



United States Department of the Interior

MINERALS MANAGEMENT SERVICE

Washington, D.C. 20240

JAN 20 1998

To: Robert J. Wilson, Assistant Inspector General for Audits

From: Lucy Quiques Denett *Lucy Quiques Denett*
Associate Director for Royalty Management

Subject: 1998 Planned Audit of MMS's Oil Royalty-in-Kind Program

As we discussed during our meeting on January 14, 1998, I am concerned about the Office of Inspector General's (OIG) 1998 planned audit of the Minerals Management Service's (MMS) Oil Royalty-in-Kind Program. The overall objective as stated in the plan, is to determine whether MMS has effectively administered its Oil Royalty-in-Kind program and, specifically, to determine, among other things, whether the oil royalty taken in kind has been properly valued and billed.

Internally, over a year ago, we identified several concerns with the existing RIK program and have been researching them and working toward resolutions. In fact, this has been discussed publicly at several recent State and Tribal Royalty Audit Committee (STRAC) meetings, since many of the contracts involve onshore producing leases. Some of the Denver OIG staff sometimes attend these meetings and probably have heard some of our and the States' concerns discussed. In fact, a study was just completed and reported on by a team comprised of several MMS and STRAC employees.

The primary problems we have identified in the RIK program involve underdelivered volumes and how to determine and assess proper values to the RIK volumes sold to small refiners. The MMS accounting systems were designed on the assumptions that lessees were delivering the proper volumes and were reporting the proper value of that production so that automatic bills could be sent to refiners for royalty oil. Unfortunately, that has not happened. Our study teams have identified problems relating both to volumes and values and have developed strategies to correct these deficiencies. We are in the early stages of implementing these strategies.

I am requesting that your office either defer your planned audits until we have had a chance to correct the problems currently known or split the planned review in two phases. Conduct a review of the planned strategies and make recommendations for refinement and then review the effectiveness and completeness of the results once the projects are completed.

I believe these are workable alternatives. Please let me know if you would like to further discuss these options.

cc: Al Klein - Director, BLM/MMS Audit
Don Sant
Jimmy Mayberry