

Section 205 Delegation Standards

Background

The Federal Oil and Gas Royalty Simplification and Fairness Act of 1996 (RSFA) provides for additional delegations of royalty management functions to States (in addition to the audit delegations currently delegable under 30 CFR 229). The primary functions the Minerals Management Service (MMS) may now delegate to a State are:

1. conducting audits and investigations;
2. receiving and processing production and royalty reports;
3. correcting erroneous report data;
4. performing automated verification; and
5. issuing demands, subpoenas (except for solid mineral and geothermal leases), and orders to perform restructured accounting.

Section 205(d) of RSFA provides that the Secretary, after consultation with the States, will issue regulations and standards pertaining to these delegable functions and other relevant responsibilities. In response, MMS formed the 205 Consultation Team (Team), comprising representatives of MMS, State of Wyoming, Western Governors' Association, Western States Land Commissioners Association, State and Tribal Audit Committee, and the Bureau of Land Management to discuss how to implement the delegation provisions of RSFA. The Team developed the delegation regulations at 30 CFR Part 227.

The Team also reviewed standards used by MMS for the delegable functions and developed broad goals with general standards for each delegable function and its processes. In carrying out the intent of RSFA, the Team's philosophy was to allow interested States the flexibility and creativity to develop new or improved methods for performing those functions that would be more cost effective. The Team also envisioned the Standards as a living document that would reflect any process improvements resulting from the States and MMS working together to re-engineer or modify processes. However, the Team was very mindful and sensitive to RSFA's requirements that:

- delegations will not create an unreasonable burden on any lessee;
- States will adopt standardized reporting procedures prescribed by the Secretary for royalty and production accounting purposes unless all affected parties otherwise agree; and
- a uniform and effective royalty management system will prevail among the States.

Each attachment of this document describes a process with a general goal and pertinent standards. The numbering system relates to the five functions described above. A delegated function may

contain more than one process; for example, automated verification contains six processes. Each attachment stands on its own so a State can decide which processes it wishes to assume.

The standards described on the following pages generally document the outcomes required for each function. However, MMS can discuss with interested States the data requirements of MMS and other Federal Agencies, and the processes and procedures MMS currently uses to perform the delegable functions. Also, MMS maintains a more detailed set of standards describing the current MMS processes which would be useful to a State desiring to operate within the current MMS reporting procedures. This document is for informational purposes only and is not intended to restrict the flexibility or creativity of any State in proposing new, improved processes acceptable to MMS and industry. It is intended to assist States in preparing a delegation proposal by providing additional information and ideas on areas that need to be addressed in the proposal. The detailed set of standards is available to any State upon request.

It should be noted that any contract to a State for any delegable function will contain additional non-negotiable standards and requirements covering such general topics as internal controls, proprietary data, discovery of illegal acts, responses to oversight groups, etc.

Listing of Standards

- Attachment 1 - Standards for Conducting Audits.
- Attachment 2a - Standards for Receiving and Processing Royalty Reports.
- Attachment 2b - Standards for Receiving and Processing Production Reports.
- Attachment 3a1 - Standards for Correcting Erroneous Royalty Reports.
- Attachment 3a2 - Standards for Maintaining Common Reference Database.
- Attachment 3b - Standards for Correcting Erroneous Production Reports.
- Attachment 4 - Standards for Automated Verification.
- Attachment 4a - Standards for Volume Comparisons.
- Attachment 4b1 - Standards for Lease Financial Term Exception Processing.
- Attachment 4b2 - Standards for Payment and Estimate Exception Processing.
- Attachment 4b3 - Standards for Royalty Rate Monitoring Exception Processing.
- Attachment 4b4 - Standards for Allowance Limit Exception Processing.
- Attachment 4b5 - Standards for Adjustment Monitoring Exception Processing.
- Attachment 5 - Standards for Issuing demands, subpoenas (except for solid mineral and geothermal leases), orders to perform restructured accounting, and related tolling agreements.
- Attachment 5a - Standards for Issuing Demand Letters.
- Attachment 5b - Standards for Issuing Subpoenas (except for solid mineral and geothermal leases).

- Attachment 5c - Standards for Issuing Orders to Perform Restructured Accounting.
- Attachment 5d - Standards for Issuing Tolling Agreements.

Attachment 1 - Standards for Conducting Audits

Description: Payors are audited to verify that their royalty reports and payments accurately reflect actual production, valuation, and compliance with Federal statutes, regulation, and lease terms applicable to mineral production.

Goal: To ensure that all royalties due the Federal Government are paid.

General Standards to Meet:

- Perform all audit activities in accordance with MMS audit standards as documented in the *Audit Procedures Manual* and the *Government Auditing Standards 1994 Revision* issued by the Comptroller General of the United States. The MMS has developed a Quality Assessment Review Guide that provides performance indicators for determining compliance with applicable auditing standards and policies. The MMS has developed guidelines for Statements of Work, Performance Audit Plans, and Coordination of Audit Activities specific to delegated and cooperative audits.
- Comply with professional auditing standards (i.e. qualifications, independence, due professional care, and quality control).
- Be alert to situations and/or transactions that could be indicative of fraud, abuse, or illegal acts related to the mineral revenues.
- Demonstrate that the scope of audit activities will yield a positive relationship between cost and benefit as determined by the auditor and/or audit supervisor.
- Document each audit in accordance with the *MMS Audit Procedures Manual*. Workpapers must be in sufficient detail to permit a subsequent independent examination of each audit procedure performed.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Conducting Audits:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982 (FOGRMA), 30 USC 1701, which defines authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands, including the function of audit.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of conducting audits.

Title I of the Department of Interior and Related Agencies Appropriations Act of 1992, Public Law 102-154, November 13, 1991, which authorizes States to conduct audits on Federal solid minerals, geothermal steam, or offshore leases subject to Section 8(g) of the Outer Continental Shelf Lands Act.

- Regulatory Authorities

30 CFR 201-243 - Royalty Management

- Policy Decisions

Follow the six-year audit cycle.

Follow the Audit Procedures Manual.

Provide annual workplans.

Attachment 2a - Standards for Receiving and Processing Royalty Reports

Description: Payors submit information to report the sale of oil and gas from Federal leases. This information must be received and processed in order to determine how royalty dollars are disbursed to the ultimate recipients.

Goal: To receive and timely and accurately process reports to ensure the correct and timely distribution of information and disbursement of funds to such recipients as States and other Federal Agencies.

General Standards to Meet:

- Receive documents daily to ensure reporters can meet the legal requirements for timely delivery of reports.
- Maintain normal business hours.
- Provide for misdirected lines, reports, and payments.
- Verify the accuracy and completeness of reports, including electronic reports.
- Implement a document control system that includes correspondence and royalty documents associated with bills.
- Process and transmit documents for entry into the MMS computer system in accordance with the published production schedule. The transmission needs to be coordinated with MMS since there is a limit to how much can be processed by the computer each night.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Receiving and Processing Royalty Reports:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands. These responsibilities include prompt distribution, the payment of interest if disbursement is not timely, and record retention.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of receiving and processing royalty reports. RSFA Section 3 (a), FOGRMA Section 205

(b)(4) mandates that States agree to adopt standardized reporting procedures prescribed by the Secretary for royalty and production accounting purposes, unless the State and all affected parties (including the Secretary) otherwise agree. RSFA modifies the record retention provisions of FOGRMA to a seven year record retention. RSFA also allows for reporting relief in certain circumstances.

- Regulatory Authorities

30 CFR 210 - Forms and reports

30 CFR 212 - Records and files maintenance

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Follow the production schedule dates, including the date to run the monthly distribution (i.e., Federal distribution is run on the 25th of the month so all documents must be processed prior to this date in order for funds associated with these documents to be disbursed by the end of the month). This is important in order for MMS to meet its performance objective of improving the timeliness and accuracy of payments to states and other Federal agencies.

By 1999 increase the percentage of royalty reports received electronically to 100 percent.

Maintain or increase the percentage of royalty reports submitted by reporters without fatal errors. Currently 97 percent of reports are submitted without fatal errors.

Hold payors responsible for late payment assessments up until the date the payment is received by MMS in Denver, Colorado.

Image all documents.

Provide payors with model royalty reports.

Follow the Payor Handbook which describes how payors should report.

Attachment 2b - Standards for Receiving and Processing Production Reports

Description: Reporters submit information to report the production and disposition of oil and gas from Federal leases. This information must be received and processed in order to verify that all sales were reported and paid and to provide the Bureau of Land Management (BLM) with information for their inspection process.

Goal: To receive and timely and accurately process reports to ensure that all production and dispositions are reported.

General Standards to Meet:

- Receive documents daily to ensure reporters can meet the legal requirements for timely delivery of reports.
- Maintain normal business hours.
- Provide for misdirected lines and reports.
- Verify the accuracy and completeness of reports, including electronic reports.
- Implement a document control system that includes correspondence.
- Process and transmit documents for entry into the MMS computer system in accordance with the published production schedule. The transmission needs to be coordinated with MMS since there is a limit to how much can be processed by the computer each night.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Receiving and Processing Production Reports:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of receiving and processing production reports. RSFA Section 3 (a), FOGSMA Section 205 (b)(4) mandates that States agree to adopt standardized reporting procedures prescribed by the Secretary for royalty and production accounting purposes, unless the

State and all affected parties (including the Secretary) otherwise agree. RSFA modifies the record retention provisions of FOGRMA to a seven year record retention.

- Regulatory Authorities

30 CFR 210 - Forms and reports

30 CFR 212 - Records and files maintenance

30 CFR 216 - Production Accounting

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Follow the dates for running computer applications including distribution dates.

By 1999 increase percentage of production reports received electronically to 100 percent.

Maintain or increase the percentage of production reports submitted by reporters without fatal errors. Currently 97 percent of reports are submitted without fatal errors.

Image all documents.

Provide payors with model production reports.

Follow the Reporter Handbook which describes how reporters should report.

Attachment 3a1 - Standards for Correcting Erroneous Royalty Reports

Description: Royalty data must be corrected in order for it to be accepted into the MMS computer system and used as the basis for distributing information and disbursing funds to the proper recipients.

Goal: To ensure accurate reporting, the distribution of information, and the disbursement of funds to the proper recipients.

General Standards to

- Meet:**
- Maintain adequate system software edits to ensure data fields are complete and reference data is correct for the effective period.
 - Process and transmit documents for entry into the MMS computer system in accordance with the published production schedule. This is important in order for MMS to meet its performance objective of improving the timeliness and accuracy of payments to states and other Federal agencies.
 - Provide communication and confirmation reports to payors.
 - Maintain appropriate file documentation (i.e., document research steps, rejected document reports, confirmation reports, data changes, and names and dates of verbal contacts with reporters).
 - Initiate assessments, orders to report, and recommend resolution.
 - Resolve exceptions through the collection and administrative review/appeal processes.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Correcting Erroneous Royalty Reports:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of correcting erroneous report data. RSFA modifies the record retention provisions of FOGRMA to a seven year record retention. RSFA also provides for a chronic erroneous reporting assessment.

- Regulatory Authorities
 - 30 CFR 210 - Forms and Reports
 - 30 CFR 218 - Collection of Royalties, Rentals, Bonuses, and Other Monies Due the Federal Government
 - 30 CFR 218.40 - Assessments for incorrect or late reporting and failure to report
 - 30 CFR 241 - Penalties
 - 30 CFR 243 - Appeals - Royalty Management Program
- Policy Decisions
 - Maintain records on all error correction actions for 3 months.
 - Follow the Payor Handbook which describes how payors should report.
 - Maintain current list of fatal edits.

Attachment 3a2 - Standards for Maintaining Common Reference Database

Description: There are three subfunctions to this function: Part I - Database Maintenance; Part II - Payor Information Form Processing; and Part III - Resolution of Initial Reference Data in Royalty Lines.

Goal: Maintain an accurate and complete database to ensure the distribution of information and disbursement of funds to the proper recipients.

Subfunction: Part I - Database Maintenance

Description: Lease and agreement reference data is information MMS uses to describe the circumstances on a lease and the environment surrounding it. Reference data on leases and pooling agreements are gathered from the Bureau of Indian Affairs (in those cases of overlapping units or communitization agreements) and the BLM, abstracted, established on a Common Reference Data base, and updated as modifications occur. Other maintenance activities include the processing of reference data from the Interagency Database Verification System (IDVS) and the courtesy notice program for notifying payors of their rental obligation. The IDVS compares six critical data fields on MMS and BLM databases and lists differences which must be resolved.

General Standards to Meet:

- Update and make available reference data.
- Process reference data corrections based on the IDVS program.
- Process the courtesy notice program in accordance with the published production schedule.
- Maintain appropriate file documentation (i.e., document research steps and data changes).

Subfunction: Part II - Payor Information Form Processing

Description: Information supplied by payors establishes who will report on a specific lease for a particular revenue source, selling arrangement, and product.

General Standards to Meet:

- Maintain adequate system software edits to ensure data fields are complete and reference data is correct for the effective period.

- Process and transmit documents for entry into the MMS computer system in accordance with the published production schedule.
- Provide communication and confirmation reports to payors.
- Maintain appropriate file documentation (i.e., document research steps and data changes).

Subfunction: Part III - Resolution of Initial Reference Data in Royalty Lines

Description: When payors report royalties, they sometimes enter incorrect data. Various system edits compare the royalty line to the Common Reference Data base and an error message(s) is assigned to that rejected line if it includes incorrect data.

General Standards to Meet:

- Maintain adequate system software edits to ensure that data fields are complete and reference data are correct for the effective period.
- Process and transmit documents for entry into the MMS computer system in accordance with the published production schedule.
- Provide communication and confirmation reports to payors.
- Maintain appropriate file documentation (i.e., document research steps, rejected document reports, confirmation reports, data changes, and names and dates of verbal contacts with reporters).

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Maintaining Common Reference Database:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of receiving and processing production and royalty reports and correcting erroneous report data. RSFA Section 3 (a), FOGRMA Section 205 (b)(4) mandates that States agree to adopt standardized reporting procedures prescribed by the Secretary for royalty and production accounting purposes, unless the State and all affected parties (including the Secretary) otherwise agree. RSFA modifies the record retention provisions of FOGRMA

to a seven year record retention. RSFA also allows for reporting relief in certain circumstances and for the assessment of chronic erroneous reporting.

- Regulatory Authorities

30 CFR 210 - Forms and Reports

30 CFR 218 - Collection of Royalties, Rentals, Bonuses, and Other Monies Due the Federal Government

30 CFR 218.40 - Assessments for incorrect or late reporting and failure to report

30 CFR 241 - Penalties

30 CFR 243 - Appeals - Royalty Management Program

43 CFR 3100 - Oil and Gas Leasing

- Policy Decisions

Maintain records on all error correction actions for 3 months.

Follow the Reporter Handbook which describes how payors should report.

Maintain current list of fatal edits.

Attachment 3b - Standards for Correcting Erroneous Production Reports

Description: Production data must be corrected in order for the BLM's data base to be correct and for use in other MMS activities.

Onshore well and operator reference data is transferred from the BLM Automated Inspection and Records System (AIRS) or Automated Fluid Minerals Support System (AFMSS) and entered into MMS's Common Reference Database. A State can either get the data from BLM or MMS.

Goal: To ensure accurate reporting and to ensure that all production and dispositions are reported.

General Standards to

- Meet:**
- Maintain adequate system software edits to ensure data fields are complete and reference data is correct for the effective period.
 - Process and transmit documents for entry into the MMS computer system in accordance with the published production schedule.
 - Provide communication and confirmation reports to reporters.
 - Maintain appropriate file documentation (i.e., document research steps, rejected document reports, confirmation reports, data changes, and names and dates of verbal contacts with reporters).
 - Initiate assessments, orders to report, and recommend resolution.
 - Resolve exceptions through the collection and administrative review/appeal processes.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Correcting Erroneous Production Reports:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Royalty Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of correcting erroneous report data. RSFA modifies the record retention provisions of

FOGRMA to a seven year record retention. RSFA also allows for reporting relief in certain circumstances.

- Regulatory Authorities

30 CFR 210 - Forms and Reports

30 CFR 216 - Production Accounting

30 CFR 241 - Penalties

30 CFR 243 - Appeals - Royalty Management Program

- Policy Decisions

Maintain records on all error correction actions for 3 months.

Follow the Reporter Handbook which describes how reporters should report.

Maintain current list of fatal edits.

Attachment 4 - Standards for Automated Verification

Description: Automated verification comprises two distinct functional groups used by MMS to identify instances of potential improper or non reporting of royalty and production data. These two groups are Volume Comparisons (4a) and Exception Processing (4b). Automated Verification consists of six separate functions.

The specific functions under Automated Verification are the following:

- 4a. Volume Comparisons
- 4b1. Lease Financial Term Exception Processing
- 4b2. Payment and Estimate Exception Processing
- 4b3. Royalty Rate Monitoring Exception Processing
- 4b4. Allowance Limit Exception Processing
- 4b5. Adjustment Monitoring Exception Processing

Although the initial identification of the potential exceptions is automated, manual verification of these exceptions is required to determine their validity. These functions result in the collection of additional monies and/or the correction of misreporting.

States may elect to do only one or any combination of the six Automated Verification functions. The specific standards follow.

Attachment 4a - Standards for Volume Comparisons

Description: Volume comparisons involve the comparison of oil and gas sales volumes reported by royalty payors to sales and transfer volumes reported by lease and agreement operators. Resolution of these exceptions entails a manual comprehensive analysis of royalty and production output reports.

Goal: To resolve all volume discrepancies in excess of established thresholds.

General Standards to Meet:

- Identify sales volume discrepancies between royalty and production reported data for all leases and pooling agreements.
- Resolve all discrepancies in excess of established thresholds.
- Resolve exceptions through the collection and administrative review/appeal process.
- Respond to all inquiries related to volume verifications.
- Maintain appropriate file documentation.

Summary of Pertinent Statutory, Regulatory, and other Authorities for Volume Comparisons:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of performing automated verification.

- Regulatory Authorities

30 CFR 202 - Royalties

30 CFR 210 - Reports

30 CFR 216 - Production Accounting

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Allow one year to resolve all identified exceptions (seven year statute of limitations per RSFA).

Perform volume comparison six months after the products are removed or sold from the property.

Perform a unit price check on all detected exceptions to ensure that the product value is within predefined reasonable limits.

Attachment 4b1 - Standards for Lease Financial Term Exception Processing

Description: Lease financial term exception processing involves the identification of underpaid minimum royalty, rent, advance royalty, and deferred bonus. Resolution of these exceptions entails a manual review of the exceptions for validity, resulting in billing actions.

Goal: To ensure that all minimum royalties, rents, advance royalties, and deferred bonuses have been properly paid.

General Standards to

- Meet:**
- Identify all underpaid minimum royalties, rents, advance royalties, and deferred bonuses.
 - Verify all exceptions in excess of established thresholds and issue appropriate billing/corrective action.
 - Resolve exceptions through the collection and administrative review/appeal process.
 - Respond to all inquiries related to lease financial term exception processing. After performing sufficient research, prepare all required documentation to adjust or credit any bills, correct any data base errors, or provide the information requested.
 - Maintain appropriate file documentation.

Summary of Pertinent Statutory, Regulatory, and other Authorities for Lease Financial Term Exception Processing:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of performing automated verification.

- Regulatory Authorities

30 CFR 202 - Royalties

30 CFR 210 - Reports

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

43 CFR 3100 - Oil and Gas Leasing

- Policy Decisions

Utilize the established thresholds.

Identify underpayments during the first week of each month.

Allow twenty days to verify and issue bills after identification of exceptions.

Attachment 4b2 - Standards for Payment and Estimate Exception Processing

Description: Each month identify all payment exceptions and manually verify those which exceed the minimum review thresholds. After verification, send interest statements. The exceptions can be the following:

Payment exceptions - these occur when payment is received after the obligation's due date, and/or when previously reported royalties are downward adjusted and interest is due the payor. The system compares the payment receipt date to the due date and calculates interest for the number of days late or overpaid days. Overpayment interest credit can be used by payors on other royalty obligations.

Estimate exceptions - are generated when actual royalties reported exceed the estimate balance on a payor/lease level during the extended estimate period or when actual royalties reported and paid are less than the estimate the payor previously submitted for the lease. Interest is calculated on the under-sufficient portion for only the number of days the payor uses the extended estimate period and the over-sufficient portion for the number of days in the extended estimate period.

Goal: To ensure that interest is properly assessed or credited for each late or overpayment that falls within the established thresholds.

General Standards to Meet:

- Identify all payment and estimate exceptions.
- Resolve exceptions which exceed the minimum review threshold, through the collection and administrative review/appeal process.
- Respond to all inquiries related to payment and estimate exception processing. After performing sufficient research, prepare all required documentation to adjust or credit any bills, correct any data base errors, or provide the information requested.
- Maintain appropriate file documentation.

Summary of Pertinent Statutory, Regulatory, and other Authorities for Payment and Estimate Exception Processing:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of performing automated verification.

- Regulatory Authorities

30 CFR 202 - Royalties

30 CFR 210 - Reports

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Utilize the established thresholds.

Identify all payment and estimate exceptions by the end of the month in which the document has cleared.

Verify 95 percent of the exceptions and issue interest statements within five weeks of identifying the exception.

Attachment 4b3 - Standards for Royalty Rate Monitoring Exception Processing

Description: Royalty rate exception processing involves identifying all instances in which the royalty rate calculated from the reported sales and royalty data differs from the royalty rate specified in the lease. Resolution of these exceptions entails a manual verification process, resulting in a warning letter sent to payors requesting them to correct the lines that resulted in an incorrect royalty rate. If payors do not correct the data, MMS bills the difference between royalty paid and royalty calculated.

Goal: To identify all royalty rate discrepancies, and resolve those which exceed the minimum review threshold.

General Standards to Meet:

- Identify royalty rate exceptions.
- Resolve exceptions for those exceeding the minimum review threshold level, through the collection and administrative review/appeal process.
- Respond to all inquiries related to royalty rate exception processing. After performing sufficient research, prepare all required documentation to adjust or credit any bills, correct any data base errors, or provide the information requested.
- Maintain appropriate file documentation.

Summary of Pertinent Statutory, Regulatory, and other Authorities for Royalty Rate Monitoring Exception Processing:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of performing automated verification.

- Regulatory Authorities

30 CFR 202 - Royalties

30 CFR 210 - Reports

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Utilize the established thresholds.

Identify royalty rate exceptions by the end of the month when the line is accepted.

Resolve all exceptions within 150 days after exception identified.

Attachment 4b4 - Standards for Allowance Limit Exception Processing

Description: Allowance limit exceptions result when reported allowances do not meet the limitations imposed by regulation. Notify payors to submit correcting reports and payments when allowances exceed the set limits without approval. Bill payors when the approved limits are exceeded.

Goal: To identify and notify/bill payors when allowance limits are exceeded.

General Standards to Meet:

- Identify allowance limit exceptions which exceed any minimum tolerance levels.
- Send out notices and bills within a reasonable time period.
- Respond to all inquiries requesting additional information, clarification, or providing additional information.
- Resolve payors' appeals of bills through the collection and administrative review/appeal process.
- Maintain appropriate file documentation.

Summary of Pertinent Statutory, Regulatory, and other Authorities for Allowance Limit Exception Processing:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of performing automated verification.

- Regulatory Authorities

30 CFR 202 - Royalties

30 CFR 206 - Product Valuation

30 CFR 210 - Reports

- Policy Decisions

Utilize the established thresholds.

Identify allowance limit exceptions within six months of the due date of the line being reported, and within one month after acceptance for any subsequent adjustments to that same sales month.

Attachment 4b5 - Standards for Adjustment Monitoring Exception Processing

Description: Adjustment monitoring exceptions occur when a payor reports an adjusting line, and a matching original line cannot be found. The monitoring is a comparison of the reversing line with the most recently reported line. If lines do not match after a manual verification process, we send those lines in a report to the payor and we request correction or explanation. If the differences are not reconciled, we bill the payor for the negative entries.

Goal: To identify all adjustment monitoring exceptions and resolve those which exceed the minimum review threshold.

General Standards to Meet:

- Identify adjustment exceptions.
- Determine the validity of the adjustment exceptions which exceed the minimum review threshold.
- Resolve the exceptions exceeding the minimum review threshold level, through the collection and administrative review/appeal process.
- Respond to all inquiries related to adjustment monitoring exception processing. After performing sufficient research, prepare all required documentation to adjust or credit any bills, correct any data base errors, or provide the information requested.
- Maintain appropriate file documentation.

Summary of Pertinent Statutory, Regulatory, and other Authorities for Adjustment Monitoring Exception Processing:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of performing automated verification.

- Regulatory Authorities

30 CFR 202 - Royalties

30 CFR 206 - Product Valuation

30 CFR 210 - Reports

- Policy Decisions

Utilize the established thresholds.

Identify adjustment exceptions from all royalty lines accepted each month.

Determine the validity of the adjustment exceptions, and obtain corrections or additional payment within 150 days after the exceptions are identified.

Attachment 5 - Standards for Issuing demands, subpoenas (except for solid mineral and geothermal leases), orders to perform restructured accounting, and related tolling agreements.

Description: The fifth delegable function under RSFA is broken down into four individual functions (described in functions 5a through 5d). States may elect to do only one or any combination of the four individual functions. The specific functions are:

- 5a - Issuing demand letters and bill processing
- 5b - Issuing subpoenas (except for solid mineral and geothermal leases)
- 5c - Issuing orders to perform restructured accounting
- 5d - Issuing tolling agreements

Attachment 5a - Standards for Issuing Demand letters

Description: A demand letter (order) may be issued when a payor has had an opportunity to respond to an issue letter, identifying the potential underpayment that resulted from the audit.

Goal: To provide payors with an appealable order.

General Standards to Meet:

Orders to Pay must contain the following:

- The specific underpayment amount based on the audit findings
- The important elements of the issue letter and the company's response.
- A clear description of the issue(s) and the reason(s) that caused the underpayment of royalties.
- A clear citation of applicable statutes, regulations, policies, decisions, handbooks, etc. to support the audit finding.
- Appeal rights.
- Surety instructions.
- Instructions on submitting payment and royalty reports.
- The signature of the person occupying a position no lower than the Program Manager identified in the Cooperative Agreement.
- Notification of the operating rights owner or the lessee(s) of record regarding the order.

Bills accompanying orders to pay must be processed as follows:

- Maintain adequate software system edits to ensure all required data files are completed with acceptable data to update MMS's accounting system with billing information.
- Provide necessary tracking reports and certified mail receipts to MMS.
- Timely provide copies of bill demand letters and any other information accompanying the bills to MMS.

- Request issuance of credit when appropriate.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Issuing Demands:

- **Statutory Authorities**

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of issuing demands and notices to lessees or their designees.

- **Regulatory Authorities**

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- **Policy Decisions**

Encourage 100% electronic commerce.

Maintain the current list of bill edits.

Follow the MMS bill numbering system.

Utilize the MMS payor address file.

Attachment 5b - Standards for Issuing Subpoenas (except for solid mineral and geothermal leases)

Description: A subpoena may be issued when records are not provided upon written request or access to records is denied.

Goal: To obtain information.

General Standards to

- Meet:**
- To determine whether a subpoena is warranted you must have documentation that you have requested the records in writing from the lessee or its designee, and
 - the lessee has failed to respond within a reasonable time period, or
 - the lessee denied access to records in writing, or
 - the lessee unreasonably delayed producing the records.
 - The subpoena must be signed by the highest State official having ultimate authority over the collection of royalties from leases on Federal lands within the State.
 - Before issuing a subpoena the State must coordinate with MMS to ensure that records are pursued in a uniform and coordinated manner.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Issuing Subpoenas (except for solid mineral and geothermal leases):

- **Statutory Authorities**

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of issuing subpoenas (except for solid mineral and geothermal leases).

- **Regulatory Authorities**

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Coordinate with MMS.

Attachment 5c - Standards for Issuing Orders to Perform Restructured Accounting

Description: Issue an order to perform after a payor's audited sample transactions show that a systemic error continues over a substantial period of time or that the systemic error involves a large number of leases.

Goal: To correct systematic errors.

General Standards to

Meet: Orders to Perform must contain the following:

- Demonstrate that a systemic erroneous practice has occurred over a substantial period of time or that it involves a significant number leases, and constitutes a pattern of violations which would likely result in significant underpayments.
- Provide a clear description of the reconstructive accounting method to be used.
- Establish a reasonable deadline for completing the required task.
- Provide appeal rights.
- Once there is compliance with the order, test sample transactions to ensure accuracy of the additional royalty payments.
- The signature of the highest State official having ultimate authority over the collection of royalties from leases on Federal lands within the State.
- Notify the operating rights owner or the lessee(s) of record of the order.
- Coordinate with MMS before issuing an order to perform to assure identification of issues that may affect more than one state.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Issuing Orders to Perform Restructured Accounting:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of issuing orders to perform restructured accounting and notices to lessees or their designees.

- Regulatory Authorities

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions

Coordinate with MMS.

Attachment 5d - Standards for Issuing Tolling Agreements

Description: During the appeal process, the appellant may request an extension of time to file its statement of reasons. The appellant must sign a tolling agreement, “Extension Agreement for MMS Appeal,” to extend the 33-month time frames. The RSFA provides that if the final decision is not issued within the 33-month period, the appeal will be deemed to be granted in favor of the appellant for any nonmonetary obligation and amounts less than \$10,000, and granted in favor of the Department for amounts \$10,000 or more.

For cases that are subject to possible settlement agreements, MMS may place the appeal on hold by initiating a “Hold Agreement for MMS Appeal.”

Goal: Extend the appeal time frames.

General Standards to Meet:

- To extend the due date for the appellant to submit their Statement of Reasons, the State Program Manager and the appellant must sign an “Extension Agreement for MMS Appeal”.
- The “Extension Agreement for MMS Appeal,” must include the following provisions:
 - MMS Docket Number. A separate agreement for each docket number must be executed.
 - The number of days the extension of time provided.
 - The appellant and State representative signatures.
- The agreement must be signed by a person occupying a position no lower than the Program Manager identified in the Cooperative Agreement.

Summary of Pertinent Statutory, Regulatory, and Other Authorities for Issuing Tolling Agreements:

- Statutory Authorities

Federal Oil and Gas Royalty Management Act of 1982, 30 USC 1701, which defines the authorities and responsibilities of the Secretary of the Interior to implement and maintain a royalty management system for oil and gas leases on Federal and Indian lands.

Federal Oil and Gas Simplification and Fairness Act of 1996, which provides for delegations of royalty management functions to States, including the function of issuing tolling agreements.

- Regulatory Authorities

30 CFR 218 - Collection of royalties, rentals, bonuses and other monies due the Federal Government

- Policy Decisions