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ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D. C. 20546

RELEASED

B-178205

March 31, 1975

The Honorable Abraham A. Ribicoff, Chairman
Committee on Government Operations S.O.S.
United States Senate



Dear Mr. Chairman:

This letter is in further response to your letter of February 8, 1974, and subsequent discussions with your staff concerning our agreement to continuously monitor the operations of the Federal Energy Administration. In our December 6, 1974, report to you on "Problems in the Federal Energy Administration's Compliance and Enforcement Effort" (B-178205), we discussed major problems in the Administration's compliance and enforcement activities. In particular, we pointed out the need for the Administration to audit producers of crude oil and to improve its audits at the refinery level. 75

In December 1974 hearings before the Subcommittee on Reorganization, Research, and International Organizations, Senate Committee on Government Operations, Administration officials agreed that their compliance and enforcement program needed considerable redirection to enhance its effectiveness. They stated that a revised staffing plan had been approved, which would strengthen their compliance and enforcement efforts, particularly at the producer and refiner levels. C SEN OISOS

This letter provides information on the Administration's progress in redirecting the compliance and enforcement program since the hearings, along with preliminary information on the results of the initial crude oil producer audits.

At September 30, 1974, 850 employees were assigned to the Administration's compliance and enforcement program. Of these 850, 696 were assigned to the retail-wholesale audits, 88 to refinery audits, and 66 to propane investigations. In October 1974, the Administration approved a revised staffing plan for the compliance and enforcement program to be effective December 31, 1974. The following table shows the Administration's planned allocation of manpower at December 31, 1974, and the actual allocations as of December 31, 1974, and March 14, 1975.

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<u>Activity</u>	<u>Planned 12-31-74</u>	<u>Actual 12-31-74</u>	<u>Actual 3-14-75</u>
Refiners	188	88	96
Producer audits (Project Manipulator)	143	25	64
Propane investigations (Project Speculator)	90	70	79
Utility fuel audits (Project Escalator)	-	20	88
Retailers-wholesalers	<u>363</u>	<u>555</u>	<u>419</u>
Total	<u>784</u>	<u>758</u>	<u>746</u>

^aAdministration officials estimated that 20 to 30 additional employees had been hired but had not been assigned to one of the activities.

Administration officials stated that completion of the planned staffing changes had been delayed, primarily because of problems in redeploying staff among Administration regions. Under the Administration's revised staffing plan, all regions experienced either a reduction or an increase in their compliance and enforcement staffing. In addition, many employees who had been assigned to retail investigations were not qualified to do the more technical audit work associated with other compliance and enforcement activities. As a result, the Administration had to terminate some employees or initiate reemployment rights with other Federal agencies, transfer certain employees to other regions, and hire and train new employees. According to these officials, these changes were time consuming and are still being implemented. The officials also stated that they had not anticipated the need for utility fuel audits in October 1974 and that assigning employees to such audits inhibited their ability to commit more staff to other activities.

CRUDE OIL PRODUCER AUDITS

On November 22, 1974, Administration headquarters initiated a crude oil producer audit program. The 125 producers who reported the greatest volume increase in new oil from September 1973 to October 1974 were selected for audit. The regional offices selected 72 additional producers for audit, primarily on the basis of recommendations the refinery auditors made.

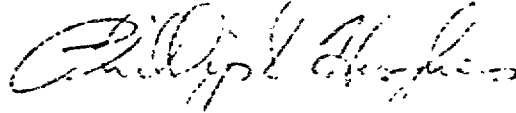
As of March 21, 1975, 40 audits had been completed and 87 additional audits were in process. In making these 40 audits, the Administration uncovered 27 possible violations. As a result, the producers made 2

voluntary rollbacks and signed 9 consent agreements, and the Administration issued 2 Notices of Probable Violations and drafted 14 additional notices. The two voluntary rollbacks resulted in refunds of \$158,658, and the nine consent agreements resulted in refunds of \$634,903 and penalties of \$46,658. The dollar amount of the refunds ranged from \$421 to \$468,326 and penalties paid ranged from \$200 to \$35,000. The officials told us that they had no precise estimate of the dollar amount of the violations associated with the notices. Once a notice is issued, the Administration meets with the companies or individuals involved, at which time they have the opportunity to provide additional information concerning the potential violation. Further, the amount of refund and/or penalty involved is subject to compromise between the Administration and the company or individual involved. The 14 notices which had been drafted are pending review by the Administration's General Counsel before being issued.

The majority of the violations uncovered resulted from producers claiming more new and released oil production than their wells actually produced. This was done by several methods, including changing lease arrangements and understating base period production. Also, some producers improperly classified wells as stripper wells when, in fact, they produced more than the allowable volume a day.

After the Administration completes the initial 197 audits, it plans to audit the next 1,000 companies that show the largest percentage increase in new oil. Also, to develop additional target areas for audit, the Administration is obtaining listings from refiners of the producers which supply them with crude oil.

Sincerely yours,



Phillip S. Hughes
Assistant Comptroller General

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