

## **MRM principal underpayment detection programs**

The accurate determination and collection of mineral revenues require both voluntary compliance by payors and sophisticated Minerals Revenue Management (MRM) audit and exception identification programs designed to detect the underpayment of revenues. A brief description of principal MRM underpayment detection programs follows:

- **Audit program.** Collections through MRM audit programs for additional royalties, late-payment interest assessments, and liquidated damages constitute the largest source of revenues from underpayment detection programs. The MRM maintains cooperative agreements that provide audit funding to 7 American Indian Tribes and 10 States under the authority provided in sections 202 and 205 of the Federal Oil and Gas Royalty Management Act of 1982. Cooperative agreements under section 202 are in effect with the following Tribes:

- Blackfoot
- Jicarilla Apache
- Navajo Nation
- Shoshone and Arapaho
- Southern Ute
- Northern Ute
- Ute Mountain Ute

Cooperative agreements under section 205 are in effect with the following States:

- California
- Colorado
- Louisiana
- Montana
- New Mexico
- North Dakota
- Oklahoma
- Texas
- Utah
- Wyoming

- **Auditing and Financial System /Production Accounting and Auditing System comparison.** The MRM corrects discrepancies, or exceptions, between sales reported to the Auditing and Financial System (AFS) by payors and production reported to the Production Accounting and Auditing System by lease and agreement operators. The MRM issues bills when discrepancies are detected.
- **AFS exceptions.** The AFS exceptions identification program promotes accurate, timely royalty and rental reporting and payment. The program detects:
  - Late payment of royalties, rents, and bills;
  - Insufficient estimated royalty payments; and
  - Discrepancies between payments and financial lease terms for rents, bonuses, advance royalties, and minimum royalties.

### **MRM principal underpayment detection programs (cont.)**

The MRM issues bills for interest when payments are received after the due dates and when advanced estimated royalty payments are insufficient compared to actual royalties paid at a later date. The MRM first issued bills for discrepancies associated with financial lease terms in May 1992.

- **Allowance exception processing.** All transportation and processing allowances deducted from royalties are subject to MRM review. The MMS initiated an Automated Allowance Tracking System in Fiscal Year (FY) 1992 to review oil and gas transportation and gas processing allowance forms filed by payors. The MMS Director placed a moratorium on filing violations in the first quarter of FY 1994. The MRM initiated an Allowance Limit Exception Processing program in the fourth quarter of FY 1994 to detect payors who exceed regulatory allowance limits.
- **Liquidated damage assessments.** The MRM initially issued bills for liquidated damage assessments when royalty or production reports were received after the due date or submitted with errors.

On October 1, 1995, MRM changed its assessment policy for late and incorrect reporting. Under the new policy, MRM no longer charges reporters for filing late royalty or production reports. In addition, reporters will normally not be charged for incorrect royalty and production reporting unless the overall average error rate MRM calculates for a given month exceeds the FY 1995 average error rate of approximately 3 percent. While assessments for late reporting will cease, MRM will continue to assess interest when payments are late.

- **OCS improper recoupments.** Section 10 of the OCS Lands Act Amendments required a payor to file a request with MRM for recoupment or refund of an overpayment within 2 years of the original payment. Payors who took a recoupment without authorization were contacted by MRM and were required to explain the recoupment within 30 days. Failure to justify the recoupment resulted in an assessment to recover the unauthorized refund.

Under the provisions of the Federal Oil and Gas Royalty Simplification and Fairness Act, 110 Stat. 1700, payors are no longer required to file a request for a recoupment with MRM. This provision applies to payment receipt dates after August 12, 1996. Collections by MRM after August 12, 1996, are from bills issued through that date.

- **American Indian recoupments.** Payors who take a recoupment of an overpayment on an American Indian lease cannot recoup more than 50 percent of the monthly revenue payment on an allotted lease or 100 percent of the monthly revenue payment on a Tribal lease. Collections represent revenues from bills issued for improper American Indian recoupments.

**MRM principal underpayment detection programs (cont.)**

- **Improper adjustments.** The MRM compares every credit line submitted by a payor with the most recent payment line. Payors who submit a credit line that does not match the original payment line must repay the credit amount.
- **Royalty rate monitoring.** The MRM calculates a royalty rate from monthly sales information provided by payors. The calculated royalty rate is compared with the royalty rate in the lease. If the calculated rate from the payor is lower than the lease rate, MRM notifies the payor of the error and provides 90 days to correct the mistake. The MRM bills payors for additional royalties based on the higher lease rate if the payor does not correct the error.