U.S. Department of Energy
Office of Inspector General
Office of Audit Services

Audit Report

Department of Energy's Receipt of Royalty Oil

DOE/IG-0786 January 2008

Department of Energy
Washington, DC 20585

January 4, 2008

MEMORANDUM FOR THE SECRETARY

FROM: Gregory H. Friedman
Inspector General

SUBJECT: INFORMATION: Audit Report on the "Department of Energy's Receipt of Royalty Oil"

BACKGROUND

The Department of Energy's Strategic Petroleum Reserve is a critical component of this Nation's energy security strategy. Established in 1975 in the aftermath of the oil embargo, the Reserve is one of the primary means of assuring U.S. energy stability and security in the event of a petroleum production or import disruption.

The Department of Interior operates a Royalty-in-Kind program designed to handle oil collected from private production platform operators in the Gulf of Mexico as royalties to the Federal Government. Through a Memorandum of Understanding between the Department of Energy and the Department of Interior, a portion of the royalty oil has been used to fill the Reserve. The Department of Interior's Mineral Management Service (MMS) transfers oil to the Department of Energy at specific oil terminal locations referred to as "market centers." MMS and the Department use contractors to both deliver and receive oil at the market centers.

Since 2002, MMS has transferred over 112 million barrels of royalty oil to the Department, with an approximate value of $4.4 billion. The Department plans to use the royalty oil to increase the size of the Reserve from 727 million barrels of oil to 1 billion barrels as authorized by the Energy Policy Act of 2005.

Because of the significant value of royalty oil and the importance of the Reserve to U.S. energy security, we initiated an audit to evaluate the effectiveness of the Department of Energy's control system over the receipt of royalty oil.

RESULTS OF AUDIT

We concluded that the Department had not implemented an effective internal control system over the receipt of royalty oil at the market centers. Specifically, the Department had not:

- Resolved discrepancies between scheduled oil deliveries and contractor claimed receipts at the market centers;

- Ensured that documentation adequately supported royalty oil receipts; and,

- Addressed the vulnerabilities associated with contractors acting as both the shipping agent for MMS and receiving contractor for the Department.

To illustrate our findings regarding discrepancies, during a four-month period in Fiscal Year 2005, two Department contractors reported receiving 308,000 barrels of royalty oil less than the amount that MMS had scheduled for delivery to the market center. Yet, despite this significant shortfall, the Department took no action to resolve the discrepancy and to ensure that it had received all of the oil shipped by MMS. Although the Department was unable to explain the differences, we were eventually able to obtain documentation from MMS that identified the causes for 276,000 of the 308,000 barrels variance. This included a decision by MMS to sell royalty oil rather than ship it to the Department. However, the remainder of the variance was unresolved.

The supporting documentation for oil transfers covered by these contracts was also inadequate to support the receipts claimed by the Department of Energy's contractors. Department contractors maintained spreadsheets without supporting documentation and made unsupported handwritten changes to the amounts recorded as received from MMS. In analyzing the receipt of royalty oil, we concluded that the Department relied too heavily on unverified contractor assertions concerning the amount of oil received. For example, Department officials informed us that they believed that contractor reports of royalty oil receipts, contained in e-mails, were more accurate than MMS' scheduled delivery information, which was subject to frequent changes.

While responsible Department representatives agreed that discrepancies between the schedules and reported oil receipts were an indicator of differences that should be explained based on their materiality, Department officials stated that a more meaningful comparison would be of actual delivery reports to actual receiving reports. We found this argument compelling, however, because the Department had not obtained actual shipment and receipt documentation, neither we nor the Department could perform such a comparison. Department officials acknowledged that the available documentation was not adequate.

Finally, the Department's control system did not recognize the risk posed by the fact that the same contractor often acted as both the shipping agent for MMS and the receiving agent for the Department. The lack of an arms-length relationship and the absence of compensating controls increased the risk that errors or unauthorized transactions could go undetected. Department officials asserted that they were unaware of the extent of intra-company relationships between Department and MMS contractors.

To its credit, the Department acknowledged that improvements were needed in its controls over royalty oil receipts and has initiated corrective actions. Specifically, as a result of the audit, the Department included in its most recent contract solicitation a provision for contractors to submit documentation supporting royalty oil receipts. The Department also proposed an amendment to the Memorandum of Understanding requiring it and MMS to provide and reconcile any market center discrepancies.

It is important that the Department have adequate assurance that it has and is receiving all of the oil shipped by MMS. This is especially true as the Department implements its plan to use royalty oil to increase oil volume in the Reserve. As a consequence, we made several recommendations to address weaknesses in the process. The results of our evaluation were referred to the Department of the Interior's Office of Inspector General and to MMS program management. The Department of the Interior's Office of Inspector General told us that they, as will we, intend to follow-up on agency efforts to work cooperatively in resolving this matter.

MANAGEMENT REACTION

Management concurred with the recommendations and stated that they reflect control weaknesses that when corrected will strengthen the Department's management of royalty oil receipts from MMS. Management stated that variances identified in our report did not result from the Department receiving less oil than shipped by MMS. Rather, Management asserted that variances could be attributed to differences between MMS shipping schedules and actual quantities delivered to the Department.

Actions taken or planned by Management to improve controls over royalty oil receipts are responsive to our recommendations. These actions when fully implemented will help to ensure that future variances are fully explained, and will reduce the risk of errors in the receipt and recording of oil deliveries by the Department and its contractors. Although Management asserted that variances discussed in this report were due to differences between MMS schedules and actual deliveries, without a formal reconciliation process, the Department has no assurance that it is receiving the quantities of oil it is entitled to under the Royalty-in-Kind program.

Attachment

cc: Deputy Secretary
Under Secretary of Energy
Acting Principal Deputy Assistant Secretary for Fossil Energy, FE-30
Acting Deputy Assistant Secretary for Petroleum Reserves, FE-40
Chief of Staff
Project Manager, Strategic Petroleum Reserve Project Management Office, FE-44
Team Leader, Audit Liaison, CF-1.2
Audit Liaison, Strategic Petroleum Reserve Project Management Office, FE-445

REPORT ON THE DEPARTMENT OF ENERGY'S RECEIPT OF ROYALTY OIL

TABLE OF CONTENTS

Controls over Royalty Oil Receipts

The Department of Energy (Department) had not implemented an effective internal control system over the receipt of royalty oil at the market centers. Specifically, the Department had not resolved discrepancies between scheduled oil deliveries and contractor claimed receipts. The Department also had not ensured that contractor documentation adequately supported the amount of royalty oil received. Finally, high-risk contractor relationships existed that were not identified and effectively managed by the Department.

The Department's system of controls for royalty oil receipts was not consistent with Government-wide standards for internal controls designed to safeguard assets and to prevent and detect errors and fraud. The *Standards for Internal Control in the Federal Government* require Federal managers to, among other things: reconcile transaction information concerning resource transfers and receipts; maintain appropriate transaction documentation; and, identify and manage risks posed by a single entity controlling two or more phases of a transaction.

Resolution of Discrepancies

Significant differences existed between the amount of oil that the Minerals Management Service (MMS) scheduled to be shipped to the market center and the amount of oil the Department's contractors reported as receiving. The Department entered into contracts with companies to receive royalty oil based on deliveries scheduled by MMS. We judgmentally selected and reviewed 9 of 18 contracts, covering calendar years 2002 through 2005, to determine whether the Department received the amount of oil scheduled by MMS for delivery at the market center. We used scheduled deliveries for comparison purposes with reported receipts because the Department had not obtained actual delivery data from MMS. These 9 contracts represented 214 oil transfer groupings from MMS.

Our analysis of the nine contracts showed that the Department's receiving reports did not equal MMS' shipping schedules in 28 percent (60) of the transfer groupings analyzed. For example, in the most recent contract, we determined that the contractor reported receiving approximately 210,000 barrels of oil or 3 percent less than MMS reported as shipped over a 4-month period. During this same period, we found that a second Department contractor reported receiving 98,000 barrels of oil, or 3 percent less than the scheduled shipments by MMS. Prior to our audit, the Department had not reconciled the receiving contractors' reported receipts to MMS' scheduled shipments to explain reasons for the differences. Subsequent to the issuance of the draft report, the auditors were able to work with MMS to resolve the majority of this variance. Specifically, we were able to obtain documentation from MMS explaining reasons for 276,000 of the 308,000 barrels variance between scheduled deliveries and reported receipts, including a decision by MMS to sell royalty oil rather than ship it to the Department. Nonetheless, a variance of approximately 32,000 barrels, valued at over $1 million, remained unresolved. Appendix 3 summarizes the discrepancies between MMS' delivery schedules and recorded receipts for the 9 contracts.

Oil Receipt Documentation

Also, the Department's contractors' documentation was not always sufficient to ensure that royalty oil receipts were accurately recorded and reported. The Department required its contractors to obtain supporting documentation for royalty oil receipts such as pipeline operators' meter records. We reviewed the supporting documentation for oil transfers covered by the two previously discussed contracts, where scheduled deliveries did not equal receipts, and found that the documentation was inadequate to support the contractors' claimed amounts. Contractor documentation included:

- Spreadsheets without source documentation;

- Unsupported handwritten changes to pipeline operator reports that recorded the amount of oil transferred at the market center; and,

- Pipeline statements that contained caveats against their use for accounting purposes.

High-Risk Transactions

Further, the Department's control system did not address high-risk transactions resulting from potential impairments to contractor independence and implement corresponding increases in controls. Specifically, the Department did not require contractors to disclose corporate relationships at the market center. We determined that contractors acted as both the shipping agent for MMS and receiving contractor for the Department in about 20 percent, (18 of 93) of the oil transfer contractor relationships reviewed. For example, in one of the most recent contracts, the same contractor was the MMS shipping agent and the Department's receiving contractor in three of the eight transfer relationships. We also identified two instances where the oil platform operator who owed royalty oil to the Government, the MMS shipping agent, and the Department receiving contractor were subsidiaries of the same organization. In these cases, the Department did not increase monitoring and implement compensatory controls over contractors' royalty oil receipts to ensure that potential contractor impairments were controlled.

Control Environment

The Department's control system was not effective because it relied too heavily on unverified contractor assertions concerning the amount of oil received. For example, the Department's position was that contractor reports of royalty oil receipts, contained in e-mails, were more accurate than MMS' scheduled delivery information. However, a senior MMS official stated that, although scheduled deliveries fluctuate, the scheduled deliveries were reliable and that they could be used as a benchmark. The MMS official also stated that differences between the schedule and receipts should be reviewed and resolved. Further, the Department did not require contractors to submit documentation for royalty oil receipts nor did they verify that the documentation retained by the contractors was sufficient to support the contractors' assertions.

Finally, Department officials were not fully aware of the extent of the relationships among MMS and Department contractors. In our view, these relationships increased the risk that errors would not be detected. Also, these relationships could increase the contractors' ability to influence the transaction for their benefit. Department officials stated that, as a result of our audit, they recognize the increased risk and plan to focus more attention on contractor relationships.

During the audit, the Department acknowledged that improvements were needed in its controls over royalty oil receipts. Specifically, as a result of the audit, the Department included in its most recent contract solicitation a provision for contractors to submit documentation supporting royalty oil receipts. The Department also proposed an amendment to the Memorandum of Understanding requiring it and MMS to provide and reconcile any market center discrepancies.

Programmatic Risks

The Department exposed itself to unnecessary risks by not instituting a more robust control environment for this program. In the absence of effective controls, the Department did not have assurance that it received all of the oil shipped by MMS. For example, a discrepancy between scheduled shipments and reported receipts of 32,000 barrels of oil, valued at about one million dollars, remain unresolved.

Additionally, improved controls are important given ongoing and planned increases to the volume of oil in the Reserve. Currently, the Department has a new fill initiative that will add approximately 27 million barrels of crude oil to the Reserve.

RECOMMENDATIONS

We recommend the Project Manager, Strategic Petroleum Reserve enhance controls over royalty oil receipts by:

1. Requiring Department contractors to submit supporting documentation for royalty oil receipts in future contracts;

2. Providing MMS with Department royalty oil receipts and working collaboratively with MMS to reconcile actual delivery and receiving reports at the market centers so that each agency knows the actual amounts of oil shipped and delivered;

3. Developing a surveillance program commensurate with the level of risk posed by contractor relationships; and,

4. Verifying, to the extent practicable, past royalty receipts through supporting documentation and/or reconciliation with MMS.

MANAGEMENT REACTION

Management concurred with the recommendations and stated that they reflect control weaknesses that when corrected will strengthen the Department's management of royalty oil receipts from MMS. In response to our report, management stated that they are now obtaining supporting documentation, for royalty oil receipts, from their contractors. Additionally, management stated that they have improved collaborations with MMS on all aspects of the Royalty-in-Kind program, are providing MMS with the supporting documentation obtained from Department contractors and are actively engaging MMS to assure mutual agreement on the quantities of royalty oil transferred to the Department at the market center. Moreover, management will expand the scope of its annual crude oil accountability audit to include the market center royalty oil transfers, with particular focus on related-party transactions. Finally, management agreed to provide MMS with a record of actual royalty oil receipts received at the market center and request that MMS indicate its agreement or disagreement with the reported amounts.

With respect to the Department's role and responsibilities and royalty oil variances, management wanted to clarify some specific areas. Management stated that the report recommendations adequately captured the respective responsibilities of each organization; however, they felt that this distinction was not as clear in other areas of the report. Management stated that the Royalty-in-Kind program is an MMS program over which the Department has no management control or responsibility. Management contended the report erroneously indicated that the Department is responsible for upstream activities such as reconciling nomination estimates and market center receipts.

Department management also emphasized that there was no indication that the variances between shipping schedules and contractor receipts were a result of the Department receiving less oil than shipped by MMS. Instead, the Department stated that variances between shipping schedules and contractor reported receipts could be attributed to differences between MMS' shipping schedules and the actual quantities delivered to the market centers. The Department opined that the variances could usually be explained by time lags in updating shipping schedules and occasional changes by MMS in the distribution of royalty oil. In its response to our draft report, the Department further stated that based on records shared with MMS, accounting adjustments made by MMS, and assertions made by MMS during the course of this audit; there are strong indications that the 308,000 barrel variance discussed in this report will be reconciled by MMS in favor of the Department reported market center receipts. The Department committed to work with MMS to bring closure to this issue. Therefore, management did not believe that variances discussed in this report should be characterized as a programmatic impact.

AUDITOR COMMENTS

Management comments are responsive to our recommendations and if all recommendations are implemented successfully the Department's control environment over the Royalty-in-Kind program will be enhanced.

In response to management's comments on roles and responsibilities, the Department and MMS jointly developed and operate the Royalty-in-Kind program with specific requirements on each side of the transaction. We agree that the Department was not responsible for control over upstream activities, however, as stated in the report the Department has a responsibility to verify the market center receipts reported by its contractor. Additionally, the *Standards for Internal Control in the Federal Government* require Federal managers to reconcile transaction information concerning resource transfers and receipts.

Regarding management's assertion that there were no indications that the Department received less oil than shipped by MMS, we concluded that unexplained variances between scheduled shipment and reported royalty oil receipts represented a programmatic risk of errors in the receipt and recording of oil by the Department and its contractors. Regarding management's belief that the 308,000 barrel variance would be resolved in the Department's favor, neither the Department nor MMS were able to provide documentation to reconcile 32,000 barrels of this variance. The existence of unexplained variances represents a programmatic risk in the receipt and recording of oil to the Department until fully explained. Further, we identified variances relating to earlier shipments that management had not reconciled.

OBJECTIVE

The objective of this audit was to evaluate the effectiveness of the Department of Energy (Department's) control system over the receipt of royalty oil.

SCOPE

This audit was performed between March and October 2007 at the Strategic Petroleum Reserve Project Management Office in New Orleans, Louisiana, and St. James Terminal/ Capline Market Center in St. James Parish, Louisiana. The scope of the audit was limited to Royalty-in-Kind receipts from 2002 to 2005.

METHODOLOGY

To accomplish the audit objective, we:

- Reviewed essential Royalty-in-Kind program documentation including Memorandums of Understanding, solicitations, and contracts;
- Analyzed Mineral Management Service (MMS) transmissions containing scheduled royalty deliveries between contractors;
- Selected a judgmental sample of contracts for further review;
- Performed a reconciliation of scheduled deliveries to contractor reported royalty receipts;
- Assessed the adequacy of supporting documentation for royalty receipts from two contractors;
- Analyzed relationships between contractors that delivered royalty oil at the market center and contractors that received royalty oil at the market center;
- Evaluated accounting entries associated with Royalty-in-Kind exchanges;
- Obtained and reviewed laws, regulations, policies, and procedures relevant to Department of Energy asset management;

- Assessed the Department's adherence to *Standards for Internal Control in the Federal Government* related to risk management;

- Reviewed the results of prior audits and reviews;

- Held discussions with Office of Fossil Energy personnel, Strategic Petroleum Reserve personnel, MMS personnel, and industry traders; and,

- Coordinated with the U.S. Government Accountability Office and the Department of Interior Office of Inspector General.

We conducted this performance audit in accordance with generally accepted Government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit included tests of controls and compliance with laws and regulations related to the Department's Royalty-in-Kind program. Because our review was limited, it would not necessarily have disclosed all internal control deficiencies that may have existed at the time of our audit. Also, we examined the establishment of performance measures in accordance with the Government Performance and Results Act of 1993, as they related to the audit objective. We found that performance measures related to the Strategic Petroleum Reserve fill program had been established. Finally, we did not conduct tests to establish the reliability of computer-processed data because we did not rely on the data to accomplish our audit objective.

Management waived an exit conference.

OTHER MATTERS

While the Department assumed ownership of royalty oil at the market center, it did not make an accounting entry to recognize royalty oil as an asset upon transfer of custody from the Minerals Management Service. Rather, the Department recognized the royalty oil as an asset only after it had been exchanged for other oil appropriate for storage in the Strategic Petroleum Reserve. Therefore, the transfer of royalty oil from Minerals Management Service to the Department was not appropriately documented and did not adhere to Department guidance, which directs that assets be recorded from the time of acquisition. We informed Department management at the Strategic Petroleum Reserve Project Management Office of this weakness.

SUMMARY TABLE OF DISCREPANCIES

The table below shows the differences between the amount of royalty oil that the Minerals Management Service (MMS) scheduled to be shipped to the market center and the amount of oil the Department's contractors reported as receiving. The table is for the nine contracts for the period April 2002 through July 2005. For two of the contracts (Phases IIIa and IIIe), the Department's contractors reported receiving more oil than scheduled to be shipped by MMS. For four contracts (Phases IIIb, IIId, and IIIg) the Department's contractors reported receiving less than the scheduled amounts, while the aggregate amount reported as received for the remaining three contracts was equal to the MMS benchmark.

Summary of Discrepancies		
Phase	***Contractor***	***Total Barrels****
IIIa	Contractor A	395,826.91
IIIb	Contractor B	-66,344.61
IIIc	Contractor C	0
IIId	Contractor D	-14,618.49
IIIe	Contractor E	0
	Contractor F	43,251.86
IIIf	Contractor G	0
IIIg	Contractor H	-209,904.15
	Contractor I	-98,090.00

The reported total barrels* are **net** discrepancy amounts for each contractor. Thus, they reflect the sum of "overages" and "underages" of multiple shipments. The table includes the discrepancies discussed in this report, specifically, Contractor H and Contractor I representing 209,904 barrels and 98,090 barrels of oil, respectively. The Department did not require contractors to provide supporting documentation for claimed royalty oil receipts or reconcile the contractors' reported receipts to MMS' scheduled shipments to explain reasons for the differences.

RELATED AUDIT REPORTS

- *Strategic Petroleum Reserve: Available Oil Can Provide Significant Benefits, but Many Factors Should Influence Future Decisions about Fill, Use, and Expansion,* (GAO-06-872, August 2006). Industry experts recommended that a number of factors be considered when filling and using the Strategic Petroleum Reserve. They generally agreed that filling the Reserve by acquiring a steady dollar value of oil over time, rather than a steady volume of oil over time, as has occurred in recent years, would ensure that more oil will be acquired when prices are low and less when prices are high. Experts also suggested allowing oil producers to defer delivery of oil to the Reserve at a time when supply and demand are in tight balance, with oil producers providing additional oil to the Reserve to pay for the delay. Regarding use of the Reserve, experts described several factors to consider when making future use decisions, including using the Reserve without delay when it is needed to minimize economic damage.

- *Audit of Strategic Petroleum Reserve Royalty-in-Kind Oil Program*, (ER-L-00-01, November 1999). The audit reported that the Strategic Petroleum Reserve (Reserve) Project Management Office had implemented the Royalty-in-Kind program to restock the Reserve. However, written agreements or understandings between the Departments of Energy (Department) and Interior had not been finalized. In response to the report, the Departments of Energy and Interior created a Memorandum of Understanding to outline the responsibilities of each Department.

Department of Energy
Strategic Petroleum Reserve Project Management Office
900 Commerce East
New Orleans, Louisiana 70123

December 4, 2007

MEMORANDUM TO: George W. Collard
Assistant Inspector General for Performance Audits
Office of Inspector General

FROM: William C. Gibson, Jr., Project Manager,
Strategic Petroleum Reserve

SUBJECT: Final Comments on Draft Report on "Department of Energy's Receipt of Royalty Oil"

The Strategic Petroleum Reserve (SPR) appreciates the opportunity to review and comment on this draft report. The SPR concurs with the four recommendations presented in the draft report. The Office of Inspector General has been very helpful in identifying control weaknesses that when corrected will strengthen the Department's management of royalty oil receipts from the Department of Interior (DOI). The corrective actions planned or taken are summarized below:

Recommendation 1: In addition to the previously required monthly summaries, the SPR is now obtaining supporting documentation (e.g., pipeline statements, meter tickets, etc.) from its contractors.

Recommendation 2: The SPR has improved its collaboration with DOI on all aspects of the Royalty-In-Kind program. An amendment to the Memorandum of Understanding between the Department of Energy (DOE) and DOI addressing the exchange of information has been signed by DOE and sent to DOI. The SPR is providing DOI with the supporting documentation obtained from its contractors and is actively engaging DOI to assure mutual agreement on the quantities of royalty oil transferred to DOE at the market centers.

Recommendation 3: The improved documentation and collaboration addressed in connection with the first two recommendations will also serve to reduce the increased risk associated with related-party transactions. The SPR also plans, by March 31, 2008, to expand the scope of its annual crude oil accountability audit to include the market center royalty oil transfers, with particular focus on related-party transactions.

George W. Collard, Office of Inspector General 2

Recommendation 4: By March 31, 2008, the SPR will provide DOI with a listing of actual royalty receipts. DOI will be requested to indicate its agreement or disagreement, by June 30, 2008, with the quantities reported by the SPR. The SPR will work with DOI to resolve any areas of disagreement by September 30, 2008.

Please find attached additional commentary for your consideration in finalizing the subject report.

Should you have any questions about this response, please contact Michael McWilliams, Assistant Project Manager for Management and Administration, SPR.

Attachment

cc (w/attachment):
Acting Principal Deputy Assistant Secretary for Fossil Energy, FE-30
Acting Deputy Assistant Secretary for Petroleum Reserves, FE-40
Team Leader, Audit Liaison, CF-1.2
Audit Liaison, Strategic Petroleum Reserve, FE-445

Attachment

**STRATEGIC PETROLEUM RESERVE FINAL COMMENTS
DRAFT REPORT ON DEPARTMENT OF ENERGY'S
RECEIPT OF ROYALTY OIL**

There are two areas of the report that we would like to address. The first deals with the respective roles and responsibilities of the Department of Interior (DOI) and the Department of Energy (DOE). The second focuses on the significance of variances between DOI nomination estimates and market center receipts.

Roles and Responsibilities

The Royalty-In-Kind program is a DOI program over which DOE has no management control or responsibility. Upstream activities such as production estimates, royalty estimates, nomination estimates, and transportation of royalty oil to the market centers are within the exclusive purview of DOI. However, DOE and DOI have joint responsibility for the transfer of royalty oil at the market centers. Specifically, they should agree on the custody transfer point measurements. The draft report's recommendations have as their proper focus this area in which DOE and DOI have joint responsibility since DOE can only improve processes over which it has some control. On the other hand, the findings and conclusions are less clear on this division of responsibility, indicating that DOE is responsible for upstream activities such as reconciling nomination estimates and market center receipts.

Royalty Oil Variances

The draft report suggests that variances between DOI nominations and market center transfers to DOE are negative indicators that quantities shipped to DOE were not received by DOE. Such variances are not unexpected. The time lag in updating nomination estimates and occasional changes by DOI in the distribution of royalty oil are typical reasons for variances.

The report addresses a 308,000-barrel variance occurring during the April 2005 to July 2005 time period. There is no indication that DOE received less oil than was intended. In fact, based on records shared with DOI by DOE in the past, accounting adjustments made by DOI for the period in question, and assertions made by DOI during the course of this audit, there are strong indications that this variance will be reconciled by DOI in favor of the DOE-reported market center receipts. DOE will continue to work with DOI to bring closure to this issue. Under the circumstances, the 308,000-barrel variance should not be characterized as a programmatic impact, absent a stronger showing of what the impact was.

IG Report No. DOE/IG-0786

CUSTOMER RESPONSE FORM

The Office of Inspector General has a continuing interest in improving the usefulness of its products. We wish to make our reports as responsive as possible to our customers' requirements, and, therefore, ask that you consider sharing your thoughts with us. On the back of this form, you may suggest improvements to enhance the effectiveness of future reports. Please include answers to the following questions if they are applicable to you:

1. What additional background information about the selection, scheduling, scope, or procedures of the inspection would have been helpful to the reader in understanding this report?

2. What additional information related to findings and recommendations could have been included in the report to assist management in implementing corrective actions?

3. What format, stylistic, or organizational changes might have made this report's overall message more clear to the reader?

4. What additional actions could the Office of Inspector General have taken on the issues discussed in this report which would have been helpful?

5. Please include your name and telephone number so that we may contact you should we have any questions about your comments.

Name ______________________________ Date

Telephone __________________________ Organization _____

When you have completed this form, you may telefax it to the Office of Inspector General at (202) 586-0948, or you may mail it to:

Office of Inspector General (IG-1)
Department of Energy
Washington, DC 20585

ATTN: Customer Relations

If you wish to discuss this report or your comments with a staff member of the Office of Inspector General, please contact Judy Garland-Smith (202) 586-7828.

The Office of Inspector General wants to make the distribution of its reports as customer friendly and cost
effective as possible. Therefore, this report will be available electronically through the Internet at the following address:

U.S. Department of Energy Office of Inspector General Home Page
http://www.ig.doe.gov

Your comments would be appreciated and can be provided on the Customer Response Form