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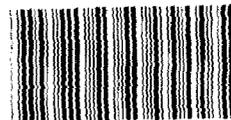
GAO

Briefing Report to the Honorable
John R. Kasich, House of Representatives

June 1987

DEBT COLLECTION

Interior's Efforts to Collect Delinquent Royalties, Fines, and Assessments



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This is a report on the results of work performed
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GAO/AFMD-87-21BR



Accounting and Financial
Management Division

B-225946

June 18, 1987

The Honorable John R. Kasich
House of Representatives

Dear Mr. Kasich:

This is the third¹ in a series of reports you requested on debt collection activities at selected federal agencies. As you requested, this report provides information on the Department of the Interior's collection efforts in the mineral, timber, and reclamation management programs which have receivables due from royalties, fines, and assessments. We discussed the results of our work with your staff in a briefing on March 6, 1987.

As of September 30, 1986, Interior reported total receivables of \$2.5 billion, of which \$284 million were delinquent. Approximately 11 percent of Interior's total receivables and 84 percent of its total delinquencies originated from royalties, fines, and assessments. Collection of these debts is primarily the responsibility of (1) the Office of Surface Mining Reclamation and Enforcement (OSMRE), (2) the Minerals Management Service (MMS), and (3) the Bureau of Land Management (BLM). Therefore, we concentrated on the activities of these three Interior components.

The amount of receivables shown on Interior's records depends largely on the nature of the program. Many of Interior's programs, such as MMS's royalty management program and OSMRE's reclamation fee program, generate large amounts of revenues. The MMS royalty management program annually generates billions of dollars in revenues, and OSMRE collects about \$200 million each year in reclamation fees and related interest charges. Most of these revenues are not reported as receivables because payments are made

¹The first report, entitled Debt Collection: Information on the Amount of Debts Owed the Federal Government (GAO/AFMD-86-13FS), was issued in December 1985. The second report, entitled Justice Department: Impediments Faced in Litigating and Collecting Debts Owed the Government (GAO/GGD-87-7BR), was issued in October 1986.

when production reports are filed--basically representing a cash transaction. However, receivables are generated when MMS and OSMRE determine after auditing the production reports that the payment was insufficient or not made. This report focuses on Interior's efforts to collect its recorded debts. The report is not intended to address whether the agency has properly determined the amount of royalties or fees due under its programs.

STATUS OF RECEIVABLES, COLLECTIONS, AND
DELINQUENCIES AT OSMRE, MMS, AND BLM

On September 30, 1986, OSMRE reported about \$158 million in receivables, of which \$155 million was delinquent. These consisted primarily of civil penalties assessed by OSMRE against coal mining companies for failing to correct mine reclamation violations and reclamation fees for abandoned mines. Since 1982, OSMRE's receivables, delinquencies, and collections have steadily increased. Its receivables and delinquencies increased due to the recording, as receivables, of a large number of violations which occurred between 1979 and 1980, but which had not been shown as receivables because penalties had not been assessed.

Because most of its delinquencies are several years old and thus typically more difficult to collect, OSMRE estimates that it will not collect as much as 80 to 85 percent of them. OSMRE recognizes that it has serious debt collection problems and is taking steps to improve its collection of debts. Regarding its collection of civil penalties, for example, a 1984 House committee report² concluded that OSMRE had failed to efficiently and effectively collect these penalties. In addition, a 1985 report³ by the same committee showed that OSMRE, due to "neglect and inefficiency," has experienced a history of debt collection problems primarily because it has failed to make timely assessments⁴ and aggressively pursue collection of

²House of Representatives Report No. 98-1146, pages 44 to 49, October 4, 1984.

³House of Representatives Report No. 99-206, page 7, July 17, 1985.

⁴Although we did not analyze the assessment process, we recognize that collection of penalties depends directly upon how well OSMRE performs the assessment process.

penalties. Actions planned or underway include closing out older uncollectible debts and placing greater emphasis and resources on collecting newer debts which have a higher probability of collection. In addition, OSMRE has begun to use private collection contractors, is consolidating its reclamation fee and civil penalty collection efforts, and is pursuing more stringent legal remedies. Because these initiatives are either in the planning or early implementation stages, we could not assess their effectiveness. We believe the success of these actions will depend on the emphasis and resources OSMRE devotes to them. (See appendix I.)

MMS receivables result primarily from audits of oil and gas company royalty production reports. Largely because of royalty underpayments disclosed by these audits, MMS's delinquent receivables grew between 1982 and 1986. At the end of fiscal year 1986, MMS receivables totaled \$105 million, \$75 million of which was delinquent. Many of these remain delinquent because they are under dispute and awaiting the outcome of appeal. However, even though the delinquencies are high and the rate of collections has declined, the risk of nonpayment is minimal. MMS minimizes this risk by requiring companies appealing disputed audit amounts to either make payment in advance or to post a bond or letter of credit for the amount in dispute plus 1 year's interest. (See appendix II.)

The majority of BLM's receivables arise when it seeks payment for rights to public resources or restoration of the government's interest because people or corporations trespass on public lands. In these instances, valuable government minerals, timber, or other resources have been sold, taken, or damaged. BLM reported receivables of \$8 million, of which about \$7.5 million was delinquent as of September 30, 1986.

Since fiscal year 1982, BLM's receivables and delinquencies have decreased 48 and 50 percent, respectively, primarily due to a decline in new receivables for fiscal years 1985 and 1986. BLM officials attributed this decline to the weak timber economy, the transfer of accounting responsibility for onshore mineral royalty receivables to MMS, and the incorrect reporting of write-offs and reclassified amounts by field offices. (See appendix III.)

As of September 30, 1986, trespass-related receivables comprised the largest portion of BLM's receivables and delinquencies. According to BLM officials, they will probably be unable to collect a large portion of the dollar value of these because of court awards for less than the amount of the receivables. Officials explained that the amount reported as a receivable often includes double or triple damages which are assessed as allowed by the laws in some states. Department of the Treasury instructions require these amounts to be reported as receivables. (See appendix III.)

Other receivables within Interior, most of which are long-term, arise through programs of the Bureau of Indian Affairs (BIA), the Bureau of Reclamation, and the Geological Survey. BIA makes and guarantees loans to Indians and tribal governments to foster economic growth and development in the Indian community. The Bureau of Reclamation makes loans to assist state and local governments in developing water, land, and other resources throughout the West and Hawaii. Most of the Geological Survey's receivables are owed by state and local governments. The distribution of Interior's receivables and delinquencies by agency is shown in appendix IV.

The Debt Collection Act of 1982 amended existing debt collection laws to clarify and, in some instances, increase the government's authority to use certain debt collection tools. OSMRE, MMS, and BLM have taken or plan to take several steps to improve collection of delinquent debts by implementing some provisions of the Debt Collection Act and requiring that certain debts be secured by bonds or letters of credit. Other Debt Collection Act initiatives are inapplicable or impractical because they relate to loan programs rather than to receivables of the nature generated by these agencies. The majority of Interior's delinquent debt stems not from the sale of goods or services or the making of loans but from the enforcement of specific laws and regulations. The use of Debt Collection Act tools where applicable is discussed in the appropriate appendix for each agency.

Most of the information in this report was obtained from Interior headquarters, OSMRE, MMS, BLM, the Solicitor's office in Washington, D.C., and Office of Management and Budget reports. We obtained the information by reviewing agency debt collection memorandums and records and through

discussions with agency officials. We identified, through these discussions, as well as analyses of the type and nature of the programs, which applicable Debt Collection Act provisions were used by the three components. We then determined the status of efforts to implement those provisions.

We also reviewed Interior inspector general, Interior and GAO Financial Integrity Act, and other pertinent reports on the accounting and collection of Interior receivables. We did not verify the accuracy of statistics provided by Interior or evaluate how well specific collection techniques adopted by Interior were operating. However, we did determine, through discussions with agency officials, the procedures used by OSMRE, MMS, and BLM in their efforts to collect delinquent debts. Our review covered the period from October 1982 through October 1986 and was conducted between February and November 1986, in accordance with generally accepted government auditing standards.

AGENCY COMMENTS AND OUR EVALUATION

In commenting on a draft of this report, the Department of the Interior stated that the report fairly describes its efforts in collecting delinquent accounts receivable. Interior also reiterated its view that its debt management is unique when compared with the private sector and many other government agencies. This is because the majority of Interior's delinquent debt stems not from the sale of goods or services or the making of loans but from the enforcement of specific loans and regulations. We have revised the report to more clearly reflect this point.

In addition, Interior pointed out that appeals and legal processes result in much of its delinquent debt remaining on the books for long periods of time. We address this under the Office of the Solicitor's efforts to litigate OSMRE debts in appendix I and in the status of receivables sections of appendixes II and III.

Interior also raised other technical and clarity issues. The report has been revised, where appropriate, to reflect these points. Interior's specific comments are included in appendix V.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 5 days after we issue it to your office. At that time, we will send copies to the Secretary of the Interior, the Director of the Office of Management and Budget, and other interested parties. Copies will also be made available to others on request. If you have any questions about the contents of this report, please contact me at (202) 275-9454.

Sincerely yours,


Jeffrey C. Steinhoff
Associate Director

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ABBREVIATIONS

| | |
|-------|--|
| AML | Abandoned Mine Land Program |
| BIA | Bureau of Indian Affairs |
| BLM | Bureau of Land Management |
| GAO | General Accounting Office |
| GSA | General Services Administration |
| OIG | office of inspector general |
| IRS | Internal Revenue Service |
| MMS | Minerals Management Service |
| OSMRE | Office of Surface Mining Reclamation and Enforcement |
| SMCRA | Surface Mining Control and Reclamation Act |

THE OFFICE OF SURFACE MINING RECLAMATION
AND ENFORCEMENT'S RECEIVABLES

- * OSMRE RECEIVABLES RESULT PRIMARILY FROM PENALTIES AND FEES.

- * NEARLY ALL RECEIVABLES ARE DELINQUENT--MOST OVER 360 DAYS OLD-- AND HAVE EITHER BEEN REFERRED TO A PRIVATE CONTRACTOR OR THE SOLICITOR'S OFFICE FOR COLLECTION.

- * AT THE END OF FISCAL YEAR 1986, RECEIVABLES TOTALED \$158.4 MILLION AND DELINQUENCIES WERE \$154.6 MILLION.

- * OSMRE HAS EXPERIENCED COLLECTION PROBLEMS SINCE IT WAS ESTABLISHED.

- * OSMRE IS TAKING ACTIONS TO CORRECT ITS DEBT COLLECTION PROBLEMS, BUT WE COULD NOT EVALUATE THEIR EFFECTIVENESS BECAUSE THEY WERE IN PLANNING OR EARLY STAGES OF IMPLEMENTATION.

NATURE OF OSMRE RECEIVABLES

OSMRE, established in 1977, administers programs for controlling mining operations under the Surface Mining Control and Reclamation Act (SMCRA) of 1977 (91 Stat. 450). The Office oversees state regulation of mining activities and the reclamation of abandoned mines, as well as establishing standards for controlling the environmental impact of surface coal mining. In addition to overseeing state activities, OSMRE regulates coal mining operations in several states and on federal and Indian lands. In carrying out its responsibilities, OSMRE assesses coal production fees under its Abandoned Mine Lands program (AML) and civil penalties against coal operators who violate SMCRA's coal mining regulatory requirements. As shown in table I.1, AML fees accounted for about 17.4 percent of OSMRE's receivables.

Table I.1: OSMRE Receivables and Delinquencies by Type as of September 30, 1986

| <u>Type</u> | <u>Receivables</u> (millions) | Percent of <u>total</u> | <u>Delinquencies</u> (millions) | Percent of <u>total</u> |
|---------------------|----------------------------------|----------------------------|------------------------------------|----------------------------|
| Abandoned mine fees | \$ 27.5 | 17.4 | \$ 27.5 | 17.8 |
| Civil penalties | 119.3 | 75.3 | 115.4 | 74.6 |
| Interest | 11.6 | 7.3 | 11.6 | 7.5 |
| Administrative | <u>0.1</u> | <u>0.1</u> | <u>0.1</u> | <u>0.1</u> |
| Total ^a | <u>\$158.4</u> | 100.0 | <u>\$154.6</u> | 100.0 |

Source: U.S. Department of the Interior.

^aAmounts may not total due to rounding.

Provisions of SMCRA require coal mine operators to pay reclamation fees on each ton of coal produced. OSMRE places these fees into a special fund which is used to restore land and water resources adversely affected by coal mining operations prior to the passage of SMCRA. OSMRE reports that it annually collects about \$200 million in AML fees and related interest charges.

SMCRA requires coal mine operators to submit quarterly production reports to OSMRE. As part of the report, operators are required to compute the AML fees and send payment along with the report to OSMRE. Thus, OSMRE generally does not record the AML

fees it collects on its books as receivables because they are paid at the same time OSMRE identifies the amount of the fee. Receivables generally arise when a report is received without payment or when an OSMRE audit shows that the coal mine operator did not pay the correct fee. These receivables are considered delinquent when recorded because they were not paid when due.

OSMRE is authorized to assess and collect civil penalties against coal companies for violations under SMCRA. Since 1978, OSMRE reported issuing about 24,300 citations for violations such as failing to adequately restore mining sites. If a violation is not corrected by an established date, penalties of up to \$5,000 may be assessed for each violation. OSMRE must assess additional penalties of not less than \$750 per day, up to 30 days, for each day the operator fails to correct a violation after the date established for correcting the violation. Receivables are established when formal notification of the penalty amount (final order) is sent to the violator. Amounts not paid within 30 days after this notification are considered by OSMRE to be delinquent. As shown in table I.1, civil penalties account for approximately 74.6 percent of OSMRE's delinquent receivables.

OSMRE is responsible for initial debt collection efforts for both AML fees and civil penalties. If these efforts fail, OSMRE either refers the case to the Office of the Solicitor for legal action or, as has been done more recently, to a private collection contractor prior to referral to the Office of the Solicitor.

STATUS OF RECEIVABLES

OSMRE receivables and delinquencies have increased substantially during the past 4 years, primarily in the area of civil penalties. As shown in table I.2, receivables increased from \$64.6 million at the end of fiscal year 1982 to \$158.4 million by the end of fiscal year 1986--a 145-percent increase. During the same period, delinquencies increased from \$64.2 million to \$154.6 million, a 141-percent increase. OSMRE receivables increased primarily due to efforts to record a sizable number of violations which occurred between 1979 and 1980 but had not been shown as receivables because penalties were not assessed. Because many of the companies against which the penalties had been assessed had gone bankrupt or had relocated, the penalties could not be collected in a timely manner and were therefore reported as delinquent. In testimony before the Subcommittee on Environment, Energy, and Natural Resources of the House Committee on Government Operations, on September 16, 1986, the Director of OSMRE stated that it would take until mid-fiscal year 1988 before the agency could deal with the entire backlog.

Table I.2: Changes in OSMRE Receivables Between Fiscal Years 1982 and 1986

| | Fiscal year | | | | |
|--------------------------------------|-----------------------------------|-------------|-------------|-------------|---------------------|
| | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> |
| | ----- (dollars in millions) ----- | | | | |
| Beginning receivables | \$32.5 | \$64.6 | \$99.2 | \$121.0 | \$140.4 |
| New receivables ^a | 40.2 | 38.8 | 27.3 | 27.0 | 46.2 |
| Collections | (7.9) | (3.9) | (5.3) | (7.5) | (10.8) |
| Reclassified | 0 | (0.1) | 0 | 0 | (16.4) ^b |
| Write-offs | (0.2) | (0.3) | (0.2) | (0.1) | (1.0) |
| Ending receivables ^c | 64.6 | 99.2 | 121.0 | 140.4 | 158.4 |
| Allowance for uncollectible accounts | (34.8) | (57.5) | (68.5) | (83.9) | (82.5) |
| Receivables, net of allowance | 29.8 | 41.7 | 52.5 | 56.5 | 75.9 |
| Current receivables ^c | | | | | |
| Not delinquent | 0.4 | 3.1 | 6.3 | 1.6 | 3.9 |
| Delinquent | 64.2 | 96.1 | 114.7 | 138.7 | 154.6 |
| Noncurrent receivables | 0 | 0 | 0 | 0 | 0 |
| Rate of collections ^d | 10.9% | 3.8% | 4.2% | 5.1% | 5.8% ^e |

Note: Figures for fiscal years 1982 through 1985 were taken from Office of Management and Budget data as provided to it by the Department of the Interior. Fiscal year 1986 amounts were obtained directly from the Department of the Interior.

^aIn addition to receivables generated during the fiscal year, new receivables may also include amounts for previously unassessed penalties.

^bAccording to OSMRE officials, fiscal year 1986 reclassified amounts are those for which OSMRE is terminating collection activities because the amounts are considered uncollectible.

^cAmounts may not total due to rounding.

^dCollection rates were calculated by dividing collections by beginning balance plus new receivables less any amounts reclassified.

^eSince OSMRE reclassified amounts which were considered uncollectible (see note b), the collection rate for fiscal year 1986 was calculated by dividing collections by beginning balance plus new receivables.

As shown in table I.3, approximately 84 percent of OSMRE'S delinquent receivables are over 360 days old. Most of these originated from violations committed 6 to 7 years ago. OSMRE believes it will be unable to collect as much as 80 to 85 percent of this debt because it is owed by smaller companies which have since gone bankrupt or relocated. As shown in table I.2, OSMRE, in recognition of the unlikely collection of many of its delinquent accounts, increased its allowance for uncollectible accounts at the end of fiscal year 1985 to \$83.9 million, up from \$68.5 million the previous year. The majority of the allowance is for delinquent civil penalty assessments. OSMRE reclassified⁵ \$16.4 million of these debts in fiscal year 1986 and expects to reclassify much of the remainder during fiscal year 1987.

Table I.3: Aging of OSMRE Delinquencies as of September 30, 1986

| <u>Age</u> | <u>Amount</u> | <u>Percent of total</u> |
|--------------------|----------------|-------------------------|
| | (millions) | |
| 1 to 30 days | \$ 4.5 | 2.9 |
| 31 to 60 days | 4.6 | 3.0 |
| 61 to 90 days | 2.9 | 1.9 |
| 91 to 180 days | 3.7 | 2.4 |
| 181 to 360 days | 9.6 | 6.2 |
| Over 360 days | <u>129.1</u> | <u>83.5</u> |
| Total ^a | <u>\$154.6</u> | 100.0 |

Source: U.S. Department of the Interior.

^aAmounts may not total due to rounding.

⁵According to OSMRE officials, uncollectible amounts are reclassified when collection activities are terminated. The applicant violator system, when fully implemented, will be used to deny future permits to these debtors. (See page 17 for a discussion of this system.)

OSMRE HAS A HISTORY OF DELINQUENT
PENALTY AND FEE COLLECTION PROBLEMS

According to a 1985 report by the Subcommittee on Environment, Energy, and Natural Resources of the House Committee on Government Operations, OSMRE's assessment (see footnote 3) and collection functions have suffered from neglect and inefficiency by OSMRE management. OSMRE's collection problems have been recognized by the Congress, as well as by the Department of the Interior.

During hearings⁶ before the subcommittee, OSMRE was criticized for failing to effectively carry out the provisions of the Surface Mining Control and Reclamation Act. In a report issued July 17, 1985, (see footnote 3) the subcommittee further criticized OSMRE for not aggressively pursuing solutions to its administrative and collection problems and for not eliminating "delays and breakdowns which occur at virtually every step" of the assessment and collection process. The subcommittee's report noted that most of the recommendations from a 1984 House Committee on Government Operations report⁷ had not been implemented.

Specifically, the 1984 report recommended that OSMRE

- improve the general administration of the program by adopting an aggressive approach to seeking out problems;
- eliminate delays and breakdowns in its assessment and collection process;
- focus less attention on time-consuming and labor-intensive collection practices;
- implement other enforcement measures contained in the Surface Mining Control and Reclamation Act, such as injunctions, individual civil penalties, and criminal penalties;
- implement provisions of the Debt Collection Act; and
- expand the use of its data processing capability to monitor case processing.

⁶Hearings were held on June 13, 1984; March 21, 1985; and September 16, 1986.

⁷House of Representatives Report No. 98-1146, pages 44 to 49, October 4, 1984.

Responding to these criticisms, OSMRE requested that the Internal Revenue Service (IRS) review its assessment and collection process. IRS' recommendations focused on reducing the backlog of penalty cases not yet collected, improving the efficiency of OSMRE's collection information system, improving internal controls, and adhering to legislative and regulatory time frames. Specifically, the report included recommendations that OSMRE

- eliminate the backlog of older cases in order to use its resources to pursue enforcement of more current cases in the system;
- reduce the amount of unnecessary information recorded in the collection management information system and revise the process to provide more useful information to management for decisionmaking;
- streamline the overall collection process by more clearly defining the respective roles of OSMRE and the Office of the Solicitor;
- establish procedures to (a) ensure more timely reports, reinspection, and casework completion and (b) reduce errors and processing delays by field offices; and
- hire sufficient personnel to ensure more timely assessments.

As discussed in the following section, OSMRE is implementing changes to improve its collection process in keeping with the recommendations of the IRS report and with criticisms from other sources. Because many of these initiatives are either in the planning or early implementation stages, we did not attempt to evaluate their results.

OSMRE RESPONDING TO COLLECTION PROBLEMS

OSMRE is making changes in its debt collection program to correct its long-standing problems. In testimony before the Subcommittee on Environment, Energy, and Natural Resources of the House Committee on Government Operations, on September 16, 1986, OSMRE's Director stated that the agency is either undertaking or planning several initiatives designed to improve its debt collections. These include

- concentrating on the collection of newer debt and closing out older uncollectible debt,

- using private collection contractors, and
- merging delinquent AML fee and civil penalty collection activities.

OSMRE also plans to expand its use of permit denial for those operators who owe outstanding fees or penalties by establishing the automated Applicant Violator System. The system will contain information such as company name, owners, directors, and taxpayer identification numbers. OSMRE intends to use this information to check permit applications and identify violators. Any individual or company that the system identifies as having unabated violations and/or outstanding civil penalties will be subject to possible alternative enforcement actions such as

- revocation or suspension of present permits to operate,
- criminal penalties,
- court injunctions to cease operations, and
- assessment of individual civil penalties.

The Office is under court order to complete this system before October 1987.

The Solicitor's office is pursuing the above alternative enforcement actions as legal remedies to correct violations and collect delinquent debts. According to officials of the Solicitor's office, it is obtaining court injunctions to stop further mining activities where operators have failed to correct violations and pay penalties. Interior is also preparing new rules which would allow the assessment of individual civil penalties against company directors and make major owners liable for corporate violations. These actions are planned to be completed during fiscal year 1987.

OSMRE plans to use these initiatives to the extent they do not conflict with its mission and its primary concern in the area of regulatory enforcement of obtaining reclamation through abatement (that is, to restore the land by correcting the violation). As stated by the Director of OSMRE during the testimony of September 1986:

"If it comes to a choice between collecting a dollar of civil penalty and achieving whole or partial abatement of an unreclaimed mine site, the first and primary goal is, and continues to be, to abate the violation."

According to an OSMRE official, the agency is also using or plans to use a number of the provisions of the Debt Collection Act. For example, the official told us that OSMRE assesses interest, penalties, and administrative costs for most delinquent debts. During fiscal year 1986, it reported assessing \$4 million in interest, penalties, and administrative costs.

OSMRE officials also told us they began administratively offsetting civil penalties against AML fee overpayments in October 1986. Additionally, an official told us that OSMRE has attempted to collect delinquent AML fees and civil penalties by having the Tennessee Valley Authority offset payments for coal purchased from mine operators who owe these fees and penalties. The official stated that this process has been successful in helping OSMRE collect delinquent AML fees from some coal companies and identify others which may have outstanding civil penalties. OSMRE was unable to provide details of the amounts offset as a result of these processes.

The official also told us that OSMRE plans to begin referring information on delinquent debtors to credit bureaus in mid-1987. The official explained that referrals had not been made because credit bureaus required information to be referred with a taxpayer identification number. Since taxpayer identification numbers are not available to OSMRE, it could not make referrals. OSMRE plans to have this information available when its Applicant Violator System is implemented. However, the official stated that through discussions with the Department of the Treasury and one credit bureau, agreement was reached that OSMRE could report delinquent debtors without taxpayer identification numbers.

Because these initiatives are either in the planning or early implementation stages, we could not evaluate their effectiveness. We believe the success of these actions will depend on the emphasis and resources devoted to them by OSMRE.

SOLICITOR'S EFFORTS TO LITIGATE OSMRE DEBTS

The Solicitor's office provides legal support of collection activities to OSMRE primarily by obtaining injunctions and judgments against delinquent debtors and assisting in the development of collection regulations. As of June 30, 1986, the Solicitor's office reported having about \$82.5 million worth of pending cases. If the Solicitor's office is unsuccessful in obtaining collection, it will generally terminate further collection activities.

According to a March 1986 report by Interior's Office of Inspector General (OIG), the Solicitor's office has not been timely

in initiating collection action after judgments have been obtained, or terminating collection action on cases once they are determined to be uncollectible. In addition, the Solicitor's office has been criticized in this area by the Subcommittee on Environment, Energy, and Natural Resources of the House Committee on Government Operations. The OIG report recommended that the Solicitor develop policy and procedures for aggressively pursuing the collection of judgments received on AML reclamation and civil penalty cases. The report suggested that the procedures could include the establishment of specific collection steps within specific times. In responding to this recommendation, the Solicitor's office initially stated that a commitment was not possible given its limited number of attorneys and support personnel; however, the office has since maintained that it has adequate resources. On November 18, 1986, we issued a fact sheet (Financial Management: Information on Expenditures by Interior's Office of the Solicitor, GAO/AFMD-87-16FS) which provided information about the Solicitor's allocation and expenditure of resources in support of OSMRE. In addition, on May 27, 1987, we issued a briefing report (Surface Mining: Office of the Solicitor Fiscal Year 1986 Staffing Needs, GAO/RCED-87-140BR) which provided information on the Solicitor's resources.

THE MINERALS MANAGEMENT SERVICE'S RECEIVABLES

- * **MMS RECEIVABLES RESULT PRIMARILY FROM MINERAL ROYALTY AUDITS AND DEFERRED BONUSES.**

- * **AMOUNT OF RECEIVABLES IS SMALL IN COMPARISON TO ROYALTY REVENUES.**

- * **MAJORITY OF RECEIVABLES ARE REPORTED AS DELINQUENT AND ARE BEING APPEALED.**

- * **AT THE END OF FISCAL YEAR 1986, RECEIVABLES TOTALED \$104.8 MILLION AND DELINQUENCIES WERE \$75.4 MILLION.**

- * **BECAUSE MOST RECEIVABLES BEING APPEALED ARE SECURED BY BOND OR LETTER OF CREDIT, THE GOVERNMENT'S INTERESTS ARE PROTECTED.**

NATURE OF MMS RECEIVABLES

MMS is responsible for activities related to the royalty management program at the Department of the Interior. In carrying out its mission, MMS collects rents, royalties, and other revenues generated through leases for the exploration, development, and production of mineral resources on federal lands, Indian lands, and the Outer Continental Shelf. Prior to 1982, the royalty management program was administered by the U.S. Geological Survey. In January 1982, the Secretary of the Interior, responding to a recommendation by his Commission on the Fiscal Accountability of the Nation's Energy Resources, established MMS and gave it responsibility for minerals management.

Mineral leasing revenues are one of the largest sources of nontax income to the federal government, and, in 1985, MMS reported mineral revenues of nearly \$6.5 billion. MMS receivables, however, are relatively small compared to revenues because, according to officials, most receipts are not recorded as receivables since they are paid when oil and gas companies submit production reports. Receivables that do occur result primarily from royalty related audits, deferred payments through lease bid awards,⁸ and other amounts due, such as late payment charges and assessments for improper and untimely reporting. Table II.1 shows the amount of receivables and delinquencies as of September 30, 1986.

⁸Also known as deferred coal or geothermal bonuses. These consist of deferred payments based on lease bids which are owed the government from mineral lease awards. These bonuses are not paid in advance; rather, they are paid over a number of years.

Table II.1: MMS Receivables and Delinquencies by Type
as of September 30, 1986

| <u>Type</u> | <u>Receivables</u> (millions) | Percent of <u>total</u> | <u>Delinquencies</u> (millions) | Percent <u>of total</u> |
|--------------------|----------------------------------|----------------------------|------------------------------------|----------------------------|
| Royalty-related | \$ 63.7 | 60.8 | \$61.8 | 82.0 |
| Late charges | 13.9 | 13.3 | 11.8 | 15.7 |
| Deferred bonuses | 22.8 | 21.8 | 1.6 | 2.2 |
| Administrative | <u>4.4</u> | <u>4.2</u> | <u>0.1</u> | <u>0.1</u> |
| Total ^a | <u>\$104.8</u> | 100.0 | <u>\$75.4</u> | 100.0 |

Source: U.S. Department of the Interior.

^aAmounts may not total due to rounding.

STATUS OF RECEIVABLES

Between fiscal year 1982 and fiscal year 1986, MMS receivables and delinquencies grew significantly as a result of an increase in both audit findings of royalty underpayments and the number of those findings which are appealed.⁹ According to officials, the dollar volume of receivables may fluctuate considerably from year to year depending on factors such as the amount of new audit findings and the resolution of amounts under appeal. As shown in table II.2, receivables increased from \$18.1 million at the end of fiscal year 1982 to \$104.8 million at the end of fiscal year 1986. Delinquencies grew from \$8.1 million in 1982 to \$75.4 million at the end of fiscal year 1986, \$68.8 million of which was under appeal as of September 30, 1986. Primarily as a result of the large amount of receivables under appeal, the Service's rate of collections has declined from 92.6 percent to 64.0 percent for the same period.

⁹When audit findings are appealed, collection may be delayed if an appropriate surety is posted.

Table II.2: Changes in MMS Receivables Between Fiscal Years 1982 and 1986

| | <u>Fiscal year</u> | | | | |
|--------------------------------------|----------------------------------|-------------|-------------|-------------|-------------|
| | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> |
| | ------(dollars in millions)----- | | | | |
| Beginning receivables | \$ 0.0 | \$ 18.1 | \$ 13.1 | \$125.5 | \$163.6 |
| New receivables | 244.6 | 326.8 | 814.0 | 585.5 | 207.5 |
| Collections | (226.4) | (317.4) | (674.0) | (521.6) | (186.5) |
| Reclassified ^a | 0.0 | (14.5) | (27.6) | (25.8) | (79.8) |
| Write-offs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Ending receivables ^b | 18.1 | 13.1 | 125.5 | 163.6 | 104.8 |
| Allowance for uncollectible accounts | (0.0) | (0.0) | (0.0) | (0.0) | (0.0) |
| Receivables, net of allowance | 18.1 | 13.1 | 125.5 | 163.6 | 104.8 |
| Current receivables ^a | | | | | |
| Not delinquent | 10.1 | 0.6 | 74.3 | 54.4 | 25.8 |
| Delinquent | 8.1 | 12.5 | 16.9 | 89.5 | 75.4 |
| Noncurrent receivables | 0.0 | 0.0 | 34.3 | 19.7 | 3.6 |
| Rate of collections ^c | 92.6% | 96.1% | 84.3% | 76.1% | 64.0% |

Source: U.S. Department of the Interior.

^aAccording to MMS officials, these amounts primarily represent payments of billings resulting from audits of oil and gas companies. These payments are reported as reclassifications of receivables rather than as collections. This is consistent with other oil and gas rent and royalty payments which are treated as cash transactions and do not result in increases to collections. (See related discussion in Interior's comments on our draft report, shown as appendix V.)

^bAmounts may not total due to rounding.

^cCollection rates were calculated by dividing collections by beginning balance plus new receivables less any amounts reclassified.

According to an MMS program analyst, receivables have increased due to MMS' increased emphasis on identifying late payments and conducting post-royalty audits to identify additional unpaid royalties. When late payments are identified or an audit identifies that additional royalties are owed, MMS submits a bill for collection to the payor along with a demand letter explaining the basis of the assessment and the payor's rights to request a hearing and to appeal. According to MMS, the number of its audit-related cases entering the appeals process and the number of late payments being appealed is increasing as is the amount of delinquent receivables which go uncollected pending the outcome of an appeal.

A large portion of MMS' receivables are shown in its accounting records as delinquent because MMS includes in that category all amounts under dispute and awaiting the outcome of appeal. MMS suspends collection activities on amounts under appeal. As of September 30, 1986, about \$68.8 million, or 91.2 percent, of MMS delinquent receivables were under appeal. MMS requires that companies appealing any federal bill either submit payment of the bill or post a bond or letter of credit for the full amount of the debt plus 1 year's accrued interest. As a result, the risk of nonpayment by insolvent or bankrupt payors awaiting the outcome of appeals is substantially reduced. Of the \$68.8 million in delinquent receivables under appeal, MMS had surety coverage of \$64.5 million, or 93.8 percent. Because the surety arrangements virtually guarantee payment, MMS officials told us they have not had difficulty in collecting amounts upheld by the appeals process and have written off few, if any, delinquencies. As shown in table II.3, at the end of fiscal year 1986, the majority of the delinquencies were less than 1 year old.

Table II.3: Aging of MMS Delinquencies as of September 30, 1986

| <u>Age</u> | <u>Amount</u> | <u>Percent</u> |
|-----------------|---------------|-----------------|
| | (millions) | <u>of total</u> |
| 1 to 30 days | \$ 2.6 | 3.4 |
| 31 to 60 days | 3.2 | 4.2 |
| 61 to 90 days | 2.0 | 2.7 |
| 91 to 180 days | 24.8 | 32.9 |
| 181 to 360 days | 14.4 | 19.1 |
| over 360 days | <u>28.4</u> | <u>37.7</u> |
| Total | <u>\$75.4</u> | 100.0 |

Source: U.S. Department of the Interior.

MMS EFFORTS TO COLLECT RECEIVABLES

The Payor Accounting Branch in Lakewood, Colorado, is MMS' primary collector for amounts not under appeal, such as late payments. This collection consists of issuing an original bill, followed by two additional demand letters--the first within 10 days of the due date and the second, if necessary, 15 to 25 days later.

The demand letters inform the debtor that MMS will report the delinquency to a credit reporting agency and make a demand for payment from the surety providing the lease bond. Mineral leases require lease bonds to protect the government against lease violations, such as nonpayment of royalties or other debts owed to MMS. These are different from bonds required when royalties are in dispute and under appeal. The language of the demand letters is reinforced through telephone contact with the debtor. Lacking a firm commitment from the debtor to make payment in the near future, a written demand is made under the lease bond, and the delinquency is reported to a credit reporting agency. According to officials, MMS has been referring delinquent commercial accounts to a credit reporting agency for about 3 years.

Interest is computed and billed on the late payments using the rate applicable under section 6621 of the Internal Revenue Code of 1954, as required by the Federal Oil and Gas Royalty Management Act of 1982 (30 U.S.C. 1721). Additionally, until payment is received, MMS regulations allow the assessment of penalties on late oil and gas royalty payments. During fiscal year 1986, MMS reported assessing about \$28 million in interest and \$266,000 in various penalties.

MMS officials emphasized ultimate collection difficulties are not a serious problem because mineral production is usually a source of income for debtors and, as a result, the debtors cannot afford to have their lease bond called because this could result in lease cancellation.

THE BUREAU OF LAND MANAGEMENT'S RECEIVABLES

- * **BLM RECEIVABLES RESULT PRIMARILY FROM TRESPASS VIOLATIONS AND TIMBER CONTRACTS.**

- * **NEARLY ALL OF BLM'S RECEIVABLES ARE DELINQUENT, AND A SUBSTANTIAL PORTION OF THESE ARE OVER 360 DAYS OLD.**

- * **MANY RECEIVABLES ARE UNLIKELY TO BE COLLECTED IN FULL BECAUSE OF COURT AWARDS FOR LESS THAN THE AMOUNT OF THE RECEIVABLE.**

- * **AT THE END OF FISCAL YEAR 1986, RECEIVABLES TOTALED \$8 MILLION AND DELINQUENCIES WERE \$7.5 MILLION.**

NATURE OF BLM RECEIVABLES

BLM is responsible for carrying out provisions of the Federal Land Policy and Management Act of 1976. Under the 1976 act, BLM manages some 248 million acres of public lands, primarily in the Far West and Alaska, and manages additional resources covering another 370 million acres where mineral rights have been reserved to the federal government. The specific kinds of resources BLM manages include timber, minerals, and geothermal energy. Among other things, BLM management provides for the protection, development, and use of public lands under its domain.

BLM receivables can be grouped into four major types--timber cutting, grazing, right-of-way grants, and trespass violations. A description of receivables is included on the following page. In addition, there are numerous "other" categories, such as road maintenance and fines and penalties for farming on public land. As shown in table III.1, the two largest categories of receivables are timber-cutting contracts and trespass violations.

Table III.1: BLM Receivables and Delinquencies by Type as of September 30, 1986

| <u>Type</u> | <u>Receivables</u> (millions) | Percent of <u>total</u> | <u>Delinquencies</u> (millions) | Percent of <u>total</u> |
|--------------------|----------------------------------|----------------------------|------------------------------------|----------------------------|
| Timber | \$3.1 | 38.8 | \$2.9 | 38.7 |
| Trespass | 3.3 | 41.3 | 3.1 | 41.3 |
| Grazing | 0.1 | 1.3 | 0.1 | 1.3 |
| Right-of-way | 0.2 | 2.5 | 0.2 | 2.7 |
| Other | <u>1.3</u> | <u>16.3</u> | <u>1.2</u> | <u>16.0</u> |
| Total ^a | <u>\$8.0</u> | 100.0 | <u>\$7.5</u> | 100.0 |

Source: U.S. Department of the Interior.

^aAmounts may not total due to rounding.

DESCRIPTION OF RECEIVABLES

| | |
|----------------------------|---|
| Timber-cutting contracts | Amounts owed by timber companies for cutting timber under contract on BLM-managed lands. |
| Grazing contracts | Amounts owed by ranchers who pay BLM for grazing rights on federal lands on an actual-use basis. |
| Right-of-way grants | Amounts owed by companies granted easements through federal lands. |
| Timber trespass violations | The fair market value of timber plus damages for timber cut without a contract. The violators are primarily small timber companies that either cut more than the quantity allowed under contract or cut outside of the established boundaries. The amount of the penalty for each violation depends on the market value of the timber cut plus any damages prescribed under state laws. |
| Fire trespass damages | Amounts owed for damages to federal lands from fires, primarily caused by railroad companies. The penalties vary according to the amount of damage and the state where the violation occurred, and often include additional punitive damages as with timber trespasses. |
| Other receivables | These amounts include assessments for various services performed in BLM's enforcement of laws and regulations, including road maintenance, other types of trespass violations, and other fees and penalties. |

STATUS OF RECEIVABLES

BLM receivables and delinquencies increased through fiscal year 1984, but have since decreased significantly. As shown in table III.2, receivables increased from \$15.3 million on September 30, 1982, to \$19.7 million by September 30, 1984--a 29-percent increase. However, between the ends of fiscal years 1984 and 1985, receivables decreased by 53 percent--from \$19.7 million to \$9.2 million. Delinquencies, as shown, decreased from \$14.9 million at the end of fiscal year 1983 to \$8.1 million at the end of fiscal year 1985--a 46-percent reduction. This decline continued into fiscal year 1986 with receivables of \$8.0 million and delinquencies of \$7.5 million, as of September 30, 1986.

The change in BLM's receivables was primarily attributable to an unusually large decline in new receivables for fiscal year 1985. New receivables decreased from \$41.1 million in fiscal year 1984 to \$22.3 million in fiscal year 1985. (See table III.2.) BLM finance office officials attribute the decrease in new receivables primarily to weakness in the timber economy, the transfer of accounting responsibility for onshore mineral royalty receivables to MMS, and the incorrect reporting of write-offs and reclassified amounts. The weak timber economy resulted in fewer timber contract sales and, therefore, fewer new receivables. Further, since BLM no longer recorded amounts owed to the government from onshore mineral royalties, the transfer of accounting responsibility for these receivables also resulted in a decline in BLM's new receivables. Additionally, finance office officials told us the portion of a receivable which is uncollectible due to settlement, compromise, or a reduced judgment awarded by the court should be written off or reclassified. Because BLM has no internal written guidance on the reporting of uncollectible amounts, it reports them as reductions in new receivables--not as write-offs or reclassified amounts. The Chief of the Financial Management Systems Branch stated that BLM plans to review procedures for reporting these amounts and that these procedures would be routinely evaluated during future administrative reviews. BLM's Chief of the Finance Division stated that the above factors affected 1986 receivable activity as well.

As shown in tables III.1 and III.2, a large amount of BLM's receivables are delinquent. As of September 30, 1986, 94 percent of receivables were delinquent.

In addition, as shown in table III.3, about 68 percent of BLM's delinquencies were over 360 days old. Most of these consist of fines and assessments from the enforcement of laws and regulations, which are generally litigated. BLM officials

attribute the large percentage of delinquencies and the advanced age to the length of time required to settle disputes over amounts owed by payors.

Table III.2: Changes in BLM Receivables Between Fiscal Years 1982 and 1986

| | Fiscal year | | | | |
|--|----------------------------------|-------------|-------------|-------------|-------------|
| | <u>1982</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> |
| | ------(dollars in millions)----- | | | | |
| Beginning receivables | \$10.9 | \$15.3 | \$18.6 | \$19.7 | \$ 9.2 |
| New receivables | 28.9 | 46.2 | 41.1 | 22.3 | 25.3 |
| Collections | (24.1) | (39.9) | (33.1) | (31.4) | (26.0) |
| Reclassified | 0 | 0 | 0 | 0 | (0.1) |
| Write-offs | (0.3) | (3.0) | (6.9) | (1.4) | (0.5) |
| Ending receivables ^a | 15.3 | 18.6 | 19.7 | 9.2 | 8.0 |
| Allowance for uncollectible accounts | (0.4) | (0.8) | (2.2) | (0.9) | (0.6) |
| Receivables, net of allowance ^a | 14.9 | 17.8 | 17.5 | 8.4 | 7.4 |
| Current receivables ^a | | | | | |
| Not delinquent | 0.3 | 3.7 | 6.7 | 1.2 | 0.5 |
| Delinquent | 14.9 | 14.9 | 13.0 | 8.1 | 7.5 |
| Noncurrent receivables | 0 | 0 | 0 | 0 | 0 |
| Rate of collections ^b | 60.6% | 64.9% | 55.4% | 74.8% | 75.4% |

Note: Figures for fiscal years 1982 through 1985 were taken from Office of Management and Budget data as provided to it by the Department of the Interior. Fiscal year 1986 amounts were obtained directly from the Department of the Interior.

^aAmounts may not total due to rounding.

^bCollection rates were calculated by dividing collections by beginning balance plus new receivables less any amounts reclassified.

Table III.3: Aging of BLM Delinquencies as of September 30, 1986

| <u>Age</u> | <u>Amount</u> (millions) | <u>Percent of total</u> |
|-----------------|-----------------------------|-----------------------------|
| 1 to 30 day | \$0.4 | 5.3 |
| 31 to 60 days | 0.0 ^a | 0.0 |
| 61 to 90 days | 1.2 | 16.0 |
| 91 to 180 days | 0.3 | 4.0 |
| 181 to 360 days | 0.5 | 6.7 |
| Over 360 days | <u>5.1</u> | <u>68.0</u> |
| Total | <u>\$7.5</u> | 100.0 |

Source: U.S. Department of the Interior.

^aAmount is less than \$50,000.

LARGE PORTION OF TRESPASS-RELATED RECEIVABLES
ARE UNLIKELY TO BE COLLECTED

BLM officials told us they will probably be unable to collect a large portion of the \$3.3 million in trespass-related receivables primarily because of court awards for less than the amount of the penalties imposed. The officials explained that in practice, actual amounts awarded by the courts are generally less than amounts of penalties initially recorded as receivables. Officials stated that this is especially true in the case of forest fires, where violators are typically unable to pay actual or punitive damages. Department of the Treasury instructions for its Report on Accounts and Loans Receivable Due From the Public require reporting all amounts due and payable as receivables, including the amounts subject to change through administrative appeal or litigation.

BLM EFFORTS TO COLLECT RECEIVABLES

According to officials, BLM uses or plans to use several Debt Collection Act tools, such as assessing interest, penalties, and administrative costs, and using private collection firms and credit reporting agencies. The collection process begins with the issuing of an original bill, followed by three demand letters and personal contact with debtors. BLM computes the interest on unpaid amounts as accruing from the date of the original bill, and assesses it on the thirty-first day if payment has not been received. After that, BLM assesses penalties on the ninety-first day of delinquency and assesses a \$5.00 administrative fee for each demand letter mailed to the debtor.

BLM officials stated that they refer debts which remain uncollected to either Interior's private collection contractor, which BLM has been using since 1983, or the Office of the Solicitor to determine whether the claim should be litigated. The Office of the Solicitor determines if debts should be referred to the Department of Justice. The dollar amount of the receivable usually determines where a debt will be referred. The officials told us that generally they refer amounts of \$100 to \$10,000 to the collection agency, amounts of \$10,000 to \$20,000 to the Solicitor, and amounts over \$20,000 to the Department of Justice.

BLM officials stated that they refer amounts of \$10,000 or more directly for legal action--rather than to one of the General Services Administration (GSA) contractors--because many of the larger debts eventually result in litigation and referring such debts to collection contractors would delay this process. According to an Interior official, the department canceled its agreement with its private collection contractor in December 1986 and instructed its bureaus to use the GSA contractors. BLM officials plan to use the GSA contractors but have not set a target date for when referrals would begin. BLM officials also stated that they generally do not refer amounts of less than \$100 because these would not be cost-effective to process for referral. These amounts are generally written off if uncollected.

Once an account is referred to either the Solicitor's office, Justice, or the collection contractor, BLM field offices halt their collection efforts. BLM officials told us that referred accounts determined to be uncollectible are returned to BLM and subsequently written off. As of December 31, 1986, BLM accounts referred to the Department of Justice and the Solicitor's office totaled about \$4.9 million.

The collection contractor has had limited success in collecting delinquent receivables. Bureau officials attribute this to the large number of accounts referred early in the contract period which were already several years old. The collection contractor had collected about \$3,700 in full and made payment arrangements for an additional \$7,800, out of a total of about \$300,000 referred through mid-July 1986.

BLM officials told us they also intend to develop procedures for referring information on delinquent debtors to credit reporting agencies by mid-1987, but had not set a target date for when referrals would actually begin. The officials explained that although general guidance was provided by the Department of the Interior in December 1984, BLM did not refer information on delinquent debtors to credit bureaus because they were awaiting further guidance from the department prior to making referrals to credit bureaus. In August 1986, the Department of the Interior issued more specific guidelines on using credit bureaus and instructed all bureaus to begin reporting commercial and delinquent consumer account information.

RECEIVABLES AND DELINQUENCIES FOR INTERIOR COMPONENTS AS OF
SEPTEMBER 30, 1986

| | <u>Receivables</u> | | <u>Delinquencies</u> | |
|---|--------------------|----------------|----------------------|----------------|
| | <u>Amount</u> | <u>Percent</u> | <u>Amount</u> | <u>Percent</u> |
| | (millions) | | (millions) | |
| Bureau of Reclamation | \$2,010 | 81 | \$ 4 | 1 |
| Office of Surface Mining Reclamation and Enforcement | 158 | 6 | 155 | 55 |
| Bureau of Indian Affairs | 146 | 6 | 37 | 13 |
| Minerals Management Service | 105 | 4 | 75 | 26 |
| Geological Survey | 58 | 2 | 2 | 1 |
| Bureau of Land Management | 8 | 0 ^a | 8 | 3 |
| All other miscellaneous | 9 | 0 ^a | 3 | 1 |
| Total^b | \$2,494 | 100 | \$284 | 100 |

Source: U.S. Department of the Interior.

^aAmount less than 0.5 percent.

^bAmounts may not total due to rounding.

COMMENTS FROM THE UNITED STATES DEPARTMENT OF THE INTERIOR

Note: Comments supplementing those in the report text appear at the end of this appendix.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20240

Mr. J. Dexter Peach
Assistant Comptroller General
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to comment on the General Accounting Office (GAO) proposed report entitled Debt Collection: Interior's Efforts To Collect Royalty, Fine, and Assessment Receivables (GAO/AFMD-87-21ER). I have included a few general comments below and have enclosed for your review and consideration the Department of the Interior's (DOI) specific comments.

See comment 1.

The report fairly describes the Department's efforts in collecting delinquent accounts receivable. However, the report does not clearly describe the special nature of debt management within the Department. Debt management within DOI is unique when compared to the private sector and many other Government agencies. The majority of DOI's delinquent debt stems not from the sale of goods or services or the making of loans, but from the enforcement of specific laws and regulations (in the Office of Surface Mining (OSM), the Bureau of Land Management (BLM), and the Minerals Management Service (MMS)).

See comment 2.

In addition, the proposed report does not address the appeals and legal processes which result in the majority of DOI delinquent debt remaining on the books for long periods of time. Due process has caused much of our debt to be very old. As of September 30, 1986, over \$107 million in delinquent debt was with the Department of Justice or the Office of the Solicitor. In addition, over \$64 million was in the formal appeals process.

Now on p. 32

See comment 3.

The statement attributed to BLM officials on page 48 of the proposed report troubles me. The information presented suggests that the Department had not provided policy for bureaus to follow in referring delinquent debt to credit bureaus. This statement is incorrect as indicated in Enclosure 1. I suggest that, in the future, GAO personnel validate such bureau references with the responsible Departmental office.

If you have any questions concerning the Department's comments, please contact Mr. William L. Kendig, Director of Financial Management on 343-4701.

Sincerely,

Joseph W. Gorrell
Principal Deputy Assistant Secretary
Policy, Budget and Administration

Enclosures

Enclosure 1

The following are the Department of the Interior's specific comments on the General Accounting Office's proposed report entitled Debt Collection: Interior's Efforts To Collect Royalty, Fine, and Assessment Receivables (GAO/AFMD-87-21BR):

- Now on pp. 1-2. 1. The treatment of a large portion of Interior's revenue as cash transactions (page 2). As stated on page 2 of the proposed report, and again in the sections discussing MMS and OSM, initial payments made to these bureaus are treated as cash transactions. These payments accompany client reports and consequently are not treated as accounts receivables. This procedure distorts the collection ratios of the Department. In OSM over \$200 million is collected annually in reclamation fees and related interest, yet most of these revenues are not reported as receivables. The amount is even more staggering when looking at MMS, where over \$6.5 billion is collected each year. The Department has met with the Department of the Treasury and the Office of Management and Budget on this issue, but has been unsuccessful in gaining their approval to treat these revenues as accounts receivables. It would be helpful if GAO could suggest to the Department how to more clearly present the picture of delinquencies in the reporting process to the Department of the Treasury.
- See comment 4.
- See comment 5.
- Now on pp. 3, 20, 22, & 33. 2. Clarification of MMS accounts receivable figures (pages 4, 28, 30, 31, 50). Total accounts receivable for MMS were \$104.8 million for the period ending September 30, 1986. However, receivables for the Royalty Management Program (RMP) were \$100.4 million. The balance is from MMS's administrative office in Herndon, Virginia. Since the proposed report only addresses RMP, the following should be inserted after \$105 million on page 4: "(\$100.4 million in royalty management)." In addition, GAO may want to footnote MMS accounts receivable amounts on pages 28, 30, 31, and 50.
- See comment 6.
- Now on p. 4. 3. Special nature of Interior's debt (page 7). It is suggested that the top of page 7 be modified to include the thoughts expressed in the second paragraph of the transmittal letter.
- See comment 7.
- Now on p. 18. 4. The screening of contractors by OSM (page 25). OSM has informed the Department that it cannot legally enforce the screening of contractors doing reclamation work to identify other delinquent debtors. It is suggested that GAO insert a period after the word "penalties" in the first line on page 25 and delete the remainder of the sentence.
- See comment 8.
- Now on p. 23. 5. Error in footnote (page 33). Footnote "a" is incorrect and should be revised as follows: "MMS reclassifies the receivable from a 'billed audit receivable' to a royalty revenue collection paid." Additional details are provided in Enclosure 2.
- See comment 9.
- Now on p. 29. 6. Clarification required (page 42). The third sentence on page 42 should read as follows (addition underlined): "BIM officials informed us that due to a lack of internal written guidance within the bureau, these uncollected...."
- See comment 10.

Now on p. 32.
See comment 11.

7. Referrals to the Department of Justice (page 47). Bureaus refer all debt for litigation to the Office of the Solicitor to determine if the case should be sent to the Department of Justice for litigation. In the first sentence on page 47, GAO should strike "or the Department of Justice."

Now on p. 32.
See comment 12.

8. Misstatement of fact (page 48). The report misstates the facts and requires revision in the last paragraph on page 48. BLM has been provided with written guidance on the management of its debt collection efforts. The Department published debt collection procedures in its Manual (Part 344, Debt Collection Chapters 1-11) on December 3, 1984. This part covers (a) the referral of delinquent debt to debt collection contractors, (b) the referral of delinquent debtor information to credit reporting agencies, and (c) the Department's overall debt collection policy. More recently, in Financial Administration Memorandum 86-47 (II.J.) dated August 27, 1986, entitled Reporting Debts to Credit Reporting Bureaus and Credit Management Report, all bureaus including BLM were provided additional guidance on the use of credit reporting agencies. In the future, GAO personnel should validate statements made by bureau personnel about DOI policy with the responsible Departmental Office.

The following are GAO's comments on the Department of the Interior's letter dated May 8, 1987.

GAO Comments:

1. Report has been revised to more clearly reflect this point. See page 4 and agency comments section of letter.
2. Report has been revised to reflect this point. See agency comments section of letter and appendixes I, II, and III.
3. Additional explanation added to reflect that although general guidance was provided by the department in December 1984, BLM did not make referrals because it was awaiting further specific guidance, which was issued in August 1986. The time frames for issuing this guidance were verified through discussion with a department representative during our review.
4. No change to report needed.
5. We suggested to Interior representatives the possibility of exploring with the Office of Management and Budget and the Department of the Treasury whether supplemental information on its receivables and collections could be reported.
6. No change to report needed. The report discusses MMS' receivables from all sources.
7. See comment 1.
8. Report amended.
9. Enclosure 2 is not included here, but the report was amended based on this comment and further discussions with MMS officials.
10. Report amended.
11. Report amended.
12. Report amended. See comment 3.

(901400)



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