



ASSISTANT COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

~~4.25.02~~

095819

74-0273

June 24, 1974

B-178205

The Honorable William J. Randall, Chairman,
Subcommittee on Legal and Monetary Affairs,
Committee on Government Operations,
House of Representatives

Hold to



LM095819

Dear Mr. Chairman:

In your letter of May 7, 1974, you requested that we evaluate the effectiveness of the Cost of Living Council's (COLC) actions to assure that cost increases for petroleum products were made in accordance with the petroleum pricing regulations.

Responsibility for administration of the petroleum pricing regulations was transferred from COLC to the Federal Energy Office (FEO) on December 26, 1973, as were all personnel in COLC's Energy Division. COLC officials told us that we would have to contact former COLC officials now working at FEO to obtain the needed information. Accordingly, our evaluation included a review of the petroleum pricing regulations issued by COLC and other information furnished us by the former COLC officials now working at FEO.

Phase IV petroleum pricing regulations, issued by COLC on August 17, 1973, provided for the passthrough on a dollar-for-dollar basis of the increased costs of crude oil occurring since May 15, 1973, to refined petroleum products. On September 12, 1973, the regulations were revised to include a formula for computing the increased cost of crude oil and allocating it to refined products. The regulations did not require refiners to provide cost information justifying price increases.

On October 10, 1973, however, the COLC issued letters to 18 major refiners (accounting for 87 percent of the U.S. refining capacity), asking them to supply calculations of costs passed through to purchasing companies in the form of price increases. The refiners were furnished preliminary worksheets to assist them in making their calculations.

On November 1, 1973, the COLC issued another letter to all refiners requesting supporting cost and price data for the base month of May 1973. On November 14, 1973, refiners were furnished revised computational worksheets. Small refiners were requested to make calculations and maintain the worksheets as part of their books and records, subject to further review by the Energy Division. About 26 major refiners, accounting for over 90 percent of refinery capacity in the United States, were requested to send the worksheets to COLC each month.

~~702143~~ / [095819]

The regulations were again revised on December 1, 1973, to include a new set of formulas for computing costs passed through to purchasing companies in the form of price increases. COLC sent out revised computational worksheets to all refiners to help them make the new calculations for their December pricing action.

Until the transfer of the Energy Division staff on December 26, 1973, a maximum of four people, who had other responsibilities as well, were assigned the responsibility for verifying the refiners' cost information. Their duties essentially consisted of making sure that the computations included with the monthly reports were mathematically accurate. They did not develop an audit program for detailed verification of data submitted by the refiners. Due to staff shortages and heavy commitments in drafting revisions to regulations, no comprehensive audit was made.

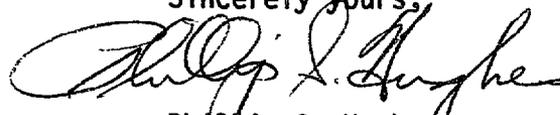
Before the transfer of COLC functions to FEO, a field review program, in cooperation with the Internal Revenue Service, directed at major refiners was proposed. This program is now FEO's Refinery Audit and Review Program. According to FEO officials, their program will include an in-depth verification of data supplied by the refiners to COLC. In connection with a request from Senator Abraham Ribicoff, Chairman, Subcommittee on Reorganization, Research, and International Organizations, Senate Committee on ^{S. 01508} Government Operations, we are undertaking a review of FEO's compliance and enforcement activities which will include a review of the effectiveness of FEO's Refinery Audit and Review Program.

COLC's authority to insure compliance with the regulations was essentially the same as FEO's current authority. When pricing violations are identified, remedial orders may be issued directing that pricing practices be adjusted to comply with the regulations. Companies in violation may have penalties levied against them amounting to \$2,500 for each violation. COLC did not issue any remedial orders or undertake any other enforcement action. According to a former COLC official, frequent changes to the regulations made enforcement action difficult.

On the basis of the foregoing information, we conclude that COLC's surveillance was not sufficient to insure that refiners were complying with regulatory pricing requirements.

As agreed, we have not obtained written comments on the matters discussed in this report from COLC. As you probably know, COLC is in the process of phasing out and has had no authorities with respect to petroleum product pricing since December 26, 1973. We do not plan to distribute this report further unless you agree or publicly announce its contents.

Sincerely yours,



Philip S. Hughes
Assistant Comptroller General