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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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DEC 27 1971

DEFENSE DIVISION

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Dear Mr. Sanders:

As part of our examination into the conservation and management of natural resources by the Department of Defense (Code 86209), we have reviewed certain matters relating to revenues from the operation of Naval Petroleum Reserve No. 3 (Teapot Dome, Wyoming) and the administration of the Naval Oil Shale Reserves in Colorado and Utah.

We found that errors in the pricing of crude oil sales from Naval Petroleum Reserve No. 3 resulted in underpayments to the Navy of about \$19,000. Further, some grazing fees collected from lessees operating on Naval Oil Shale Reserve lands that should have been deposited to the General Fund of the U. S. Treasury had been commingled with funds used by the Bureau of Land Management, Department of the Interior. Actions have been or are being taken to correct these deficiencies.

ERRORS IN PRICING CRUDE OIL SALES
FROM NAVAL PETROLEUM RESERVE NO. 3

During the 24-month period ended December 31, 1970, revenue from the sale of crude oil was understated by about \$19,000 because the contractor operator of Naval Petroleum Reserve No. 3 had not billed the purchaser in accordance with the pricing provisions of the sales contract. Contract N0d-9914, dated November 1, 1968, provides that the purchaser shall pay the "base price" in effect at the date the oil is delivered, less 5 cents per barrel. The prior sales contract included a provision for paying the "base price" less 10 cents per barrel. The term "base price" is defined as the average price per barrel of all prices regularly posted or published by principal purchasers of crude oil in Natrona County, Wyoming, for oil of equal gravity and quality.

The operator had made erroneous billings which resulted in the following underpayments.

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<u>Type of error</u>	<u>Amount of underpayments</u>
Average price regularly posted or published not used	\$16,341
Billings prepared on basis of pricing provisions applicable to the prior sales contract ("base price" less 10 cents per barrel)	<u>2,530</u>
Total	<u>\$18,871</u>

We brought this matter to the attention of the Officer in Charge, Naval Petroleum and Oil Shale Reserves in Colorado, Utah, and Wyoming, located at Casper, Wyoming, in January 1971. The errors appeared to be due to oversight. The Officer in Charge advised us later that the operator of Naval Petroleum Reserve No. 3 had been notified of the errors and that this matter was being taken up with the purchaser. As of the end of October 1971, efforts by the Office of Naval Petroleum and Oil Shale Reserves to resolve this matter were still underway.

INCONSISTENT TREATMENT OF GRAZING RECEIPTS
FROM NAVAL OIL SHALE RESERVE LANDS

Four district offices of the Bureau of Land Management were not handling the deposit of grazing receipts in a consistent manner in that some receipts were commingled with Bureau funds instead of deposited to the General Fund of the Treasury.

All surface resources on federally owned lands within Naval Oil Shale Reserves Nos. 1 and 3 in Colorado and Naval Oil Shale Reserve No. 2 in Utah are managed by the Bureau under a cooperative agreement between the Secretary of the Navy and the Secretary of the Interior. Under this agreement, the Bureau may issue leases, permits, or licenses involving surface resources. While the costs of administering grazing permits on the Reserve lands are generally financed with Navy funds, most of the receipts from grazing fees have been deposited to a Bureau account, in which they are commingled with funds used to finance range improvements on Bureau lands and other expenditures.

Four district offices of the Bureau are involved in administration of these grazing permits. Receipts from grazing fees on lands within Shale Reserves Nos. 1 and 3 amounted to \$5,016 for the year ended February 28, 1970, and were deposited by the two cognizant district offices to a Bureau receipt account. As to grazing fees from Shale

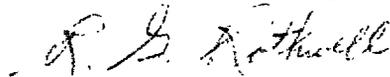
Reserve No. 2 during fiscal year 1970, a third district office deposited about \$1,441 to the General Fund of the Treasury and the fourth district office deposited about \$186 to the Bureau receipt account.

We believe, based on our review of 10 U.S.C. 7433(b) and 31 U.S.C. 484, that all such receipts should be deposited into the General Fund of the Treasury.

On November 23, 1971, the Bureau of Land Management issued instructions that receipts from grazing fees on Navy land be deposited to the General Fund of the Treasury.

Copies of this report are being sent to the Director, Office of Management and Budget, and the Secretary of the Interior.

Sincerely yours,



Associate Director

The Honorable Frank Sanders
Assistant Secretary of the Navy
(Financial Management)