69,179	$ 76,523	$115,062	$ 774,620
New Mexico	285,342	52,145	59,709	74,382	105,081	576,659
Colorado	187,222	15,824	15,250	19,996	21,306	259,598
California	119,798	9,474	10,371	18,849	23,788	182,280
Utah	84,044	8,622	11,891	12,590	17,028	134,175
Alaska	124,407	1,006	1,258	1,527	2,497	130,695
Montana	62,078	6,949	7,508	8,037	9,954	94,526
Nevada	9,489	2,903	4,569	6,637	7,187	30,785
Idaho	6,874	1,367	2,102	2,534	2,895	15,772
North Dakota	5,531	975	718	1,375	4,229	12,828
Oklahoma	3,387	843	3,587	1,266	1,594	10,677

TABLE 3 (Continued)

States	1920-1976	1977	1978	1979	1980	1920-1980
Arizona	3,799	389	743	1,222	2,005	8,158
Louisiana	5,173	324	297	771	355	6,920
Kansas	3,414	458	570	670	891	6,003
South Dakota	3,174	332	358	658	738	5,260
Arkansas	856	123	235	208	236	1,658
Oregon	655	244	198	232	306	1,635
Nebraska	228	39	38	72	184	561
Alabama	234	13	15	13	38	313
Washington	136	27	33	62	36	294
Michigan	171	15	28	28	32	274
Mississippi	202	10	10	17	31	270
Florida	126	6	68	3	27	230
Total	$ 1,361,225	$ 161,059	$ 188,735	$ 227,672	$ 315,500	$ 2,254,191

Department of the Interior

DISTRIBUTION OF MINERALS REVENUES FROM FEDERAL AND INDIAN LANDS
(From oil and gas and mining leases)

A. Outer Continental Shelf Leases

1. Land and Water Conservation Fund: Transfers from the general fund, rents, bonuses, and royalties are made to bring that fund to $900 million for each fiscal year. Transfers were $806 million for fiscal 1980 and $866 million for fiscal 1981.

2. Historic Preservation Fund: Transfers from general fund, rents, bonuses, and royalties amounted to $150 million for 1980, and $150 million for fiscal 1981.

B. Public Land Leases

1. States, excepting Alaska, receive 50 percent of all rents, bonuses, and royalties; 40 percent is deposited into the reclamation fund for water reclamation projects; and 10 percent into the general fund of the U.S. Treasury.

2. Alaska receives 90 percent of all rents, bonuses, and royalties.

C. Acquired Land Leases

All receipts (rentals, royalties, and bonuses) derived from leases for which the Department of Agriculture, U.S. Forest Service, has jurisdiction under the 1947 Mineral Leasing Act for Acquired Lands, are disbursed as follows:

1. Leases within National Forests--receipts are allocated as follows:

    25 percent to State in which resource is produced
    10 percent to forests, roads, and trails
    65 percent to general Treasury Fund

2. Leases within National Grasslands--receipts are allocated as follows:

    25 percent to county in which resource is produced
    10 percent to forests, roads, and trails
    65 percent to general Treasury Fund

NOTE: Receipts from other acquired lands are deposited to a variety of funds, relating to the surface and administrative jurisdiction of the land.

D. Indian Land Leases

1. Royalties collected by the Geological Survey are distributed by the Bureau of Indian Affairs to the Indian tribes and allottees (individual Indian owners).

2. Indian royalty receipts amounted to $111 million in fiscal 1980 and $160 million in fiscal 1981.

APPENDIX G

RESPONSIBILITIES OF THE CONSERVATION DIVISION, USGS IN THE MINERALS MANAGEMENT PROCESS

The Conservation Division is Responsible For:

- Evaluation of resources, which includes the classification of public lands to identify areas containing potentially valuable leasable minerals and areas valuable for water power and water storage purposes;

- Evaluation of mineral resources on tracts of public land that are exchanged, sold, or made available for development and production through a competitive leasing process; and

- Supervision of operations associated with the exploration, development, and production of minerals from leased Federal, Indian, and Outer Continental Shelf lands. A significant element of this mission is the collection of certain rentals and royalties for minerals produced.

Conservation Division Functions Connected With Pre-leasing Include:

- Conducting extensive analysis of the potential resource availability of minerals to be extracted from particular Federal and Indian lands being considered for lease; and

- Conducting a hazard assessment which considers any environmental problems or deficiencies which might be encountered in mineral extraction.

Lease Management and Inspection Functions Include:

- Reviewing and approving all actions taken by lessees in connection with mineral extraction; and

- Conducting onsite inspections on a periodic basis. Inspectors review a number of lease production functions including production measurement, site security, environmental and safety concerns, and condition of onsite equipment and collection systems.

Royalty Management Program Functions Include:

- Obtaining required monthly reports on lease operations, production activity, and sales;

- Recording, collecting, and distributing rentals, royalties, and other payments owed the U.S. Treasury, States, and Indian tribes;

- Ensuring that fair value is received for oil, natural gas, and other minerals extracted from the lease;

- Auditing Net Profit Share leases;

- Computing and paying the Crude Oil Windfall Profit Tax on royalty collections from Federal leases; and

- Coordinating activities, including inspection requirements, with other operations within the Conservation Division.

APPENDIX H

RESPONSIBILITIES OF THE BUREAU OF INDIAN AFFAIRS IN THE MINERALS MANAGEMENT PROCESS

The Bureau of Indian Affairs administers the Secretary's trust responsibilities with respect to the development and production of Indian minerals held in trust or in restricted status. These responsibilities are accepted to be an obligation to protect the resources and to obtain the highest remuneration for the sale of them. Specifically, the Bureau is responsible for:

- Processing and approving all exploratory permits, in consultation with the tribe;
- Advising the tribe of tract or location nominations by industry and providing any technical assistance requested by the tribe;
- Determining and including special terms in the lease prior to advertisement, in consultation with the tribe.
- Preparing competitive advertisement after authorization by tribal resolution;
- Complying with requirements of the National Environmental Policy Act of 1969 (preparation of Environmental Assessment or Environmental Impact Statement, done in concert with tribe and the USGS);

- Advertising for sealed bids (sometimes including oral auction);
- Holding lease sale and open bids;
- Requesting assistance of the USGS in determining adequacy of high bids, as necessary;
- Presenting high bids to the tribe for acceptance or rejection;
- Receiving tribal resolution indicating acceptance or rejection of successful bidders;
- Notifying successful bidders;
- Assisting bidder in completing lease, if necessary;
- Submiting completed lease form, executed by bidder, to tribe for execution;
- After tribal execution, approving lease, (the Secretary's Authority is delegated to Bureau).
- Collecting, accounting, and distributing bonus and rental income prior to production;
- Making distribution of royalty payment after it is transmitted from USGS royalty management office, once production begins;
- Taking remedial lease compliance actions, either individually or with technical advice from USGS;

- Canceling lease, if necessary; and
- Processing final administrative termination of lease after site inspection approval by the USGS.

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