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United States General Accounting Office ~~34198~~

GAO

Report to the Chairman, Committee on Government Operations
House of Representatives

March 1986

INDIAN ROYALTIES

Interior Has Not Solved Indian Oil and Gas Royalty Payment Problems

129706

GAO/IMTEC-86-13

GAO

United States
General Accounting Office
Washington, D.C. 20548

Information Management and
Technology Division

B-222321

March 31, 1986

The Honorable Jack Brooks
Chairman, Committee on Government
Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your July 19, 1985, request that we examine the status of the Department of the Interior's initiatives to solve Indian oil and gas royalty payment problems identified by your Committee in a July 1985 report.

We found that the Bureau of Indian Affairs has fallen far behind in its responsibilities under the Federal Oil and Gas Royalty Management Act of 1982 in providing useful explanations of royalty payments to Indians. We also found that a new computer acquired to help the Minerals Management Service carry out its responsibilities will not solve the problems mentioned in the Committee's report. We are recommending steps that the Secretary of the Interior can take to ensure the Department meets its trust responsibilities to Indian oil and gas owners.

As agreed to with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from the date of the report. At that time, we will send copies to the Secretary of Interior; the Assistant Secretary for Indian Affairs; the Director, Minerals Management Service; and interested committees and members of Congress. We will also make copies available to others upon request.

Sincerely yours,

Warren G. Reed

Warren G. Reed
Director

Executive Summary

The Department of the Interior has a trust responsibility to Indians to ensure the timely and accurate collection and distribution of Indian oil and gas royalties. In a July 1985 report, the House Committee on Government Operations found that Interior was not properly discharging this responsibility. Among other things, the Committee found that Indians were not receiving explanations of their royalty payments; royalties were not properly accounted for, resulting in overpayments; and Indian leases were receiving low priority in the agency's exception processing system, which bills royalty payers for late payments, nonpayments, underpayments, and insufficient estimates.

The Chairman asked GAO to evaluate several Interior initiatives, including efforts to

- provide useful royalty payment explanations to individual Indians,
- resolve royalty overpayments, and
- ensure that Indian leases are included in Interior's exception processing system.

GAO was also asked to evaluate how a new computer, which is being installed by Interior's Minerals Management Service to improve the Service's ability to collect and disburse royalties, would help to solve these and other problems identified in the Committee's report.

Background

Over $1.4 billion in royalties has been earned on minerals extracted from Indian-owned lands over the past 50 years. About $180 million is earned annually by Indian tribes and individual Indians.

Two Interior agencies—the Minerals Management Service and the Bureau of Indian Affairs, respectively—are responsible for the timely collection and distribution of Indian royalties.

Beginning in October 1983, the Federal Oil and Gas Royalty Management Act of 1982 required Interior to provide Indian royalty owners with explanations of their royalty payments. In response to the act, the Bureau developed an automated Royalty Distribution and Reporting System to provide this information. The system began operations in April 1985.

Results in Brief

As of February 1986, the Bureau was not in compliance with the act's requirements. About 18,000 of 27,000 Indian royalty owners were not receiving information explaining their royalty payments, and the Bureau was not providing royalty rate information as required by the act. Also, the explanation statement was hard to understand. (See pp. 15 to 21.)

The Bureau's new automated system was properly accounting for royalty payments to ensure that Indians were correctly paid. However, the Bureau has not taken action to resolve about $450,000 in past overpayments. (See pp. 21 and 23.)

The Service has made progress in ensuring that Indian leases are included in its exception processing system. (See pp. 32 to 35.)

A new computer installed in July 1985 by the Service is not critical to correcting the problems found by the Committee. (See pp. 29 to 32.)

Principal Findings

Bureau Initiatives Ineffective

As of February 1986, the Bureau was able to provide 9,000 (or 33 percent) of the 27,000 Indians with most of the required royalty payment information using the new automated system. By June 1986 the Bureau expects to increase this figure to 87 percent. There is no certainty that all Indians will get payment statements because the Bureau has relied upon individual field offices to independently implement the system. (See p. 15.) Payment statements do not include the royalty rate; as a result, Indians do not receive a key piece of information required by law and needed to understand their royalty payments. Although the Bureau has the information to compute royalty rates, the Bureau's project manager believed that the Service should provide this information to the Bureau. (See p. 18.)

Royalty Statements Hard to Understand

In a GAO random sample of Indians who received royalty explanation statements, 40 percent of those responding found the statement hard to understand because of its small print and technical language. GAO's analysis of the statement showed similar problems. GAO believes that, had the Bureau consulted with Indians or their representatives and used a forms design expert, it would have been able to design a more useful statement. (See p. 19.)

Past Overpayments Not Resolved

Royalty overpayments occurred primarily because the Bureau did not offset downward adjustments by payers to previous royalty payments against future royalties. The Committee reported that Indians may have been overpaid by $2 million to $3 million since 1983. GAO found that the Bureau's new automated system can offset downward adjustments. The Bureau has not taken action to resolve about $450,000 in overpayments made in the Anadarko area prior to installation of the automated system in April 1985. (See p. 21.)

Late Payments and Other Exceptions Improving

The Service's exception processing system identifies payers who make late royalty payments, do not pay at all, or who underestimate or underpay royalty amounts due on federal and Indian leases. Since April 1985, Indian and federal leases were examined on an equal basis to identify late payments. Indians could receive about $375,000 in additional revenue annually as a result. Because the Service had not implemented procedures for identifying other payment exceptions, it has yet to collect an estimated $2.3 million in backlogged Indian royalty revenue. In February 1986 the Service began acquiring the staff needed to collect royalties owed for three other types of exception categories and to eliminate the backlog. Indians could receive an additional $612,000 annually when these procedures are implemented. (See p. 32.)

Value of Service's New Computer Limited

The Service's new computer will be of little value in resolving the problems in the Committee's report, including those related to providing royalty payment information to Indians, resolving royalty overpayments, and ensuring Indian leases are included in the Service's exception processing system. As discussed above, the solutions to these problems are either not computer-related or depend on implementation of the Bureau's computer system. The Service has agreed to modify its computer system to generate royalty rate information for use by the Bureau on royalty statements and to reduce the number of adjustments which, in the past, resulted in overpayments. (See p. 29.)

Recommendations

The Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to

- promptly implement the Bureau's Royalty Distribution and Reporting System Bureau-wide;
- change the Bureau's computer system to provide royalty rates on the payment statements;
- redesign the payment statement to make it easier to understand and use; and
- resolve by offset, collection, or write-off past overpayments resulting from not properly accounting for oil and gas royalty payments in the Anadarko area. (See p. 26.)

An additional recommendation to the Secretary is on page 38.

Agency Comments

GAO discussed its findings with agency program officials and has included their comments where appropriate. At the Committee's request, GAO did not obtain the views of responsible agency officials on its conclusions and recommendations or request official agency comments on a draft of this report.

Contents

Introduction

The Department of the Interior's royalty management program is one of the most visible and important in Interior's broad range of responsibilities. Not only does the program provide a major source of revenue to the federal government, but it also provides stewardship for hundreds of millions of dollars that are distributed to states, Indian tribes, and Indian allottees (individuals for whom the government holds land in trust). In the last 50 years, over $1.4 billion in royalties has been earned on minerals taken from Indian lands. The Interior agencies responsible for administering the program are the Minerals Management Service and the Bureau of Indian Affairs.

The Minerals Management Service distributes bonuses, rents, and royalties from leases for oil, gas, coal, and other minerals on federal and Indian lands. It also collects rents and royalties on about 135,000 leases, of which about 1,300 are Indian tribal leases and 3,200 are Indian allottee leases. The Service accounts for about $5.4 billion in rents and royalties annually. Of this amount, about $84 million goes to allottees. An estimated 27,000 allottees share in the revenues from the 3,200 Indian allottee oil and gas leases. The Service uses automated systems to help ensure that all royalties and other revenues are properly collected. In July 1985, the Service installed a new computer at its royalty management accounting center in Lakewood, Colorado, and is currently converting software to operate on the new computer.

The Bureau of Indian Affairs is the United States' principal agent in the government-to-government relationship between the United States and federally recognized Indian tribes. The Bureau carries out the responsibilities of the federal government as trustee for property held for federally recognized tribes and for Indian allottees. One of the Bureau's responsibilities is to disburse royalty monies to individual Indian allottees. The Bureau receives reports from the Service indicating the royalties to be distributed for Indian allottee leases. It then identifies the allottees who share in each lease, calculates the amount due each allottee, and credits the appropriate allottee's account.

With the passage of the Federal Oil and Gas Royalty Management Act of 1982, the Secretary of the Interior is required to provide information to allottees on royalty payments made after October 1, 1983. In April 1985, the Bureau implemented an automated system to meet this requirement. Currently it is operational in two of the seven area offices that serve about 9,000 of the 27,000 allottees.

In April 1985, the Subcommittee on Environment, Energy, and Natural Resources, House Committee on Government Operations, held hearings in Oklahoma on problems with Interior's distribution of Indians' oil and gas royalty payments. On July 19, 1985, the House Committee on Government Operations issued a report[1], based on the Subcommittee's study, which concluded that Interior was not properly discharging its trust responsibility to Indians. Among the problems reported were that: (1) Indian allottees were not being provided the information on royalty payments as required by the act; (2) no comprehensive system for auditing Indian leases had been established; (3) Indian leases may be receiving low priority under the Service's automated exception processing system (this system identifies and bills producers and other royalty payers for late payments, nonpayments, underpayments, and insufficient estimates[2]); (4) an accounting system had not been established to keep track of negative royalties, which are adjustments to previous overpayments to Indian allottees resulting from over estimation of production; and (5) interest earned on funds deposited to special deposit accounts for unidentified allottees was not being distributed when the allottees entitled to the funds were eventually identified.

The Committee made several recommendations designed to achieve full implementation of the act and to improve the administration of Indian oil and gas royalties.

Objectives, Scope, and Methodology

In its July 1985 report, the House Committee on Government Operations requested us to evaluate the Minerals Management Service's plan for a new computer system and whether it adequately addressed the royalty management problems identified. Later, the Subcommittee on Environment, Energy, and Natural Resources asked us specifically to evaluate Interior's actions to

- provide useful mineral royalty payment information to Indian allottees;
- account for Bureau audit requests of Indian allottee leases, select Indian allottee leases for audit, and audit Indian allottee leases;
- ensure that Indian allottee leases are included in its exception

[1] House Report 214, 99th Cong., 1st Sess. (1985).

[2] Insufficient estimates are interest penalties assessed when actual reported royalty amounts exceed estimated royalty amounts previously paid to the Service.

processing procedures for examining payer royalty reports for late payments, nonpayments, underpayments, and insufficient estimates;
- resolve the negative royalty accounting problems; and
- resolve the issue of undistributed interest in special deposit accounts.

We were also asked to determine the current status of the Service's efforts to implement an enhanced computer system for managing mineral royalties, and the extent to which the computer will help to solve royalty management problems reported by the Committee.

We carried out our field work from August 1985 to December 1985 at the following Bureau of Indian Affairs locations: The National Technical Support Center in Albuquerque, New Mexico; information management centers in Albuquerque, New Mexico; Anadarko, Oklahoma; and Billings, Montana; area offices in Anadarko, Oklahoma; Billings, Montana; Muskogee, Oklahoma; and Window Rock (Navajo Office), Arizona. We selected these four area offices because, according to Bureau records, they serve 24,500 (or 91 percent) of the 27,000 Indian allottees with producing oil and gas leases.

During our review, we interviewed responsible Bureau officials at headquarters, the Office of Energy and Minerals Resources, the Office of Data Systems, and the Office of Trust Responsibilities (which administers Indian oil and gas leases). While visiting Bureau area offices, we reviewed the offices' efforts to make the Royalty Distribution and Reporting System operational. We also talked with personnel at the Bureau's Aberdeen, South Dakota; Albuquerque, New Mexico; Muskogee, Oklahoma; Navajo, Arizona; and Phoenix, Arizona, area offices to find out how they planned to make the computer system work in their areas. We also reviewed the Bureau's plans for making the Royalty Distribution and Reporting System operational Bureauwide.

In addition, we analyzed the payment statement produced by the Royalty Distribution and Reporting System in the Anadarko area to determine if the information provided meets the requirements of the Federal Oil and Gas Royalty Management Act. We tested the computer system's ability to monitor royalty payments and to manage negative royalty entries. Our test included tracing all negative royalty entries for a 2-week period from the Minerals Management Service for one agency office to determine if the entries were properly posted to the computer's suspense file. We also examined, line by line, the computer programs used to monitor royalty payments and to manage negative royalty entries. We followed the program logic used to process negative and positive transactions to determine whether the computer was processing both types of transactions correctly.

We reviewed the methods used by area offices visited to account for entries that could cause overpayments. To satisfy our special deposit account objective, we talked with Bureau personnel at selected area offices involved in distributing interest earned on special deposit accounts to ascertain how these accounts are created, how interest is accumulated, and how principal and interest are distributed. We coordinated our work in these areas with Interior's Office of Inspector General and reviewed Inspector General reports on the administration of Indian oil and gas leases. During our field visits, we determined if action was taken based on the recommendations in the Inspector General reports.

To determine the usefulness of the automated payment statements, we sent a questionnaire to a randomly selected sample of 592 of the 6,721 allottees who, according to Bureau records, had received at least one statement from the Bureau's Anadarko area office between April 1, 1985, and October 1, 1985. We pretested the questionnaire on Indian allottees to observe any misinterpretation in the wording of questions or any problems in obtaining the information requested. Following the pretest, we modified the questionnaire and then mailed it to the selected Indian allottees on November 7, 1985; we sent a follow-up questionnaire to nonresponders on December 2, 1985. By January 31, 1986, 265 allottees had responded. Because of the low response rate, we did not statistically project the responses to the universe of 6,721 allottees. We do believe, however, that it is important to acknowledge this information, because it is the only data currently available regarding the degree to which the Bureau's statement meets Indian allottee needs. (Appendix I contains additional information on the scope and methodology used, as well as a facsimile of the questionnaire.) We also interviewed tribal officers of nine tribes who represent over 60 percent of the 7,500 Indian allottees with producing oil and gas leases served by the Anadarko area. Our purpose: to find out what feedback on the payment statement these tribal officers had received from allottees in their tribes.

We also carried out field work at the Minerals Management Service's royalty management accounting center in Lakewood, Colorado, where we examined the operational status of the Service's new computer equipment, the status of efforts to convert the Auditing and Financial

System to the new computer, and the extent to which the Service's computer equipment and software would help solve Indian royalty management problems identified by the Committee.

In addition, we reviewed the Service's procedures for identifying and issuing bills for late payments to determine whether these procedures were being performed identically for Indian and non-Indian leases. We also reviewed the Service's plans for expanding its exception processing activities to include other types of royalty payment and reporting problems reported by the Committee in its July 1985 report, such as nonpayment of royalties, underpayment of royalties, and insufficient estimates. Our objectives were to find out the status of the Service's plans and how much these types of exception processing activities would benefit Indians. We also determined the status of the Service's plans for further expanding exception processing beyond those discussed in the Committee's report. These include identifying payers who incorrectly report royalty rates or product values. We also tested the Service's system for logging and accounting for Indian lease audit requests to determine whether the Service's inventory was accurate and complete.

Our review did not encompass all Bureau and Service royalty management activities. In addition, we did not assess whether the Bureau's and Service's royalty management programs were achieving their goals, or whether the programs were needed. Also, we did not assess the extent to which the Service's new computer was needed to improve the collection and disbursement of royalties, rents, and bonuses; therefore, no inferences should be drawn as to whether the computer is needed to solve royalty management problems that might exist in areas not covered in this review. In an April 1985 report entitled Management Action Plan for the Royalty Management Program, the Service stated that the new computer system would, for example, enable it to handle its projected work load, process royalty payments faster, and improve accountability for payment receipts and disbursements.

We discussed our findings with agency program officials and have included their comments where appropriate. However, in accordance with the requester's wishes, we did not obtain the views of responsible officials on our conclusions and recommendations; nor did we request official agency comments on a draft of this report. Except as noted above, we performed our work in accordance with generally accepted government auditing standards. Significant events occurring since December 1985 are appropriately noted.

Further Actions Needed by the Bureau to Resolve Indian Oil and Gas Royalty Problems

In July 1985, the House Committee on Government Operations reported deficiencies in the Bureau of Indian Affairs' management of oil and gas leases on Indian-owned lands. The Committee found that (1) Indian allottees were not receiving explanations of their royalty payments, (2) negative royalties (adjustments for previous overpayments) were not properly accounted for, and (3) interest earned on funds in special deposit accounts was not being distributed to Indians. Since that time, the Bureau has made progress in meeting its trust responsibilities to Indian royalty owners, but it has not yet eliminated all of these deficiencies.

At the time of our review, the Bureau had developed, but had not fully implemented, an automated system called the Royalty Distribution and Reporting System to distribute royalty payment information to allottees. As of February 1, 1986, the Bureau was able to provide royalty payment explanation statements to about 9,000 (or 33 percent) of the 27,000 allottees with producing oil and gas leases. These statements, however, did not contain all the information required by the Federal Oil and Gas Royalty Management Act of 1982, and 40 percent of allottees responding to our questionnaire did not believe the statements met their needs. There is no certainty that all Indians will get payment statements because the Bureau has not yet developed plans to implement the system in three area offices that serve over 7,600 allottees.

To prevent overpayments to allottees, negative royalty amounts must be offset against future royalties. In its report, the Committee expressed concern that the Bureau did not have adequate procedures at some field locations to offset negative royalties. The Committee estimated that since 1983 allottees may have been overpaid between $2 million and $3 million because Interior was not properly accounting for negative royalties.

Our review at four of the seven area offices reported on by Interior's Office of Inspector General in a March 1985 report[3] showed that all were currently managing negative royalties correctly. However, the Bureau has not resolved approximately $450,000 in past overpayments, although it planned to complete a review to determine the nature and extent of the overpayment problem by March 1986. As of March 1986, the review had not been started. We found that the automated Royalty

[3] Review of the Distribution of Oil and Gas Revenues Generated from Indian Lands (C-IA-BIA-23-83, Mar. 1985).

Distribution and Reporting System is an effective tool for properly accounting for negative royalties.

Regarding special deposit accounts, the Committee referred to the Inspector General's March 1985 report, which found that five Bureau offices were not distributing interest earned on special deposit accounts in accordance with Bureau procedures. The reason given was that personnel did not have the time or were confused about how to compute and distribute interest. The Inspector General estimated that the Bureau had not distributed over $1 million in interest to tribes and allottees. In a November 1985 follow-up[4], the Inspector General reported that two offices still had not totally resolved this problem. As discussed on page 16, one office had not correctly calculated and distributed interest; the other had not completed analyzing its special deposit accounts.

Progress Has Been Made to Provide Royalty Information, but Further Action Is Needed to Comply With Royalty Act

The Federal Oil and Gas Royalty Management Act of 1982 requires the Secretary of the Interior to provide allottees with royalty payment information beginning October 1983. As of March 1986, the Bureau had developed an automated system to produce payment explanation statements and, as of February 1, 1986, two area offices were using this system to provide statements to the 9,000 allottees in their areas with producing oil and gas leases. Two more area offices are working to implement the system by June 1986. If these two offices meet their milestones, the Bureau will be providing royalty explanation statements to about 23,400 Indian allottees (87 percent) by June 1986. While these steps indicate some progress, the Bureau's project manager has not determined how the system will be implemented at the remaining area offices. As a result, the Bureau cannot ensure that all oil and gas allottees will receive useful information about the natural resources being extracted from their lands and sold to oil and gas companies. In addition, the statements produced by this system do not provide all information required by the act, and 40 percent of the allottees responding to our questionnaire found the statement difficult to understand.

[4]Special Report on Review of Selected Indian Oil and Gas Royalty Payment Issues (C-IA-BIA-52-85, Nov. 1985).

Action Needed to Ensure That All Indian Allottees Receive Royalty Payment Explanations

Section 105(a) of the Federal Oil and Gas Royalty Management Act of 1982 required that, beginning October 1, 1983, the Secretary of the Interior provide all Indian allottees with the following information for each royalty payment: type of payment being made; source of the payment; period covered by the payment; quantity of product sold; product's unit value; and royalty rate. With this information, allottees can track the Bureau's calculation of their share of royalty payments and have a record of the quantity of natural resources being extracted from their land.

In May 1985 the Bureau issued an action plan for developing and implementing a Royalty Distribution and Reporting System, which would automatically produce royalty payment explanation statements for all allottees. The Bureau made the director of its Office of Trust Responsibilities responsible for carrying out the plan. This plan called for the Anadarko area office to complete development of the automated system by June 1985 and for the system to be approved for Bureau-wide use by October 1985 and then be to implemented throughout the Bureau by October 1986.

As of February 1, 1986, the system had been installed at two of seven area offices. These two—Anadarko and Billings— serve about 9,000 (33 percent) of the 27,000 allottees. The Anadarko area office began issuing statements on a pilot basis to its allottees in April 1985 and, by September 1985, it had fully implemented the system. The Deputy Assistant Secretary for Indian Affairs selected Anadarko as the pilot because Indians who live in this area filed a lawsuit alleging that the Bureau was not complying with the act's requirements. In October 1985, the Billings area office implemented the system. Billings was selected because Bureau officials believed that it had the data processing staff support necessary for successful implementation.

The five remaining area offices have not yet implemented the new system and are not providing allottees with the required royalty information. The Navajo area office at Window Rock, Arizona, which serves 12,275 oil and gas allottees, is working to implement the system by April 1986. The Phoenix area office, which serves about 2,100 oil and gas allottees, plans to implement the system by June 1986. The manager of the Phoenix information management center said that he decided to install the system in the Phoenix area in response to the Bureau's May 1985 action plan. If the Navajo and Phoenix area offices meet their current milestones for completion, the Bureau will be providing royalty

Recommendations

To ensure that the Department of the Interior complies with Section 105 of the Federal Oil and Gas Royalty Management Act of 1982, the Secretary of the Interior should direct the Assistant Secretary for Indian Affairs to

- promptly implement the Royalty Distribution and Reporting System Bureau-wide,
- change the Bureau's Royalty Distribution and Reporting System to provide royalty rates on the statements generated by the system, and
- redesign the royalty payment statement provided to allottees to make it easier for them to understand and use.

The Secretary should also require the Assistant Secretary for Indian Affairs to promptly resolve, by collection, offset, or write-off, the $450,000 in overpayments resulting from not properly accounting for negative royalties in the Anadarko area.

As of March 1986 the Bureau had not reported to the Inspector General on whether it had resolved the problems at the Concho and Anadarko offices.

During our visits to the Muskogee and Navajo area offices, we examined the procedures used to calculate and distribute interest on special deposit accounts. We also spot-checked a transaction at each office to ascertain whether procedures were followed. Our examination showed that interest was being calculated and distributed in accordance with published Bureau manuals regarding special deposit accounts. We performed these limited tests because the Inspector General, in his March 1985 report, did not find any problems at these two offices.

Conclusions

The Bureau of Indian Affairs has fallen far behind in its responsibilities under the Federal Oil and Gas Royalty Management Act of 1982 to provide royalty payment explanations to allottees. As a result, 18,000 of the 27,000 Indians were not receiving basic information on their oil and gas royalties as required by the act. In addition, the payment explanations provided do not meet all the requirements of the act and were found difficult to understand and to use by a significant segment of the allottees we surveyed. In our opinion, the payment statement needs to be redesigned to make it more understandable. Unless it takes aggressive action, the Bureau will not likely come into full compliance with the act in the foreseeable future.

Although the Bureau is making progress in ensuring that negative royalties are properly accounted for, it has not resolved a longstanding overpayment problem in the Anadarko area. The overpayments amount to about $450,000 and result from the Bureau's not properly accounting for negative royalties. The Bureau's Royalty Distribution and Reporting System can be an effective tool in helping Bureau offices properly account for negative royalties, if implemented Bureau-wide.

It appears that the Bureau is addressing the problem of calculating and distributing interest earned on special deposit accounts in accordance with prescribed procedures. At the time of our review, two of the five offices identified in the Inspector General's March 1985 report as incorrectly accounting for interest had not yet fully corrected the problem, but they were working on its resolution.

At the four area offices we visited, we found that two (Muskogee and Navajo) were calculating and distributing interest in accordance with Bureau procedures. The Billings office did not administer special deposit accounts; instead, it delegated this function to its agency offices. We did not review steps taken by the Anadarko area office because, at the time of our visit, it was the subject of the Inspector General's follow-up review.

Problems Identified by Inspector General

In its March 1985 report, the Inspector General's Office noted problems with calculating and distributing interest on special deposit accounts at five of seven Bureau offices it visited. The Concho, Uintah/Ouray, and Fort Peck agency offices were found not to have distributed interest earned on funds disbursed from special deposit accounts in accordance with prescribed Bureau procedures. Consequently, interest had been compounding since April 1, 1981, when the Bureau first authorized special deposits to earn interest. The Anadarko area office was reported to have computed and distributed interest earned in special deposit accounts since mid-1982, but it had not distributed interest earned retroactive to April 1, 1981. Although the Blackfeet agency had been distributing earned interest on special deposit accounts, it had not compounded the interest. The Inspector General reported no problems at the two remaining offices visited—Muskogee and Navajo.

The Inspector General recommended that area and agency offices analyze their special deposit accounts to determine if principal and interest should be distributed. The Inspector General also recommended that principal and interest be distributed where warranted. The Bureau agreed with the Inspector General's recommendation and directed all its offices to implement the recommendations.

Progress Being Made Correcting Identified Problems

The Inspector General's November 1985 follow-up report noted the following:

- The Concho agency office had analyzed, posted interest to, and distributed principal and interest for all but 17 of its special deposit accounts. However, interest had not been compounded on the accounts sampled and, in one case, interest was distributed to an oil and gas company instead of to the Indian mineral owners.
- The Anadarko area office had analyzed 429 of its 634 accounts and distributed principal and interest, where warranted. A target date of December 1, 1985, was set for completing the analysis and distribution.

determine the nature and extent of the overpayment problem in the Anadarko area. The director told us that, if the review confirmed that a problem exists, the Bureau would devise a plan to resolve the overpayments. On March 27, 1986, the acting chief for Trust Fund Management, Office of Trust Responsibilities, told us that the review scheduled for completion in March 1986 had not yet been started.

At the Muskogee and Navajo area offices, we obtained the procedures used to account for negative royalties and examined the offices' accounting records to ascertain whether the procedures were being followed. Our examination showed that the two offices were posting negative royalties to their accounting records and were offsetting these entries against positive amounts. We did not perform any further tests because the Inspector General, in his March 1985 report, did not find any problems at these two offices.

Progress Made in Addressing Undistributed Interest, but Problem May Not Be Totally Resolved

According to 25 Code of Federal Regulations 114, special deposit accounts are to be used for the temporary deposit of funds that cannot be credited to specific tribal or allottee's individual money accounts or that cannot be readily distributed. When the funds are later distributed, interest is to be paid to the principal. The Bureau is responsible for administering special deposit accounts. In its July 1985 report, the House Government Operations Committee referred to the March 1985 report by Interior's Inspector General, which found that five of the seven Bureau offices visited had not calculated and distributed interest earned on special deposits in accordance with prescribed Bureau procedures. The reason: Bureau personnel did not have the time or were confused about how to compute and distribute interest. The Inspector General reported that over $1 million of interest earned on special deposits had not been distributed to tribes and allottees.

The Committee asked the Office of Inspector General to follow up on its recommendations calling for Bureau field offices to analyze all special deposit accounts with balances to determine if the accounts contained principal or interest that should be distributed. We were asked to determine the actions taken by four area offices to resolve problems with distributing interest earned on special deposit accounts. We also reviewed the Inspector General's November 1985 follow-up report on Indian oil and gas royalty payment issues to find out if identified problems had been corrected. In that follow-up, the Inspector General had found that one office was not calculating interest properly and another had not yet completed analyzing its special deposit accounts.

The Committee asked us to evaluate any actions the four area offices we visited were taking to improve their management of negative royalties. We also examined the Bureau's Royalty Distribution and Reporting System to ascertain its usefulness in helping offices properly account for negative royalties.

All four of the area offices we visited were properly accounting for negative royalties. Since October 1985, the Anadarko and Billings area offices have been using the Royalty Distribution and Reporting System to perform this task. The system contains a disbursement and suspense management file that automates the process of handling negative royalties. Each time a new royalty payment transaction is entered into the system, the computer searches and reconciles the incoming transaction with the negative amounts held in the suspense file. Dollar amounts are updated and negative entries are offset before a disbursement can be made. A new suspense file is created for incoming negative transactions, along with previously existing negative amounts.

To test the system's effectiveness in managing negative royalties, we traced all negative transactions for one 2-week royalty payment reporting period for the Anadarko agency office. For the 2-week period reviewed, there were 17 negative transactions. We then traced the 17 negative transactions to the system's suspense file and found that all had been properly posted. This file is used to ensure negative royalties are offset before disbursements are made to individual Indian money accounts. We also examined the system's computer programs used to manage negative royalties. We followed the programs' logic used in processing negative transactions to ascertain whether the system processed them correctly. Our tests showed that the Royalty Distribution and Reporting System is an effective tool for properly accounting for negative royalties. Using this system, the Anadarko and Billings area offices are now correctly accounting for negative royalties.

The Anadarko area office has identified about $450,000 in unrecovered royalty overpayments that occurred prior to April 1985 when the Royalty Distribution and Reporting System was installed. As of February 1986, the director of the Anadarko area office had not developed a plan for recovering the overpayments because, he said, he was waiting for guidance from Bureau headquarters. He also said that, even if he had the guidance, he does not have enough resources to recover overpayments. In February 1986, the director of the Bureau's Office of Trust Responsibilities told us that the Bureau's Trust Accounting Office was conducting a review—scheduled for completion in March 1986—to

We also reviewed the design of the statement in accordance with federal forms design standards and criteria developed for us by professional forms design firms. We found the general appearance of the statement cluttered. The readability and understandability of the statement could be improved by such techniques as using larger type and providing more space between the lines of information. Unnecessary information, such as the computer program number that produced the statement, could be removed.

Further, using dollar signs where applicable, providing explanations of abbreviations on the same page, and showing the units of measurement could help make the statements easier to understand.

We discussed the design of the statement with the Director of the Bureau's Office of Data Systems, who was responsible for reviewing and recommending approval of the statement. He told us that the Bureau had not consulted with allottees or their representatives before approving the statement. He also said that the Bureau had not used a forms design expert. In our opinion, had these actions been taken, the Bureau would have been able to design a more understandable and useful statement to help allottees determine whether they were receiving the proper royalty amount.

Current Negative Royalties Properly Accounted For, but Past Problems Unresolved

In its July 1985 report the House Government Operations Committee noted that neither the Bureau of Indian Affairs nor the Minerals Management Service had an accounting system to keep track of negative royalties. Negative royalties are essentially adjustments for previous overpayments. The Committee's review disclosed that because Interior was not properly accounting for negative royalties, Indian allottees may have been overpaid by $2 million to $3 million since 1983.

The Committee included in its report the results of Interior's March 1985 Inspector General report, which found that three of seven Bureau offices included in its review were not properly accounting for negative royalty amounts reported to them by the Minerals Management Service. According to the report, these three offices believed the negative royalty amounts were mistakes caused by the Service and thus were the Service's responsibility to account for and to correct. The report recommended that the three offices account for negative royalties reported by the Service and not distribute royalties until royalty balances were positive. The Bureau agreed and directed all its area and agency offices to implement the Inspector General's recommendation.

The statement is accompanied by a letter (see appendix II) explaining the abbreviations listed and definitions of some of the terms used.

To determine the usefulness of the statements, we sent a questionnaire to a random sample of 592 of the 6,721 allottees who, according to Bureau records, had received at least one statement between April 1, 1985, and October 1, 1985. (See appendix I.) The questionnaire asked whether allottees had ever received such a statement, whether they found the statement easy or hard to understand, and whether the statement was useful in helping them to understand their payments.

Two hundred and sixty-five allottees responded. Of these, 259 (98 percent) said they had received a statement. Of the 254 respondents who answered our question on the ease of understanding the statement, 105 said the statement was easy to understand, 83 said it was hard to understand, and 66 said it was neither easy nor hard to understand. In their written comments, however, 103 (or 40 percent) of the respondents said the statement was difficult to understand for one or more of the following reasons:

- Fifty-five said the statement contained too many numbers and used computations that were difficult to follow.
- Thirty said the statement had too many abbreviations; they suggested using a different format and "plain English."
- Twenty-seven said the print was too small and thus was difficult to read.
- Twenty-seven said the statement did not contain information on the royalty rate or enough information on what the payment was for.

We also interviewed nine tribal officers who represent over 60 percent of the 7,500 Indian allottees with producing oil and gas leases served by the Anadarko area office. Seven said they had received some negative feedback on the statement from allottees in their tribes. The following summarizes their concerns:

- Recipients are having a difficult time understanding the statement and say it should be simplified.
- The Bureau should put more effort into explaining the statements to recipients.
- Recipients cannot recompute their share of the royalty payment using information provided on the statement.

In December 1985, the Service agreed to reprogram its computer system by December 1986 to provide the Bureau with royalty rate information, which should be equivalent to the contract royalty rate. The Service's system is undergoing conversion to a new computer, and all programming has been suspended until October 1986 when conversion and testing are expected to be completed.

Design Makes Statement Hard to Understand

Section 105(a) of the Federal Oil and Gas Royalty Management Act of 1982 requires the Secretary of the Interior to provide oil and gas allottees "information as may be agreed upon by the Secretary and recipient...Indian allottee." Forty percent of the allottees responding to our questionnaire found the statement difficult to understand. Figure 2.1 shows a portion, in actual size, of the monthly oil and gas royalty explanation statement sent to allottees. (A reduced reproduction of this form appears in appendix I.)

Figure 2.1: Monthly Indian Oil and Gas Royalty Statement

DATE RUN 12/31/85 19 22 48 20

STATEMENT OF OIL & GAS RECEIPTS & DISBURSEMENTS
ANADARKO AGENCY

PROGRAM 06400

PAGE

NAME

ACCT#

ADDRESS

CITY/STATE/ZIP ANADARKO OK 73005

	PAYMENT INFORMATION					LEASE INFORMATION						OWNER INFORMATION		
LEASE NO.	PR CD	SALES MO/YR	DUE DT TO MMS	DT RCV BY MMS	DT CR TO IIM	QUANTITY	UNIT VALUE	RENT & ROYALTIES	ASSESSMENT	ALLOWANCE	NET AMOUNT	OWNER INTEREST	OWNER SHARE
PAYOR 30190 INDIAN WELLS OIL CO.													
16126	04	10/85	113085	120285	121985	521.00	3.23	210.25			210.25	.050000	10.51
*LEASE TOTALS						521.00		210.25			210.25		10.51

evaluation because he was waiting for the Anadarko area office to develop performance criteria. The Anadarko official overseeing quality control of the system said he was responsible for evaluating the system before it left Anadarko. The Anadarko area office director said his staff did not evaluate the system before it left Anadarko because the Bureau's Office of Trust Responsibilities had not given him any formal criteria with which to do so.

As of January 1986, the director also had not developed a plan showing tasks and milestones for meeting the October 1986 implementation deadline. Later that month, a new director was selected for the Office of Trust Responsibilities. The new director said that he was reviewing all the office's trust-related activities, including implementing the Royalty Distribution and Reporting System Bureau-wide. His goal is to develop, by April 1986, a comprehensive implementation plan, which will detail individuals' roles and responsibilities as well as time frames for implementing the system.

Payment Explanation Statements Do Not Meet Requirements of the Act

Section 105(a) of the Federal Oil and Gas Royalty Management Act of 1982 requires the Secretary of the Interior to provide allottees with six items of information about their royalty payment, including the royalty rate. The payment explanation statements generated by the Royalty Distribution and Reporting System do not include a royalty rate and, therefore, do not comply with requirements of the act.

Currently, the Minerals Management Service provides the Bureau with an "effective royalty rate" which, because of adjustments allowed by terms of the lease, may not equal the contracted royalty rate appearing in the lease. The Anadarko area office director, who was responsible for developing the system, said that he believed the royalty rate information provided by the Service would confuse allottees, so he decided not to include it on the statement. His position is that supplying the effective rate will cause allottees to question whether the payer is paying the correct rate. He said that, eventually, he would like to see both the contract and effective rates reported on the statement. The director of the Anadarko area office also said that the Bureau could calculate the contract royalty rate using information supplied by the Service, but he decided not to do this. He stated that the Bureau is a conduit for information between the Service and the allottees and is not responsible for manipulating Service data to provide a royalty rate.

explanation statements to about 23,400 Indian allottees (87 percent) by June 1986.

The Aberdeen, Albuquerque, and Muskogee area offices, which serve 7,629 allottees, did not have action plans or milestones for implementing the system at the time we completed our field work in December 1985. In March 1986, we checked with officials at these three offices to determine if there was any change in status. The acting director of the Muskogee area office, which serves about 3,200 oil and gas allottees, said that he intends to implement the system, but he has not established an action plan or milestones.

The official responsible for ensuring that the 408 allottees in the Albuquerque, New Mexico, area get royalty payment information said that he has no plans to implement the system. He said the Albuquerque area office is considering developing its own automated system for providing payment information to allottees.

The director of the Albuquerque area office said that he had no plans to implement the system because he did not believe it was needed. According to the director, allottees could come to the area office if they wanted explanations and information on their royalty payments.

The director of the Aberdeen area office, which services 21 oil and gas allottees, said he intends to have the system implemented by July 1986, but he has not established an action plan. He also said that his office just recently acquired the computer programs and staff necessary for system implementation.

The Bureau Needs to Take Action to Ensure Bureau-Wide Implementation

On May 6, 1985, the Deputy Assistant Secretary for Indian Affairs made the Director, Office of Trust Responsibilities, the project manager for carrying out the Bureau's May 1985 action plan for implementing the Royalty Distribution and Reporting System Bureau-wide. As project manager, the director is responsible for (1) certifying the system's performance in the Billings area by October 1985 in preparation for Bureau-wide implementation and (2) installing the system Bureau-wide by October 1986.

The director said that he had not met the October 1985 milestone for evaluating the system's performance and certifying the system for Bureau-wide implementation. Instead, he had delegated this task to his Information Systems Officer, who told us that he did not perform the

Minerals Management Service Has Made Progress in Solving Indian Royalty Problems

The Minerals Management Service has made progress in addressing the royalty management problems discussed in the July 1985 report by the House Committee on Government Operations. One of these problems was that Indian leases were receiving low priority in the Service's system of exception processing. This system, among other things, can identify payers who make late royalty payments to the Service, do not make payments, or who underestimate or underpay the amount of royalties due on federal and Indian leases. The exception processing system offers the potential to increase revenues to Indians by billing and collecting unpaid royalties.

Another problem reported was that the Service had not established a system to account for Indian lease audit requests, the effect of which was that the requests were lost by the Service. The Committee asked us to determine how the Service's new computer system (installed in July 1985) would help not only to solve these problems but to provide Indians explanations of royalty payments, account for negative royalties, and distribute interest earned on special deposit accounts.

We believe that the new computer and the existing software currently being converted to the computer will be of little value in solving the problems discussed in the Committee's report. The solutions to these problems are either not computer-related or depend on the Bureau's computer system. The Service's new computer, however, could help provide Indian allottees royalty rates on payment statements submitted by the Bureau and could account for negative royalties.

Procedures for identifying late royalty payments now in effect at the Service provide equitable treatment to Indian leases during exception processing and could result in about $375,000 annually in additional revenues on Indian leases. Staffing constraints prevented the Service from processing the remaining three exception types included in this review. By not processing all four types of exceptions, a backlog in potential revenues from federal and Indian leases of $25.4 million has accumulated, of which $2.3 million is for Indian leases. This backlog is growing at a rate of $505,000 per month; a portion of this—$51,000—is for Indian leases. The Service is taking action to acquire additional staff needed to process the exception cases and to reduce the backlog. When all four types of exceptions are processed, the Service estimates it could collect an additional $612,000 annually on Indian leases.

The Service identified additional types of exception processing it could implement when its Auditing and Financial System becomes fully operational on the new computer. As of March 1986, the Service had not determined the feasibility of implementing these other types of exception processing functions.

The Service has also taken action to establish a manual system to account for requests made by the Bureau for audits by the Service of Indian leases. We found that the system is effectively accounting for Indian lease audit requests.

Solving the Reported Indian Royalty Management Problems Not Dependent on New Computer

The House Committee on Government Operations asked us to evaluate whether the Service's proposed computer system used for its royalty management program addresses the problems identified in the Committee's July 1985 report. We found that the new computer and the conversion of the existing software will be of little value in correcting identified problems.

A new computer was installed at the Service's royalty management accounting center in Lakewood, Colorado, in July 1985. Problems in converting existing computer programs have delayed making the computer system operational. The delay will mean a postponement of planned modifications affecting two of the five problems reported by the Committee. These modifications, while not necessary to solving the problems, could help the Bureau somewhat in (1) providing allottees with explanations of their royalty payments and (2) accounting for negative royalties.

Role of Automated Systems

The Service's royalty management program is supported by three automated systems: the Auditing and Financial System, the Production Accounting and Auditing System, and the Bonus and Rental Accounting Support System.

The Auditing and Financial System is the primary financial system used to account for rents and royalties from approximately 25,000 producing leases; it consists of functions for collecting, accounting for, and disbursing royalties from minerals produced on federal and Indian lands. The Production Accounting and Auditing System accounts for mineral production from the source of production to the point of disposition as reported by lease and facility operators. By comparing production volumes reported to the production system with sales volumes reported to the Auditing and Financial System, the Production Accounting and Auditing System serves as a means for ensuring that the royalties reported through the financial system are accurate. The Production Accounting and Auditing System is currently operational for all offshore oil and gas leases and about 5 percent of the onshore oil and gas leases. The Bonus and Rental Accounting Support System enables the Service to collect, account, and bill for bonuses and rentals from the 110,000 federal onshore nonproducing leases. (Appendix III contains detailed descriptions of all three systems.)

Financial System Conversion Delayed

In April 1985, the Service contracted to install a new computer at the Service's Lakewood facility and to convert the Auditing and Financial System software to its new computer. The new computer was installed in July 1985. Conversion of the financial system was to be completed and tested on April 26, 1986. In November 1985, the contractor advised the Service that the project would need to be delayed 5 months because of changes made by the Service to the scope of work to be done under the contract. In December 1985, the Service agreed to extend the date for completing conversion and testing to September 20, 1986.

Converted Financial and Other Automated Systems Will Not Resolve Reported Royalty Management Problems

The converted financial system and other automated systems will provide little help in solving the following problems: Indians not receiving explanations of their royalty payments; negative royalties not properly accounted for; no system to account for audits of Indian leases; Indian leases receiving low priority in the Service's exception processing system; and interest earned on funds in special deposit accounts not being distributed to Indians.

The Auditing and Financial System is being converted to the new computer without any changes. This means that any system modifications or enhancements will not be implemented until after September 1986, when the converted system is to be fully operational. However, enhancements planned by the Service for development following the conversion could help to alleviate past problems identified by the Committee. These problems related to supplying royalty rate information provided by the Bureau to Indians on payment statements and accounting for negative royalties.

The converted system will not directly help the Bureau in explaining royalty payments to Indian allottees. The Bureau is responsible for providing royalty explanation statements to Indian allottees and, as discussed previously, has developed an automated system to carry out this task. In December 1985 the Service agreed to reprogram its financial system so that it can provide royalty rate information to the Bureau, which should be equivalent to the contract rate. The enhancement is not planned to be made until after the converted financial system is fully operational on the new computer in October 1986. The enhancement, however, is not critical to helping the Bureau resolve the problem of providing royalty rates to Indian allottees because, as discussed on page 14, the Bureau can do this by modifying computer software it currently uses to produce royalty payment explanations to Indian allottees.

The converted financial system is not critical to properly managing negative royalties. As discussed on page 22, the Bureau of Indian Affairs can manage negative royalty entries through its Royalty Distribution and Reporting System. The Service plans to develop an enhancement after the financial system is fully operational on the new computer, which could help alleviate the negative royalty payment entry problem. This enhancement, which is scheduled for production in December 1986, could reduce the number of negative transactions the Service reports to the Bureau. However, the Bureau would still be responsible for managing negative royalty payment entries through its Royalty Distribution and Reporting System.

The converted financial system will not help with the other three problems reported by the Committee. The system was not designed to assist in the selection, logging, or tracking of Indian lease audits. It will also not help to resolve the issue of undistributed interest in special deposit accounts. Nor will it affect the Service's exception processing capability as it relates to the four exception processing functions reviewed. As discussed below, exception processing software is already a part of the financial system for the four exception processing functions reviewed. Further, limitations in processing the four exception types are not computer-related but are caused by a shortage of personnel to process exception cases.

The Production Accounting and Auditing System can enhance the Service's capability to identify royalty underpayments by comparing product data with sales data reported to the Auditing and Financial System. Its current potential, however, is limited because the system includes primarily high-volume leases, most of which are offshore. Since

Indian leases are all onshore, only 67 of the 4,500 Indian leases are included in the system. Its future potential is uncertain. The Service has delayed full implementation of this system to resolve concerns raised by the House Committee on Interior and Insular Affairs in its December 1984 report[5] regarding system costs and benefits. Interior has undertaken a study to determine if the system should be expanded to include all onshore leases. The study is planned for completion in October 1986.

The Bonus and Rental Accounting Support System is used to collect bonuses and rents from 110,000 federal onshore nonproducing leases. It therefore has no potential for use in resolving problems with administering royalties that are paid on producing Indian leases.

Full Implementation of Exception Processing Could Result in Increased Revenue

The Committee, in its July 1985 report, questioned whether exception processing to identify late royalty payments, nonpayments, underpayments of royalties, and insufficient estimates would be of much value to Indians. (Insufficient estimates are interest penalties assessed when actual royalty amounts reported exceed the estimated royalty amounts previously paid to the Service.) This concern stemmed from the fact that the Service did not issue any bills on Indian leases in its first exception processing run for late payments in February 1985. The Service gave a low priority to processing exceptions on Indian leases because exceptions on these leases were lower in value than others.

We found that, based on the portion of the exception processing system implemented for late payments, Indians are now receiving equitable treatment. However, the Service still has yet to implement the three other types of exception processing identified by the Committee, and a large backlog of potential revenues remains to be collected. Staffing constraints have prevented the Service from processing the remaining three exception types, according to the chief of the Service's Payer Accounting Branch. The Service has recently acquired contractor personnel to allow processing of all four exception types and to eliminate the backlog.

The Service has identified additional types of exception processing functions that could be implemented when the Auditing and Financial System becomes operational on the new computer. However, the Service has not established a time frame for conducting a test to ascertain the feasibility of implementing these other types of exception processes.

[5]House Committee Print No. 8, 98th Cong., 2d Sess. (1984).

Service's Exception Processing

Exception processing is a quality-assurance function within the Service's Auditing and Financial System to ensure that payer reports of oil and gas royalty payments are accurate, timely, and in accordance with rules and regulations. Specifically, exception processing is the identification of reporting conditions that could require billing action.

Underpayment exception processing on federal leases was started in June 1984 and lasted through October 1984. Bills of $445,000 for underpayments were issued for this period. The Service discontinued processing underpayments at the end of October 1984 so that it could conduct a pilot test of newly developed software for the other three types of exceptions. The Service conducted the pilot test in November 1984 to determine both computer and staff resource requirements necessary to fully implement exception processing. The pilot test showed that the Service had the computer capacity to generate exception reports for all types of exception cases. However, the Service found that 47 additional staff would be needed to manually verify computer-generated exceptions for all four types of exceptions. Consequently, according to the chief of the Service's Payor Accounting Branch, with the staff then available, the Service selected late payment exception processing over the other three types because it provided the greatest dollar recovery potential. The Service selected federal leases over Indian leases for the same reason.

Indians Are Receiving Equitable Treatment Under Late Payment Exception Processing

The Service's highest dollar first policy no longer restricts Indians to a lower priority within the Service's late payment exception processing procedures. Since April 1985 the Service has been separating computer-generated, late payment exception reports into two groups—federal and Indian. The exception reports are then ranked by dollar amount within their respective groups and processed simultaneously by designated staff. We estimate, based on the amounts collected from April through October 1985, that the Service could collect about $375,000 annually in additional revenue by processing late payment exceptions on Indian leases.

Service records show that, from April through September 1985, an average of 96 percent of the total potential recoverable dollars identified in Indian (allottees and tribes) late payment exception reports were analyzed. Similarly, an average of 93 percent of the total potential recoverable dollars identified in federal late payment exception reports were analyzed. Of these amounts, about 67 percent of the Indian dollars and 45 percent of the federal dollars were billed.

Table 3.1 shows the results of late payment billings processing (based on the Service's most current available records at the time of our review) on Indian and federal leases.

Table 3.1: Results of Late Payment Billings Processing (Apr.-Oct. 1985)

	Indian allottees	Indian tribes	Federal
Net amount billed	$167,129	$106,077	$6,524,147
Amount collected	145,708 (87 %)	73,108 (69 %)	2,845,884 (44 %)
Amount billed outstanding[a]	21,421	32,969	3,678,263

[a]$4,169 of the Indian allottee outstanding balance due has been appealed by payers; $10,532 of the tribal balance due has been appealed by payers; $2,392,623 of the federal balance due has been appealed by payers.

On the basis of the above, it appears that Indians are receiving equitable treatment in the Service's late payment exception processing.

Implementation of Three Additional Exception Processing Functions Is Scheduled

The Service plans to implement the remaining three types of exception processing—nonpayments, underpayments, and insufficient estimates—in fiscal year 1986. The Service included $1.7 million in its 1986 budget to hire contractor personnel to fully implement exception processing. The Service plans to spend $1 million to collect revenues on 100 percent of the exceptions generated and processed during fiscal year 1986. The remaining $700,000 will fund the first year of a 2-year effort to reduce the exception processing backlog retroactively to October 1983, the date that the Service was required to implement the Federal Oil and Gas Royalty Management Act of 1982. Processing of the backlog is anticipated to provide about $2.3 million in additional revenue to Indians.

In February 1986, the Service acquired contractor personnel to help analyze exception cases. According to the Service, the contractor will provide about 56 people, which is 9 more than the number estimated as needed based on the Service's November 1984 pilot test. The phase-in of contractor personnel began in February 1986 and will go on through May 1986, with about 15 people being brought on board in each of the first 3 months and 11 people in the fourth month. The Service official said that contractor personnel will be responsible for analyzing late payments, nonpayments, and insufficient estimates, while Service employees will analyze exceptions for underpayments.

After the three remaining types of exception cases are fully processed, the Service estimates that $612,000 in additional revenues could be collected annually on Indian leases. On the basis of information developed by the Service, we estimate that analyzing the backlog for the four types of exception cases could produce an additional $25.4 million in revenues consisting of $2.3 million for Indian leases and $23.1 million for federal leases. This backlog is currently growing at the rate of $51,000 per month for Indian leases and $454,000 per month for federal leases.

Other Types of Exception Processing Could Be Implemented

Some additional types of exception processing functions, although not discussed by the Committee in its July 1985 report, could be implemented when the Auditing and Financial System is fully implemented. These additional exception types could produce management reports that could be used by the Service to determine when royalties owed by payers are calculated using improper rates. The Service had not processed these types of exceptions in the past because its computers lacked the necessary capacity and because computer programs for these additional types of exceptions had not been fully developed. Also, instituting these exceptions would require additional personnel resources to develop and maintain the needed reference data files and to perform necessary manual processing.

According to the Service, computer programs for processing these other types of exception cases have been written but have not been fully tested. In March 1985, a departmental task force reported problems with the programs. The task force concluded that a pilot test was needed to fully evaluate whether there was a favorable cost/benefit ratio to be achieved from the additional exception processing. The Service has placed additional exceptional processing in abeyance until the Auditing and Financial System is reimplemented on the new computer in October 1986.

Service Is Making Improvements in Supporting Indian Audits

The Committee reported in 1985 that neither the Service nor the Bureau had established a system for following up or keeping track of Indian lease audit requests; consequently, Bureau requests for audits of allottees' leases were being lost. Also, the Committee reported that the Service did not have a comprehensive system for auditing Indian leases. To correct these problems, the Service has implemented a new system to account for Indian allottee audit requests and has developed a joint audit strategy with the Bureau. Because the Bureau and the Service were developing a joint Indian lease strategy, which was provided to the

Committee in October 1985, we did not review this new strategy. We did determine the Service's progress in implementing the logging and tracking system, and we tested the completeness of the system's inventory of audits at Bureau locations we visited. We found the inventory to be accurate and complete. We also found that the Accounting and Financial System could be beneficial in assisting the Service's audit effort.

The Service Has Established a System to Track Audit Requests

By May 1985, the Service had implemented a new logging and tracking system to correct the problem of lost Indian audit requests. Under this system, which is manually maintained, all requests from the Bureau are logged in before being assigned to one of the Service's regional compliance offices for action. A file folder is established for each request and in this folder is placed all correspondence relating to the request. After completion of the audit, the audit report is also filed in the folder. The Service uses the information from these folders to prepare a quarterly status report, which apprises the Bureau of the status of all Indian audit requests. To date, we were told, the volume of audit requests has not warranted automating the system. At the time of our review, the Service had 43 audits in the system, of which 36 were oil and gas audits requested by the Bureau.

This manual system works in conjunction with the Joint Bureau of Indian Affairs/Minerals Management Indian Service Lease Audit Strategy. The purpose of the strategy is threefold: to enable the Bureau and the Service to respond promptly to all Indian audit requests; to allow the Bureau and the Service to collectively accumulate information to be used to target future audits; and to resolve inquiries not requiring auditing.

Our review of the manual system showed the inventory of audit requests to be complete. The October 31, 1985, quarterly status report showed that 36 Bureau referral audits were either being performed on Indian leases or had been completed since the last quarterly status report. During our visits to the Anadarko, Billings, Muskogee, and Navajo area offices, officials there verified that the audits shown in the report included all outstanding audit requests made from these offices. The offices we visited accounted for 23 of the 36 outstanding Bureau audit requests. In addition, we called officials at the three remaining Bureau offices shown in the report as requesting audits and confirmed that all audit requests from these offices also were included in the inventory. According to the status report, audits had been initiated on all requests. This included 24 allottee audits, 5 tribal audits, and 7 audits which were not identified as allottee or tribal. Some of these audits included multiple leases and multiple allottees.

Auditing and Financial System Has the Potential to Assist the Audit Effort

The Auditing and Financial System has the potential to assist the Service in its audit efforts. Currently, the Royalty Compliance Division, which is responsible for conducting audits, has not been provided the benefit of all the automated support from the financial system that was originally intended. When the Auditing and Financial System was initially established, it was intended that the auditing division have on-line access to the data base and that the system be used to produce exception reports for the auditing division. Neither the on-line access nor the reports are currently provided. The exception reports, to be used in audit selection, have a low priority and are not yet scheduled for production.

The Service now has plans, however, to provide the division's regional compliance offices with access to the Auditing and Financial System's data base through the State and Tribal Support System. This system will allow participating states and Indian tribes access to the Auditing and Financial System data via microcomputers. The State and Tribal Support System could assist the regional compliance offices in various ways, such as determining the lease universe for a payer for sample selection, trend analysis of lease production or sales, or simple data retrieval. According to Royalty Compliance Division officials, this access should reduce the amount of time required to perform audits and, therefore, allow more audits to be performed.

Conclusions

The Service has addressed the problems reported by the Committee and is making progress in resolving them. The new Service computer and conversion of the existing software, however, are not critical in this effort, although it is possible that through future software modifications, two of the five problems can be partially alleviated. However, to totally correct these two problems—royalty rate information and negative royalties—the Bureau must also take some actions. The remaining three problems have no direct relationship to the new computer.

The problem of inequitable treatment of Indians in the four types of exception processing reported by the Committee appears to be resolved. However, the Service still has not implemented all four types of exception processing planned, and until this occurs, Indians will not receive all of the revenues to which they are entitled. This situation should improve as the Service begins to use contractor personnel to help analyze various types of exceptions and work on the accumulated backlog of exceptions. The benefits to be gained from implementing other types of exception processing functions cannot be precisely estimated without being evaluated by the Service. A study to assess the feasibility of these functions, therefore, may be an appropriate way of obtaining information to help the Service in determining which of these exception processing functions should be implemented.

The Service has taken action to correct the problem that caused Indian lease audit requests to become lost. A new logging and tracking system has been established, and our test of the system found it to be effective. Improvements in auditing of Indian leases should also result from the implementation of the new State and Tribal Support System which will, for the first time, allow Service auditors on-line access to the Auditing and Financial System data base.

Recommendation

We recommend that, after the Auditing and Financial System becomes operational on the Service's new computer, the Secretary of the Interior require the Director of the Minerals Management Service to assess the feasibility of expanding the Service's exception processing system to include other exception types, as well as those currently being performed.

GAO's Royalty Recipient Questionnaire

We developed, pretested, and administered a random sample questionnaire to 592 Indian oil and gas royalty owners with producing oil and gas leases in the Anadarko area to determine if the statement provided by the Bureau of Indian Affairs met royalty owner needs. According to Bureau records, 6,721 owners in the Anadarko area had received at least one royalty payment and explanation statement between April 1, 1985, and October 1, 1985. We deducted 120 records with no addresses and adjusted the universe size to 6,601. The adjusted universe contained 772 records in care of agency office superintendents and 5,829 records of Indian oil and gas royalty recipients.

Our original sample size was 594 records, 61 of which were records in care of superintendents and 533 Indian royalty owners. We adjusted our sample size because two records were not usable. One of these had a bad address and one was returned marked "closed estate." Our adjusted sample size represents about 9 percent of the universe and totaled 592 records, 61 of which were records in care of superintendents and 531 records of Indian royalty owners.

The questionnaire was pretested on allottees to observe any misinterpretation in the wording of the questions or any problems in obtaining the information requested. As a result of the pretest, the questionnaire was modified. It was mailed to the selected Indian allottees on November 7, 1985, and a follow-up questionnaire was sent to nonrespondents on December 2, 1985.

By January 31, 1986, we received 265 usable responses or about a 45-percent response rate; 11 questionnaires could not be delivered, and we did not hear from 316 respondents. The response rate was not high enough to statistically project the sample results to the universe of 6,721 allottees. We do believe it is important, however, to acknowledge this information as it is the only data currently available regarding the degree to which the Bureau's statement meets allottees' needs. We provided three open-ended questions in which allottees were asked to provide comments on what they liked or disliked about the statement; what information on the statement was not correct; and what additional information they needed to understand the checks they receive. Our analysis of the answers provided to the three questions showed that 103 respondents reported that the statement was hard to use for one or more reasons. A facsimile of the questionnaire, including responses as of January 31, 1986, follows.

U.S. General Accounting Office
ROYALTY RECIPIENT QUESTIONNAIRE

The U.S. General Accounting Office, an agency of the Congress, is studying Department of Interior efforts to manage oil and gas royalty payments. The purpose of the following questions is to get information from people like you who actually receive royalty payments. Therefore, your responses are a very important part of our work.

Your responses will be kept confidential and will be released in summary form only. The questionnaire is numbered so that when you send it back we can remove your name from our mailing list and will not send you a second questionnaire.

Each month since April 1985, the Bureau of Indian Affairs (BIA) has been mailing a Statement of Oil and Gas Receipts and Disbursements to people who get royalty payments. An example of one of these statements is shown below:

DATE RUN: 8/02/85 14:21:32:80 — STATEMENT OF OIL & GAS RECEIPTS & DISBURSEMENTS — ANADARKO AGENCY — PROGRAM: 00480 — PAGE 1

NAME — ACCT #

ADDRESS

CITY/STATE/ZIP

PAYMENT INFORMATION						LEASE INFORMATION					OWNER INFORMATION		
LEASE NO.	PR CD	SALES MO/YR	DUE DT TO MMS	DT RCV BY MMS	DT CR TO IIM	QUANTITY	UNIT VALUE	RENT & ROYALTIES	ASSESSMENT	ALLOWANCE	NET AMOUNT	OWNER INTEREST	OWNER SHARE
PAYOR 31025 NORTHWEST CENTRAL PIPELINE													
17195	04	82/ 8	093082	850327	073085	.00	0.00	9.67-			9.67-	.055555	.54
17195	04	82/ 9	103182	850327	073085	.00	0.00	.76-			.76-	.055555	.04
17195	04	82/10	113082	850327	073085	.00	0.00	.99-			.99-	.055555	.05
17195	04	82/11	123182	850327	073085	.00	0.00	.13-			.13-	.055555	.01
17195	04	82/12	013183	850327	073085	.00	0.00	.48-			.48-	.055555	.03
17195	04	83/ 1	022883	850327	073085	.00	0.00	1.17-			1.17-	.055555	.06
17195	04	83/ 2	033183	850327	073085	.00	0.00	1.70-			1.70-	.055555	.09
17195	04	83/ 3	043083	850327	073085	.00	0.00	1.42-			1.42-	.055555	.08
17195	04	83/ 4	053183	850327	073085	.00	0.00	1.35-			1.35-	.055555	.07
17195	04	85/ 2	033185	850327	073085	5754.00	0.50	104.43			104.43	.055555	5.80
*LEASE TOTALS						5754.00		86.76			86.76		4.83
***OWNER TOTALS						5754.00		86.76			86.76		4.83

DISBURSEMENTS FROM IIM ACCOUNT FROM 5/15/85 TO 5/31/85

DATE	CHECK NO.	AMOUNT
***CHECK TOTALS	0	$ .00

The purpose of each statement is to explain changes in your royalty account and to show you the dates and amounts of checks BIA sent to you.

1. Have you ever received a statement like the one above? (CHECK ONE)

259 ☐ Yes	PLEASE GO TO QUESTION 2.	*265 Useable returns*
6 ☐ No	PLEASE GO TO QUESTION 9.	*316 Never heard from*
0 ☐ Don't Know	PLEASE GO TO QUESTION 9	*11 Undeliverable/ineligible*
265 Useable returns		*592 Total*

For questions 2 through 8, please consider all statements you have 'received since April 1985.

2. Were the statements you received for your own account? (CHECK ONE)

245 ☐ Yes
7 ☐ No
2 Don't know
5 No answer
6 Never received statement
265 Useable returns

3. In your opinion, were the statements easy or hard to understand? (CHECK ONE)

26 ☐ Very easy to understand
79 ☐ Easy to understand
66 ☐ Neither easy nor hard to understand
61 ☐ Hard to understand
22 ☐ Very hard to understand
5 No answer
6 Never received statement
265 Useable returns

4. What did you like or dislike about the statement? Write your answer in the space below:

5. In your opinion, is the information on the statement correct?

128 ☐ Yes, most or all of the information is correct. GO TO QUESTION 7
12 ☐ No, some information is not correct. GO TO QUESTION 6
116 ☐ Don't know whether or not the information is correct. GO TO QUESTION 7
3 No answer
6 Never received statement
265 Useable returns

6. What information on the statement was not correct? Write your answer in the space below:

7. Do you use these statements to understand the checks that you have received? (CHECK ONE)

180 ☐ Yes
70 ☐ No
9 No answer
6 Never received statement
265 Useable returns

8. What additional information do you need to understand the checks you have received? Write your answer in the space below:

9. What is your tribe name? Please mark the box beside your tribe name. If your tribe is not listed, mark the box beside the blank line and write in your tribe name:

12 ☐ Apache
74 ☐ Arapahoe/Cheyenne
22 ☐ Caddo
18 ☐ Comanche
7 ☐ Delaware
1 ☐ Ft. Sill Apache
24 ☐ Kiowa
15 ☐ Pawnee *23 Ponca*
9 ☐ Wichita *16 Sac and Fox*
44 ☐ *Other* ______________

265 Useable returns

10. In which age group are you? (CHECK ONE)

58 ☐ 30 years old or younger
71 ☐ 31 - 45 years old
70 ☐ 46-60 years old
54 ☐ 61-75 years old
11 ☐ 76 years old or over
1 No answer

265 Useable returns

11. Please use the remaining space or the back of this page to tell us anything else you would like us to know about your royalty payment or BIA.

Thank you for answering our questions.

Please put this in the postage-paid, pre-addressed envelope we sent you and mail it back to us.

Bureau of Indian Affairs' Royalty Statement Explanation Letter

BUREAU OF INDIAN AFFAIRS' ROYALTY STATEMENT

EXPLANATION LETTER

Dear Royalty Owner:

Enclosed please find "Statement of Oil and Gas Receipts and Disbursements:, for royalties paid you last month. This represents our mailing to you the information presently furnished by MMS to the BIA on sales. The Statement shows your name, and 3 sections, PAYMENT, LEASE, AND OWNER INFORMATION, each with respective explanatory column as follows:

PAYMENT INFORMATION: One or more Payors of royalties with their respective Payor Identification Numbers are listed just to the left of the company name. Also in this section is the Lease Number from which you receive royalties, the Product Code (PR CD), the Sales Month and Year (SALES MO/YR), the Due Date to Minerals Management Service (DUE DT TO MMS), the date received by MMS (DATE REC BY MMS), and the Data Credited to your IIM Account (DT CR TO IIM). Product Codes are defined at the bottom of each statement.

LEASE INFORMATION: Quantity, meaning actual reported sales, for example, barrels of oil or thousands of cubic feet of gas; Unit Value, reported price per barrel or per MCF gas; Rent and Royalties, the total share for the lease in which you own an interest; Assessment, late payment charges or bills issued by MMS and collected from the payor; and the Allowance Column for listing adjustments for manufacturing, transportation and gathering allowances.

OWNER INFORMATION: Net Amount, shows total dollars for that lease and payor; Owner Interest, shows your decimal interest in the lease; and the Owner Share, which is your share of the total royalty payment.

At the bottom of the Statement, the Disbursements from your IIM Account, shows the date, check number and amount that was mailed to you. The disbursement information comes from your IIM account, while the Payment-lease-owner information comes from the MMS Indian Distribution Report. As a result, the check and royalty amounts may not correspond, because the disbursement may include income other than royalty.

If this statement has been sent to the wrong address - PLEASE - notify your home Agency immediately of your current address.

IMPORTANT - If you have any questions regarding this Statement call or write your own home Agency - DO NOT write to the office shown in the return address section of this envelope.

The Minerals Management Service's Automated Management Systems

The Minerals Management Service has developed three systems to support its royalty management program. The Auditing and Financial System is the primary financial system used to account for rents and royalties from approximately 25,000 producing leases. The Production Accounting and Auditing System provides verification of royalties reported and pinpoints audit targets; it is currently operating for only the offshore leases and a small percentage of the onshore leases. The Bonus and Rental Accounting Support System accounts for proceeds from approximately 110,000 nonproducing federal leases.

To be responsive to states, Indian tribes, and other users of royalty information, the Service is developing a new State and Tribal Support System. This system will allow the external users, including Indian tribes and states, to access royalty management program data.

The Auditing and Financial System

The Auditing and Financial System is the primary system used in the royalty management program to ensure accurate royalty reporting and payment on federal and Indian leases in accordance with mineral leasing laws, regulations, and lease contract terms. The system consists of functions for collecting, accounting for, and disbursing royalties from minerals production on federal and Indian lands. It also consists of 9 subsystems, 358 programs, and 506,900 lines of code.

This system, which became operational in February 1983, was designed to fulfill eight principal objectives:

- Process royalties reported by the payers promptly and efficiently.
- Distribute mineral revenues to states, Indians, and general treasury accounts on a monthly basis in accordance with the Federal Oil and Gas Royalty Management Act of 1982.
- Calculate, distribute, and disburse interest and penalty payments to states and Indians in those instances where it is required by the act.
- Identify, using data provided by payers, underreporting and nonreporting to enable the Service to effectively and quickly communicate with payers and promptly collect revenues due.
- Account for all mineral revenues due, collected, and disbursed in a system of accounts, which enhances the Service's ability to control and report on the royalty management program.
- Provide royalty accounting and statistical information to parties, including states and Indian tribes, that have a need for such information.

- Build and maintain a data base that can effectively be matched with production data in the Production Accounting and Auditing System.
- Create an automated billing process for all receivables generated by the system.

The Production Accounting and Auditing System

The Production Accounting and Auditing system is an automated system for the dual purpose of lease management and royalty management. Its primary purpose is to verify that royalties are paid on 100 percent of production. The system tracks mineral production from its source to the point of royalty determination.

The system consists of functions necessary for minerals production reporting, accounting, and auditing. It was designed to track minerals production from federal and Indian lands from the source of production to the point of disposition as reported by the lease and facility operators. The system is comprised of 7 subsystems, 343 programs, and 560,000 lines of code. Its functions are to:

- Compare reported production information with sales information reported to the Auditing and Financial System.
- Provide production information for both the Service and the Bureau of Land Management.
- Provide production information to states and Indian tribes. According to the Production Accounting and Auditing System's deputy chief, the system is not currently providing this information because it does not contain information on 20,963 of 21,956 onshore oil and gas leases in its data base.
- Identify audit targets. According to the the system's deputy chief, the system can allow the Service's regional compliance offices to access the data and select leases for audit.

By making comparisons between data for this system and those of the Auditing and Financial System, one can identify exceptions that are due to differences between product sales data. The comparison between the two systems provides the ability to identify

- potential underpayment of royalties for producing leases,
- misreporting to the Auditing and Financial System due to poor or careless accounting practices by industry, and
- potential audit targets for the Service's Royalty Compliance Division.

System Limited Primarily to Offshore Leases

Software for the Production Accounting and Auditing System is fully developed, but the system is not operational for all leases. As of November 1985, the system was operational for all offshore oil and gas leases, all coal leases, 59 solid minerals leases (pilot project), and 993 of the 21,956 onshore oil and gas leases. This system includes 22 Indian allottee leases and 45 tribal leases.

Expansion to Onshore Leases Being Evaluated

In October 1985, an Interior study team began a project to determine the feasibility of extending the system's reporting requirements to onshore oil and gas leases. The team will assess onshore reporting alternatives, conduct a cost/benefit analysis for each alternative, and select the preferred alternative. The study is expected to be completed in October 1986.

System Not Being Converted to the Service's New Computer

The Service did not convert the Production Accounting and Auditing System to its new computer in fiscal year 1985 because it did not have sufficient funds for this purpose. Systems staff told us that there will be no need to convert the system to the new computer as long as the Service does not add the remaining 20,963 onshore oil and gas leases.

The Bonus and Rental Accounting Support System

The primary mission of the Bonus and Rental Accounting Support System is the collection of bonuses and rentals from 110,000 federal onshore nonproducing leases. This system was developed following a Secretarial Order in December 1982 transferring the bonus and rental accounting for onshore minerals leases from the Bureau of Land Management to the Service. The system, which began operations in April 1984, consists of 7 subsystems, 75 programs, and 142,000 lines of code. The system's principal functions are to

- collect and account for lease bonuses and create new lease records as a result of bonuses paid;
- generate courtesy notices to lessees informing them that their bonuses and/or annual rents are due;
- collect, deposit, and account for annual rental payments;
- provide information for the Auditing and Financial System's accounting functions;
- provide rental accounting data to Bureau of Land Management state offices which manage the leases;
- support monthly distribution and disbursement requirements as specified in the Federal Oil and Gas Royalty Management Act of 1982; and

- provide lease data to the Auditing and Financial System when leases go into production.

System Not Converted to New Computer

The Bonus and Rental Accounting Support System will not be converted to the Service's new computer. Systems staff told us that there was no reason for conversion because the system runs well on the Service's older computer equipment.

The State and Tribal Support System

This is a new system being developed by the Service to provide on-line access to the royalty management program's automated program systems for states and tribes who share in mineral royalties. It is scheduled to be fully implemented for the Auditing and Financial System by April 1986, but it may be delayed due to the delay in the conversion of the Auditing and Financial System. The Service reported in the system's detail design that the system is being developed because user demand for royalty accounting information has exceeded the Service's ability to respond in a timely fashion.

The State and Tribal Support System is intended to provide

- remote access by states and Indian tribes to royalty management program accounting data, using telecommunications links between the Service's main computer and the users' computers;
- a means for external users to manipulate and summarize data to satisfy their own information needs; and
- the means for developing new software applications designed specifically for external users.

This system will be designed for and reside on a combination of the new mainframe computer and personal computers (or compatible microcomputers). Only downloading of data from the mainframe to microcomputers will be allowed.

System Development on Schedule

The State and Tribal Support System is a two-phased project. Phase I, which will allow access to data in the Auditing and Financial System, is scheduled for implementation by April 1986. Phase II, which will allow access to the Production Accounting and Auditing System and the Bonus and Rental Accounting Support System, is scheduled for completion by

February 1987. The Service has issued a request for purchase or procurement of microcomputers, which are scheduled to be installed by mid April 1986. The system is on schedule to date.

System Participants

The State and Tribal Support System will have participants from states, tribes, and Bureau offices. In June 1985, packets of information on this system were mailed to states, tribes, and Bureau of Indian Affairs field offices which receive mineral royalty payments. In June and July, the Service held a series of meetings and workshops to explain the system and to solicit potential user input. Representatives from states, tribes, and Bureau offices attended the meetings. As of March 14, 1986, the following 21 organizations were listed as system participants:

Bureau of Indian Affairs Offices

- Anadarko area office
- Blackfeet agency office
- Fort Peck agency office
- Uintah/Ouray agency office
- Wind River agency office

Indian Tribes

- Assiniboine and Sioux Tribes
- Blackfeet Tribe
- Cheyenne - Arapaho Tribes
- Fort Peck Tribes
- Navajo Tribe
- Northern Arapahoe Tribe
- Southern Ute Tribe
- Ute Mountain Tribe
- Ute Indian Tribe

States

- Alaska
- California
- Colorado
- New Mexico
- North Dakota
- Utah
- Wyoming

In addition, the Service is providing the Council of Energy Resource Tribes with access to this system.

The system's project chief told us that the Service's regional compliance offices will also have access to the system files beginning in April 1986. The royalty compliance auditors will be able to access the Auditing and Financial System's data base, identify lease universes, and conduct more audits at payer offices.

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