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E. H. Morse
Director, DPSS

UNITED STATES GENERAL ACCOUNTING OFFICE
DALLAS REGIONAL OFFICE
ROOM 500, 1512 COMMERCE STREET
DALLAS, TEXAS 75201

OCT 23 1970



Mr. Robert F. Evans
Oil and Gas Supervisor
U. S. Geological Survey
336 Imperial Office Building
3301 N. Causeway Boulevard
Metairie, Louisiana 70002

Dear Mr. Evans:

We have completed our test of the Geological Survey's (GS) procedures for collecting rents and royalties from oil and gas leases and for reporting collections to the Bureau of Land Management (BLM). We found that producers are generally submitting oil production reports and royalty payments by the end of the month following the month of production in accordance with the lease agreements.

We found, however, that eight of the eleven producers tested were submitting gas production reports and royalty payments on an average of one to four days after the time specified in the leases. We discussed this with the Regional Petroleum Accountant who took immediate action to require timely reporting and payment of royalties.

Prior to October 1969, gas producers had been allowed to report production and pay royalties at the end of the second month following production. In October 1969, you issued a letter to producers requiring reports and payments to be made by the end of the month following production, with production estimated if necessary. Where estimates were used, adjustment reports were to be made in the following month.

We selected a small number of producers who were employing the estimate method and found that subsequent adjustments averaged less than seven percent. We have reported this to GS Washington representatives, and GAO will examine the GS Office collections at Roswell, N.M., to see if the estimate method might improve timeliness of collections and reporting there. If so, GS will be asked to consider the advisability of general application of the technique.

During our test, we noted two matters which have been discussed with GS and BLM representatives in Washington, D.C. These matters are summarized in the following paragraphs for your information.

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The Conservation Division of GS in Washington uses information furnished by the Gulf Coast Region to prepare a monthly royalty accounts receivable control listing. The Gulf Coast Region then uses this control listing to prepare the Accounts Receivable Register for the BLM. GS representatives advised us that the Register is a summary, without adjustments, of the information shown in the control listing and that the only change to the listing is the addition of the constant amount of about \$1.8 million for the "office lease accounts".

We suggested that, since the accounts receivable amounts are not adjusted, consideration be given to having the Conservation Division prepare the Register as a by-product of the processing for the control listing and furnish the Register directly to BLM. After discussion, GS and BLM representatives in Washington decided that the GS's Conservation Division would furnish the required accounts receivable information to BLM.

Our test also showed that GS prepares a monthly collection register summarizing royalty and rental collections for the BLM. In addition, GS furnishes the BLM with copies of all certificates of deposit when royalty and rental payments are made. The certificates contain the same information shown on the register except that the register shows revenues by product, state, and county as required. We suggested that the collection register might be eliminated if the GS coded the certificates furnished the BLM to show all necessary information. This procedure would have the advantage of providing accounting data to the BLM at an earlier date. GS and BLM representatives in Washington determined that the register could be eliminated and the GS would either annotate the certificates with the necessary information or substitute a collection data sheet in a format more readily usable by BLM.

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We appreciate the courtesies and cooperation shown our staff during this review.

Sincerely yours,



W. H. Sheley, Jr.
Regional Manager