Reengineering Royalty Management Program Business Processes and Support Systems

Financial Management Recommendations

September 1998

U.S. Department of the Interior
Minerals Management Service
Royalty Management Program

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1 Summary

The Quality Steering Committee (QSC) established a stretch goal to give revenue recipients access to their money within 24 hours of its due date. This report presents the recommendations of the Financial Reengineering Team established to evaluate financial processes as they relate to this stretch goal. Appendix A provides the list of team members.

Many factors—from receipt of reports and payments through cash application and distribution—affect the ability of the Royalty Management Program (RMP) to accomplish this stretch goal. The Financial Reengineering Team reviewed processes, procedures, and system functionality to learn what barriers, if any, exist in the current systems. The team then discussed ways to overcome those barriers in a reengineered system.

The Financial Reengineering Team concluded that the 24-hour stretch goal cannot be totally achieved. However, RMP can make significant progress in moving toward this goal. Several potential areas for improvement were found, some of which can be implemented with no system changes and some that can be implemented with relatively minor system changes. The team also made recommendations regarding policies and procedures that do not directly affect the 24-hour stretch goal but that do offer RMP potential cost savings, increased efficiencies, and better customer service.

Input to these recommendations was obtained from the Office of Trust Funds Management, States, and representatives of the Council of Petroleum Accountants Society.

The team also examined comparable processes within Wells Fargo Bank, Norwest Bank Colorado, and the American Society of Composers, Authors, and Publishers. These organizations process and account for large volumes of transactions and money but employ limited use of electronic reporting and payment options. Overall, RMP's use of technology to process reports and payments exceeded that of these organizations.

The Financial Reengineering Team's recommendations are:

- Continue efforts to convert RMP reporters to electronic data submission, and streamline processes, as much as practical, to process reports faster.

- Allow all rental reporting to be by either the Courtesy Notice or the MMS-2014 form.

- Expand the use of the Courtesy Notices to include Outer Continental Shelf (OCS) Rights-of-Way.

- Create fatal royalty edits and eliminate exception processing for severance tax, transportation claimed on offshore Section 6 leases, transportation claimed for onshore Royalty-In-Kind (RIK) leases, processing allowance taken on RIK leases, and processing allowance claimed on an unallowed product.

- Continue efforts to convert payors to electronic payments.

- Modify payment and receivable matching criteria.

- Improve reconciliation processes and procedures.

- Enable payors to help in the cash application process.

- Modify the distribution schedule to:

  - Move first monthly distribution dates earlier in the month for both Federal and Indian distributions.

  - Add a second Federal distribution at month-end.

  - Develop the ability to distribute on-demand and for a specific document if desired.

- Issue bills only for interest (GBIL/IBILs) and lease financial terms (TBILs). Do not issue bills to obtain compliance.

- Eliminate the requirement for payors to submit an MMS-2014 form with their paid TBIL.

- Develop and implement an integrated financial accounting solution.

- Provide management tools.

- Provide capability for companies to view, online, their account information (e.g., production, royalty, and payment data).

- Expand imaging/scanning capability and integrate with the workflow and case management tools.

- Develop and implement an RMP cost accounting system.

- Build the capability to measure performance.

The rationale for and specific details on each of these recommendations are provided in the body of this report.

2 Recommendations

2.1 Reporting

The Financial Reengineering Team reporting recommendations focus on continuing efforts to convert reporters to electronic reporting and in streamlining processes, as much as practical, to process reports faster.

The Director has established an RMP goal of 100 percent electronic reporting by the end of 1998. Usually, electronic reports can be processed sooner than paper reports, and they have a lower error rate. Reports of Sales and Royalty Remittance (Form MMS-2014) are received via diskette, electronic data interchange, electronic mail, magnetic tape, and paper. In FY97, a total of 35,978 MMS-2014 forms containing 3,469,970 lines was processed (97,947 zero-sales lines were removed before processing). Continuing its efforts to eliminate paper reporting to move toward meeting the 24-hour stretch goal is advantageous for RMP.

2.1.1 Pre-Edit Process

Electronic MMS-2014 forms are "pre-edited" before being processed into the Auditing and Financial System (AFS). This pre-editing verifies that a valid report has been received, checks for basic formatting problems, and does minimal edit checks on the data. This process generates reports that are then reviewed on-line by Accounting and Reports Division (ARD) staff. Each electronic MMS-2014 is either approved or rejected for loading into AFS.

The pre-edit process takes time and requires manual intervention by ARD staff. However, the Financial Reengineering Team believes this is time well spent and does not negatively affect the 24-hour distribution goal to such an extent that it should be eliminated. Eliminating the pre-edit process would allow potentially incorrect data to enter the system. Some improvements to the pre-edit program and reports will be done in July 1998. These modifications will increase the efficiency of this process.

2.1.2 Paper MMS-2014 Forms

Payors submitted 778,617 lines on paper in FY97. Federal and Indian MMS-2014 forms that are received on time are usually keyed by the tenth of the month. Other MMS-2014 forms that are received up to 2 days before Federal final are keyed by Federal final. All related paper MMS-2014 forms with 350 lines or less are processed the day after they are received. MMS-2014s containing more than 350 lines are processed within 2 days of receipt. Indian MMS-2014 forms, and paper MMS-2014 forms to be combined with electronic MMS-2014 forms, are given priority in keying.

Most lines and dollars are processed by the tenth of each month. More lines could be entered sooner in the month if the service-level agreement for data entry were modified to require all paper MMS-2014 forms to be keyed earlier than the tenth of the month.

RMP is also exploring optical character recognition (OCR) technology as an alternative to keying in data from paper MMS-2014 forms. OCR technology allows RMP to use scanners to enter paper reports into a machine readable file that could then be put into AFS. This would reduce the time it currently takes to key and load the data from the paper MMS-2014 forms and would move RMP closer to meeting the 24-hour stretch goal.

2.1.3 MMS-2014 Combined Process

Payors who report royalties electronically are permitted to submit supplemental paper or other electronic MMS-2014 forms. MMS combines all lines on the various reports into a single AFS report. These lines are then processed through royalty, financial, and exception processing as a single report.

The two major benefits to RMP in allowing payors to combine reports are (1) enhanced application of payment, and (2) reduced late payment billings.

If the royalty reports are not combined, RMP staff would have to apply the dollars to each report manually. Combining the reports allows the payment to be automatically applied since the payor normally sends one payment for all the royalty lines.

Supplemental reports generally contain reversals and corrections to the primary electronic report. Lines are processed through late payment exception processing (EP) monthly when all lines on the report are updated and the reported amount is paid in full. If the supplemental lines are processed on a separate report, and they are accepted in a later month, RMP may bill late payment interest on lines from the primary report reversed on the supplemental report. This billing error is generally pointed out during the appeal process when the payor states that the billed lines were reversed on the supplemental report. When the primary and supplemental lines are on the same report, all lines will process through late payment EP in the same month. This eliminates the incorrect bill and reduces workloads for the Compliance Verification Division (CVD).

This process does slow the processing of royalty reports when the supplemental report is paper rather than electronic. An electronic report could be held by RMP for one or more days waiting for a supplemental paper report to be keyed. However, the Financial Reengineering Team believes that, for the reasons stated above, eliminating the combining process would be detrimental to the program. Instead, RMP should concentrate on eliminating paper supplemental reports. RMP must encourage payors to submit their supplemental reports via other electronic methods such as electronic mail.

2.1.4 System Processing of Royalty Lines

RMP's current policy is to process no more than 85,000 lines per night without prior approval because it may affect online availability the next morning. The highest one-night volume processed to date was 225,000 lines processed between 7:00 p.m. Friday and 5:00 a.m. Saturday morning. Reports were available by 6:00 a.m.

Limiting the volume of lines processed nightly negatively affects RMP's ability to meet the 24-hour stretch goal. The Financial Reengineering Team believes that the

new system, through improvements in software design, could probably process all lines received on a daily basis without affecting online availability. If this is untrue, RMP must decide if online availability is more important than royalty processing.

2.1.5 Eliminate Exception Processing

The Financial Reengineering Team recommends creating fatal royalty edits and eliminating exception processing for the following:

- Severance tax. Build a table that contains all the leases subject to State severance tax. Use this table during royalty processing and check all severance tax lines (transaction code 12) against this table. If the lease is not in the table, the system should reject the line. RMP would then contact the payor to explain the issue and, if appropriate, delete the line. RMP would prepare appropriate documentation showing the change. Deleting the line will cause the MMS-2014 form data to be underpaid. RMP would then pursue the underpayment of the report as part of our payor account reconciliation efforts. Note that no bills for unauthorized severance tax deductions were issued in FY97.

- **Transportation claimed on offshore Section 6 leases.** Include an indicator in the database or build a table containing all Section 6 leases called during royalty processing. Any reported transportation allowances for these leases would cause the line to reject. RMP would contact the payor to explain the issue. The payor would provide a corrected lease number for which a transportation deduction is allowable, or RMP would delete the transportation amount from the line and increase the Net Royalty Value due. RMP would prepare appropriate documentation showing the change and pursue the underpayment of the report as part of our payor account reconciliation efforts. There are approximately 270 annual exceptions regarding this issue.

- **Transportation claimed for onshore RIK leases.** Develop a royalty edit that requires the transportation column to be blank if the RIK transaction code "06" is used and the reported lease is onshore. Any transportation allowance reported for an onshore RIK lease would cause the line to reject. RMP would contact the payor to explain the issue and, if appropriate, delete the transportation amount and increase the Net Royalty Value amount. RMP would prepare appropriate documentation showing the change. Approximately 100 annual exceptions are generated regarding this issue.

- **Processing allowance taken on RIK leases.** Develop a royalty edit that requires the processing allowance column to be blank if the transaction code is "06." Any processing allowances reported for this transaction code would cause the line to reject. RMP would contact the payor to explain the issue and, if appropriate, delete the processing amount from the line and increase the Net Royalty Value amount. RMP would prepare appropriate documentation showing the change. Approximately 40 annual exceptions are generated regarding this issue.

- **Processing allowance claimed on an unallowed product.** Develop an edit that checks for an authorized product when the processing allowance column is not blank. If a payor reports processing costs against an unallowed product, the line would reject. RMP would contact the payor to find out if an incorrect product code was reported or if the payor incorrectly claimed the allowance. The product code would be changed or the processing allowance deleted from the line and the Net Royalty Value due increased. RMP would prepare appropriate documentation showing the change and pursue the underpayment of the report as part of our payor account reconciliation efforts. Approximately 590 annual exceptions are generated regarding this issue.

Checking for the above conditions as part of royalty processing allows RMP to save costs. The cost savings come from eliminating the need to develop and maintain exception processing routines. Additional savings could be obtained by not requesting corrected MMS-2014 forms since the incorrect data is never accepted in the system. It also allows us to identify and resolve these errors sooner than in today's environment.

Additional recommendations include:

- **Allow all rental reporting by either the Courtesy Notice or the MMS-2014 form.** Currently terminable lease rental payments can be made only via the Courtesy Notice. Nonterminable rental payments can be made via the Courtesy Notice or the MMS-2014 form. This mixture of reporting options causes some confusion for industry and RMP. If payors report a terminable lease on the MMS-2014, the line rejects. It must then be deleted from the document. This causes delays in distribution while payments are reapplied to the correct receivable document. Allowing all rental reporting to be made via the courtesy notice or MMS-2014 form provides maximum flexibility for payors and MMS.

- **Expand the use of Courtesy Notices to include OCS Rights-of-Way.** The Offshore Minerals Management organization issues offshore rights-of-way (ROW) and sends RMP the platform count and pipeline mileages for each ROW. RMP's current PC-based manual billing process often issues inaccurate bills causing a time consuming manual reconciliation effort. ROWs are equivalent to nonterminable leases in that a ROW does not terminate for non-payment. Instead of manually billing these amounts, RMP should enter the ROW information (grant number, effective dates, amount due, etc.) in the Common Reference Database (CRD) to provide the data needed for the system to create Courtesy Notices. This would enable RMP to collect these amounts efficiently and timely without manual intervention. Accurate and timely Courtesy Notices will require a link from the RMP system to the OCS Technical Information Management System to obtain platform counts and pipeline mileages. Unpaid ROWs would be processed through the monthly financial terms (TBIL) exception processing. Upon successful implementation of the OCS ROW process, RMP should franchise the idea to BLM for onshore rights-of-way.

2.2 Payments and Payment Application

The Financial Reengineering Team recommends continued efforts to convert payors to electronic payments.

In FY97 total receipts were $6,278,793,66. Of these payments, 92 percent were received via WIRE. RMP received:

- 7,595 WIRE messages
- 22,000 rent checks
- 30,838 nonrent checks
- 2,400 TPAYs.

Although most monies are received via WIRE, RMP continues to receive and process check payments from many companies and individuals. Processing of check payments is more costly. Current regulations state that all payments to MMS must be made electronically ". . . to the extent it is cost effective and practical." However, for many small payors it is not yet cost effective to do so. Efforts will continue to convert payors to electronic payments. As the practice becomes more accepted and costs to the payors decrease, RMP could probably reduce the volume of checks it has to process. Additionally, RMP can probably take advantage of new payment options and technologies such as an intranet and ACH Debit.

2.2.1 Modify Payment and Receivable Matching Criteria

In FY97 MMS received $6.3 billion accounted for in approximately 2,500 payor accounts. All receivables and payments are assigned to a payor code. The primary objective is to apply payments and receivables properly to maximize monthly distributions. The system automatically matches payments and MMS-2014 forms if both have the same Federal/Indian Indicator, payor code, and 3A number. The system matching application runs daily and matches all reports and payments if they are received within 30 days of each other and meet three criteria. The system automatically matches 85 to 90 percent of payments and receivables. We believe this percentage could be increased by including dollars as part of the matching criteria. The system should match the receivable and payable if both have:

- The same Federal/Indian indicator
- The same payor code
- The same 3A number and/or dollar amount.

Matching on dollars, even if the 3A is missing, will match more receivables and payments and enable RMP to move closer to accomplishing the 24-hour stretch goal.

2.2.2 Improve Reconciliation Processes and Procedures

Payor codes are monitored and reconciled if they are out of balance. Out of balance conditions typically result from payor reporting and payment errors, MMS processing errors, RSFA mandated interest due payors, and unapplied payments created when paid bills are credited.

RMP's primary reconciliation tools are weekly reports that identify out of balance payor accounts. These accounts are reconciled through research and payor contact. Resolution may require payors to submit corrected MMS-2014 forms, recoup funds, or make additional payments.

Current reconciliation processes and procedures would be improved by:

- Increasing coordination with the Office of Enforcement, which is aware of payor compliance histories and repetitive problems across RMP.

- Referring unpaid MMS-2014 forms to the Debt Collection Section for inclusion in their standard debt collection processes.

- Using improved technology and automated tools to enhance cash application, generate and route refund requests, track repetitive errors, and produce workload and activity reports. Manual cash application and refund actions should incorporate the use of online forms. The new system should be able to track actions taken, the reason for those actions, and the responsible party. This information would be accumulated by payor code and RMP employee. Exception reports would identify RMP errors and payor errors. Resolution of these issues would include additional training for RMP personnel if needed, modification of policies and procedures, and enforcement actions with the payors.

2.2.3 Enable Payors to Assist in the Cash Application Process

Current cash application processes and procedures would be improved by:

- Implementing online account access to allow payors to view RMP account information so they can provide instruction on how to apply, credit, or move funds. Screens must be easy to use and read with possibly a split screen showing payment and receivable information side by side.

- RMP should modify the MMS-2014 form so payors could report the application of credits. Payments do not match reported amounts for a variety of reasons. The current MMS-2014 form does not provide the payor the opportunity to identify how to use credits unless supplemental information is provided with the MMS-2014. The absence of that information creates reconciliation problems. The modification, probably to the report control block, would include sufficient information to cross reference the credit for tracking and audit purposes. The system would automatically reapply the identified credit to the MMS-2014. Credits would be clearly identified on the imaged MMS-2014 form. Funds could be applied sooner, and RMP follow-up actions would be dramatically reduced.

2.3 Distribution and Disbursement

Distribution and disbursement are processes that result in the transmission of funds and related accounting information to revenue recipients. Federal distribution and disbursement occur simultaneously once each month. Indian distribution and disbursement are distinct processes that occur separately during the month. Indian disbursements are made daily to the Office of Trust Funds Management, and distribution then occurs twice a month.

Overall, Federal and Indian distribution and disbursement procedures could be enhanced by

- Modifying the distribution schedule to move the first monthly distribution date to earlier in the month for both Federal and Indian distributions
- Adding a second Federal distribution at month end
- Developing the ability to distribute on-demand and for a specific document if desired.

2.3.1 Indian Distributions

There are two goals in the Indian distribution process that, at times, are in direct opposition. First, distribute as much as possible as soon as possible. Second, do not distribute before the rightful recipient is determined.

In any month, payors may submit multiple MMS-2014 forms containing adjustments, often negative, to individual lease amounts reported on another MMS-2014. In pursuit of the second goal, RMP sums all adjustments and distributes the net amount for each lease. This is done to avoid overpaying a lease and then having to recoup the overpayment against future royalties. Our current distribution process is designed, in part, to alleviate or reduce these recoupment issues.

Most of the reports and payments are received at the end of the month and up to the third business day of the following month. The Financial Reengineering Team focused on ways to distribute those report lines as soon as possible without compromising the accuracy of the distribution. We concluded that moving the first distribution to the fourth or fifth business day of the month gives the revenue recipient access to their money at least one week sooner than today's process, protects against overpayments, and provides certainty to the distribution date each month.

RMP sometimes receives MMS-2014 forms related to settlements or bill payments that may represent large revenues for the recipients. Depending on when these reports are received, they may not be distributed in the current distribution cycle. The Financial Reengineering Team recommends creating a system to distribute amounts related to individual reports or groups of reports upon request. This type of distribution would be separate from regularly scheduled distributions.

The Financial Reengineering Team also discussed the possibility of scheduling weekly distributions in lieu of on-demand distributions. Although this might alleviate many of those cases where a report does not get processed by the first or second distribution dates, it would create regularly scheduled distributions where little or no revenue was distributed. In effect, a weekly distribution cycle would be less efficient than an on-demand capability.

For Indian revenue, having an initial distribution as near to the beginning of the month as possible is more efficient. This distribution would pick up the majority of distributable reports. This would be followed by a regularly scheduled end-of-month distribution to pick up remaining reports. Use of an on-demand capability allows RMP to distribute individual reports during the month as needed.

The Bureau of Indian Affairs Office of Trust Fund Management (BIA/OTFM) has said that our proposals do not have an adverse impact on their current processes. RMP will continue to coordinate with BIA in their new systems development projects. As directed by the Secretary, the Office of Special Trustee and Bureau of Indian Affairs are setting up a new system that will consist of three major components:

- Trust Asset and Accounting Management System (TAAMS) to manage leases on Indian trust lands
- Trust Fund Accounting System (TFAS) to manage Indian and tribal accounts
- Land Record Information system (LRIS) to manage ownership information and land records. This system already exists but will be improved and incorporated in the new system.

These components will automate the entire process from ownership allocation through payout. They will also ensure that business processes are consistent across BIA. Income payments will be based on a single source of ownership information that is also the basis of legal ownership used in title status. Payouts to owners should take significantly less time to process, since payout is automatically completed by the system once payment is recorded.

2.3.2 Federal Distributions

A process like that identified above for Indian distributions would be a vast improvement and would provide revenue to the States at least 3 weeks sooner than the current process. The Financial Reengineering Team contacted representatives of ten States to ask how frequently they wanted to receive revenue. Only one favored daily distributions. Most wanted a distribution no more frequently than weekly.

Currently, Federal distribution and disbursement takes from 36 to 48 hours to complete. Although system processing time may be reduced by other reengineering efforts (e.g., more efficient software, net reporting, etc.), processing all data in 24 hours may not be possible.

Unlike the Indian side of the house, payors are allowed to report net negative amounts for one State's leases and offset that with positive amounts for another State. If the report nets to zero, MMS will receive no money but will still owe an amount to the positive State. Currently, we accumulate all lines and payments received during the month, and sufficient cash is normally received from other sources in the negative State to pay the positive State. However, if distribution and disbursement occurred daily, that might not be true, particularly if the net zero report comes in on the last day of the month. That is, we may have already distributed all moneys for the negative State and may not receive additional funds for that State until the end of the next month. MMS would be forced needlessly to delay correcting an over disbursement to the negative State at the expense of the under disbursed State.

Therefore, the Financial Reengineering Team recommends a system similar to that proposed for Indian revenue. An initial distribution would occur as near to the beginning of the month as possible followed by a regularly scheduled end-of-month distribution. This would provide for the earliest acceptable disbursement cycle and would minimize the risks of inaccurate distributions. These regular distributions should be supplemented with an on-demand capability during the month.

The Financial Reengineering Team's recommended distribution and disbursement changes, both Federal and Indian, affect the current system. AMSOC is currently analyzing these impacts. If the cost to modify the current system is reasonable, the Financial Reengineering Team recommends RMP proceed with the changes.

2.4 Exception Resolution

Current exception resolution processes and procedures would be improved by Issuing bills only for interest (GBIL/IBILs) and lease financial terms (TBILs). Do not issue bills to obtain compliance.

RMP currently issues many bills to obtain compliance. In other words, we know an exception exists, but we do not know exactly what the problem is. Commonly what is needed is a modified MMS-2014 form, not more money. RMP issued a total of 8,737 bills for $269,676,106 in FY97. Issuing bills to obtain compliance causes two major problems:

- First, it causes RMP to overstate receivables reported to Treasury.
- Second, it unnecessarily increases the number of bills, credits, and associated follow-upactions processed each year.

Instead, the Financial Reengineering Team recommends the following procedures to resolve exceptions:

- Issue bills only for interest (GBIL/IBILs) and lease financial terms (TBILs). These bills result from the companies establishing a liability through the late payment of a royalty or the non-payment of rental or minimal royalty.
- Discontinue use of bills to obtain compliance. In the short term, this could be implemented by shifting RMP's focus from bills to the use of letters, orders, and Notices of Civil Penalty to obtain compliance. The Financial Reengineering Team prepared a document outlining how this change in focus could be accomplished. This document has been sent to CVD for comment and implementation before expanding the concept to audit.

In the long term, exceptions identified in the reengineered system by the compliance and asset management process should be resolved by using letters, orders, and notices. These exceptions require the operators and/or payors to furnish additional information to resolve the differences between expected and reported items. Procedures to resolve these exceptions and obtain any additional money are:

- Generate an exception report showing the difference between reported and expected items. The analysts will use this report to resolve exceptions by requesting information from the operator, payor, and/or third parties. The analysts will use the system to generate a letter to the operator or payor requesting additional information and correction of the exception. For royalty exceptions, the letter will contain an attachment showing the payor's MMS-2014 line, the RMP expected royalty line, and the correcting MMS-2014 line to resolve the exception. The attachment will also contain additional blank MMS-2014 lines that can be used to report adjustments.

- If the payor agrees with the correction, the attached document will be returned and processed. If the payor disagrees, they will submit information to support their position. The analysts will work with the operator/payor to resolve the exception.

- If the operator/payor does not submit the information, an order will be issued requiring the information. The order will contain appeal rights but because it is not an Order to Pay (demand), RSFA does not require the notification to lessees. If the operator/payor does not comply with the order, a Notice of Civil Penalty (notice) will be issued giving 20 days to comply. If at the end of 20 days they have not complied, an Order Assessing Civil Penalty will be issued and debt collection actions will be taken if necessary.

- If the operator/payor and analysts cannot resolve the exception, an Order to Report and Pay (demand) will be issued. This order will require the notification of lessees. If this order does not achieve compliance, a Notice and Penalty Notice may be issued.

- A tracking system will be created to store a record of all actions taken. The tracking system can help ensure that exceptions are worked and resolved timely and consistently. The current AFS/PAAS tracking system can be used as a model.

- Time frames and standard operating procedures will be established and enforced for the resolution of all exceptions.

- RMP should also review, modify, and streamline the Order/Notice processes wherever possible. Application and use of these procedures must be consistent across all geographic basins.

Eliminate the Requirement for Payors to Submit an MMS-2014 with Their Paid TBIL. RMP should use the paid TBIL to distribute and post to AFS rather than requiring an MMS-2014 form. AMSOC recently completed an analysis of the impacts of eliminating the MMS-2014 form. They estimated that system changes would take about six weeks, including development and testing. This equates to about a $12,000 implementation cost. However, the Financial Reengineering Team and CVD estimate RMP could save approximately $180,000 annually by carrying

out this change. This analysis will be presented to the System Steering Committee in July 1998 for prioritization in the work assigned to AMSOC.

2.5 Financial Accounting

The Financial Reengineering Team recommends RMP develop and set up an integrated financial accounting solution.

The AFS functions as a statistical reporting system, not a fully functioning accounting system. AFS provides reliable and timely information about royalties data and the associated payments but does not output the financial data in formats prescribed by the Office of Management and Budget (OMB) and the Treasury. A new integrated accounting solution would:

- Meet OMB Circular A-127 Financial Management System requirements. These requirements call for the automated system to have effective control over revenue, expenditures, funds, property (we do not intend to incorporate property into AFS), and other assets. The system must provide adequate financial information for agency management and give complete disclosure of the financial results of the activities of the agency.

  The financial system must provide timely, useful, complete and consistent information. The access to the data should be through standard queries and by efficient user-defined queries. Keywords could be used to search the accounts and not just numbers. This would allow managers not fluent in the account structure to find the data they need. The system must also have an audit trail of financial activity and posting of the data.

- Conform to U.S. Government Standard General Ledger (SGL). The SGL provides a uniform chart of accounts to which all Federal agencies must conform. All posting of the financial data will continue to be automated and at the transaction level. Financial activity should be summarized at various levels such as document type/transaction code or account number.

- Produce all required financial reports. The new financial system must record and report the financial data in the formats and media specifically required by the U.S. Treasury. The SGL provides crosswalks of the various accounts to several required Treasury reports. These reports include the SF-133, Report on Budget Execution, and the SF-220.9, Report of Receivables.

- Produce the monthly Statement of Transactions, SF-224. This report is the basis for the RMP portion of the Annual Financial Report. The system must continue to produce balance sheets, working trial balance, and other standard accounting reports.

- Provide flexible report writing capability to meet future reporting requirements. The current system contains lots of financial information, but access to the data is difficult if not impossible. Personal computers are

used to extract data from system reports rather than using the data directly from the system.

- Allow for online auditing of financial activity through queries and reports. When staff from the Office of the Inspector General (OIG) tries to audit the annual financial report, they must rely on data and reports generated by personal computer. The new system should allow, with appropriate security, the auditor or MMS staff to drill down through report data to the source of financial activity. This should reduce the time needed by the OIG to complete the required yearly audit of RMP portions of the annual financial report.

- Produces payment request from disbursement or refund activity. When the new system processes a distribution and disbursement activity, it should produce modifiable journal vouchers and payment transfer requests, both to States and other Federal agencies. This would eliminate the current process of taking information from a system generated report and entering it into a personal computer to produce another report that is then entered into a second personal computer. We also expect the current process for generating Indian SF-1081s could be modified to be more efficient and useful.

  When the tracking and approval of a refund to a payor are complete, it should generate output that could be processed immediately or on a predetermined schedule. The payment request would be processed through Treasury Electronic Certification software.

- Automate reconciliations. The new system must reconcile the subsidiary ledgers to the general ledger automatically. Currently, RMP uses several different system generated reports to accomplish this activity.

  The current system does compare some deposits with payments in the system, but not all. The new system would do automatic comparisons of all system related deposits to the payment details. As adjustments to payments are made (writeoffs, payor code changes, Federal to Indian), the appropriate entries to the cash accounts would be done automatically reducing the manual tracking and reconciliation that are currently done.

- Automate financial system data integrity analysis. The data relationships of receivables to payables, payments to payment applications, and payor balances to receivable, payables, and payments should be analyzed daily rather than the current weekly process.

- Incorporate OCS lease sale investment activity online. The current personal computer process of allocating investment earnings would be moved to the mainframe. As the OCS leases are approved, the principle and interest are automatically processed through the system.

2.6 General Recommendations

- Provide Management Tools. The reengineered system must provide tools for analysis of employee workloads. The tools should also provide a history of who made changes to reported data and when those changes were made.

- Provide the ability for companies to view, online, their account information (production, royalty, and payment data). RMP receives many requests, both written and oral, for information regarding lease status, production and royalty data, and payment receipt. RMP personnel have provided this information as a customer service. However, it has a low priority within many divisions, and payors sometimes become frustrated by the delay in receiving this data. It would reduce RMP workloads if payors could have online access to basic lease and payment information. Using an online inquiry screen, reporters could review all production and royalty data they submitted to RMP. Summarized lease account balance information will enable them to find out if the minimum royalty/rent requirement has been met. Additionally, reporters could enter either the MMS or Agency Assigned Number and view information such as lease issuance date, lease acreage, financial terms (rent/MR) and annual amounts due. (Note: Freedom of Information Act requirements still apply to specific types of data requests.)

- Expand RMP's imaging capability and integrate images with the workflow and case management tools. RMP currently scans royalty and production reports and solid mineral lease files. In a reengineered environment, RMP will receive more data and reports such as sales and transportation contract information. Imaging this information allows it to be stored electronically and provides easy access by a variety of RMP employees. It will be used with workflow and case management tools to resolve exceptions and communicate with industry.

- Develop and implement an RMP cost accounting system. Numerous actions are driving RMP toward the need for a cost accounting system. These actions include:

  - Net Receipt Sharing. Currently, RMP uses a cost allocation process to detect the RMP costs by State. While many reviews have found this allocation process acceptable, a more detailed tracking of time to the work done needs to be developed. Certain allocations will always be used but the more accurate our documented costs, the less vulnerable we are to criticism.

  - Every proposed RMP regulation needs a cost analysis to find out the burden on industry and RMP. Without a good cost accounting system, these analyses are based on guesses.

  - Outsourcing proposals are on the rise and have the support of Congress. Without a good cost accounting system, we cannot

accurately defend RMP from accusations that a contractor can do our jobs cheaper.

- The purpose of the Government Performance and Results Act (GPRA) is to get government to plan, budget, and be accountable for results achieved and to get information to managers so they can focus on outcomes. The budget documents and the Congressional reviews on RMP's budgets will focus on what it costs to achieve certain objectives. Without a good cost accounting system, our figures cannot be as accurate as they should be.

- Goal two of the Strategic Plan for the Minerals Management Service is to "Provide timely, accurate, and cost-effective mineral royalty collection and disbursement services." Without a good cost accounting system, we cannot accurately show cost-effectiveness.

- The OMB Statement of Recommended Accounting Standards Number 4 established five fundamental standards of managerial cost accounting: (1) accumulating and reporting costs of activities regularly for management information purposes, (2) establishing responsibility segments to match costs with outputs, (3) determining full costs of government goods and services, (4) recognizing the costs of goods and services provided among Federal entities, and (5) using appropriate costing methodologies to accumulate and assign costs to outputs.

- Based on the above, the RMP reengineering initiative must consider setting up a workable and practical, cost accounting system.

- Build the ability to measure performance. Currently, RMP tracks hundreds of measurements. Some of these measurements are used for internal management review, some are included in budget documents, and some are used for GPRA reporting. Because of reengineering and GPRA, new and better outcome measures must be developed to replace some current measures. The reengineered system needs to:

  - Provide the same data so that current measurements that continue to be used can be tracked

  - Be flexible so that new measurements can be developed and tracked

  - Automate the collection and reporting of these measurements as much as possible.

The Financial Reengineering Team is currently working with the RMP Performance Measurement Team to learn the need for new measurements. This needs to continue to put in place appropriate measurements and to establish baselines that will measure and document the results of reengineering.

3 Conclusion

RMP is well positioned, both in the current system and in a reengineered environment, to greatly improve its distribution and disbursement processes. This in turn will make funds available to recipients sooner and increase customer satisfaction. These improvements will move RMP toward achieving the 24-hour stretch goal.

It is to RMP's advantage to make changes to the current distribution process when analysis determines that doing so is practical and cost effective. Additionally, ARD plans to carry out changes to internal processes and procedures identified in this report when practical.

RMP's overall financial system works well and accomplishes the mission critical requirements to collect, disburse, and account for revenues. However, as discussed in this report, it does not provide the flexibility and complete functionality RMP requires to provide the "best in class" accounting services to the States, Indian community, industry, and Congress in a more efficient and cost-effective manner.

Functional requirements for a reengineered financial system will be developed over the next several months. This will be accomplished by a team of ARD personnel with assistance from the Program Reengineering Office and Performance Engineering Corporation.

Appendix

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