

STATE and TRIBAL ROYALTY AUDIT COMMITTEE

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Former Chair, Ex Officio:
Joe Vintze

Lucy Querques Denett
Associate Director
Minerals Management Service
Washington, DC 20240

Dear Ms. Denett:

On behalf of the State and Tribal Royalty Audit Committee (STRAC), we are writing to request information on the Minerals Management Service's (MMS's) "compliance review" program.

At the recent STRAC/MMS meeting in Salt Lake City, STRAC was told that its individual jurisdictions would be "required to request" authority to conduct compliance reviews as part of their contracts with Interior. Currently, our jurisdictions' contracts delegate authority to conduct "audits" of leases within their respective borders; a compliance review is not an audit.

There is no statute or regulation under which our jurisdictions can request the authority to conduct compliance reviews, despite the fact the MMS's program has been in place since 2001. MMS officials and staff at the meeting were in hopeless disagreement regarding the authority for delegation of the compliance review function. Mr. Sykora disagreed with the Contracting Office and MMS managers. States and Tribes cannot be paid for work that cannot be delegated under the law, which was also acknowledged by MMS.

For well over two years, STRAC has asked MMS to provide it with statistics and other data regarding the quality and efficiency of compliance reviews to no avail. STRAC needs this information so that it can advise its jurisdictions on whether conducting compliance reviews is worthwhile. As you know, MMS used to publish statistics on the revenue collections attributable to its separate approaches, *e.g.*, exceptions processing. MMS ceased these publications in 2001, the year the compliance review process was initiated. At the Salt Lake meeting, MMS did make a presentation involving a few anecdotal compliance reviews, approximately four, but these raised more questions than they answered.

Accordingly, we must renew our request for the information that we have repeatedly told MMS is necessary. This includes:

- The total dollars collected since 2001 *as a direct result* of the compliance review process, broken down in terms of offshore, 8(g), onshore, Tribal and Allottee leases. This should exclude collections since 2001 attributable to the previous audit program and, particularly, audits conducted by States and Tribes;
- The cost/benefit of conducting compliance reviews;
- The number of random audits conducted under the compliance review process, broken down in terms of offshore, 8(g), onshore, Tribal and Allottee leases;
- The number of audit referrals conducted under the compliance review process, broken down in terms of offshore, 8(g), onshore, Tribal and Allottee leases;
- The number of random or referral audits that revealed further underpayments of royalties, the type of violations involved and the effort made by MMS to compile the type of violations into its compliance review process;
- The number of orders issued by MMS *as a direct result* of the compliance review process, broken down in terms of offshore, 8(g), onshore, Tribal and Allottee leases. This should exclude orders issued since 2001 attributable to the previous audit program and, particularly, orders issued as a result of audits conducted by States and Tribes; and
- A breakdown of MMS's appropriated or offline dollars since 2001 allocated to compliance reviews, random or referral audits, Accenture, other private consultants or entities (such as Inovis); quality reviews, training, preparation of congressional reports and strategic plans, SES promotions, and bonuses.
- Average labor hours needed to perform a compliance review.

As you know, many STRAC jurisdictions question the merit of compliance reviews. For example, some think that these reviews are little more than partial data entry verification efforts similar to exceptions processing. In fact, some delegations have found that without an effective exception verification process since the re-engineering efforts, there are many more reporting errors. Others think that the flaws in MMS's new automated compliance system, which you recently referred to as "over re-engineering", has lead to serious deficiencies in compliance reviews. Others think that compliance reviews are simply a means to squeeze States and Tribes out of the program. Similarly, some others

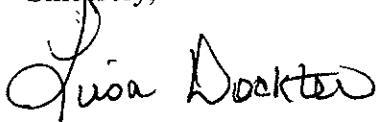
– with a substantial number of so-called “strategic” properties – fear that requiring them to conduct compliance reviews will risk their ability to create more dollars for their jurisdictions, which will threaten their program evaluations.

In MMS’s recent “Strategic Business Planning Initiative”, the agency pledged to improve its cooperation with States and Tribes. Yet, these jurisdictions remain without the data necessary to enhance cooperation between them and MMS. STRAC jurisdictions need the above information if MMS truly desires them to support the agency’s goals.

STRAC would appreciate receiving the information requested as soon as possible and no later than the next scheduled STRAC/MMS meeting in New Mexico.

Thank you, in advance, for your cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Lisa Dockter". The signature is written in black ink and is positioned above the typed name and title.

Lisa Dockter,
STRAC Chair
State and Tribal Royalty Audit Committee