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Interior Secretary James Watt today announced a major overhaul of the Interior Department's decades-old system for collecting mineral royalties, to assure recovery of an estimated $200 to $500 million a year in oil and gas royalties believed unreported on Federal and Indian leases.

Watt's decisions, requiring realigned management, tighter internal controls, more site inspectors, improved auditing, additional penalties, and greater cooperation with States and Indian tribes, were adopted to implement 60 recommendations of the Commission on Fiscal Accountability of the Nation's Energy Resources. Watt appointed the Commission last July to look into waste and fraud in the royalty program, which now provides approximately $5 billion a year for the Federal Treasury, mineral producing States and Indian tribes. Projections indicate that royalty collections will top $14 billion a year by 1990.

"I have directed the Department to move aggressively to achieve or exceed the goals of the Commission's recommendations," the Secretary said. "Orders were issued earlier this week and implementation is now under way."

The Secretary noted that studies conducted by the General Accounting Office, the Congress, State governments and the Indian communities dating back to 1959 revealed serious allegations of waste, fraud and mismanagement in the royalty collection program.

“Nevertheless,” he said, “I discovered on coming to the Department that very little had been done to resolve these problems. Today, to accomplish President Reagan's- goals of eliminating government waste while stimulating domestic energy production, we must and will assure that we receive full value from the sale of the public's oil, gas and other mineral resources.

"I have focused major attention of this Department upon the royalty management program involving the States and Indian tribes. Our efforts have renewed interest in the importance of the collection process but a comprehensive review such as that conducted by the Commission was vital, “said Watt. To provide improved management of the royalty system by increased Secretarial responsibility, Watt announced creation of a Minerals Management Service.

The U.S. Geological Survey's Conservation Division, will be reporting to a three-man Minerals Management Board directly responsible to the Secretary. The executive group chaired by Under Secretary Donald Paul Hodel will include Assistant Secretaries J. Robinson West {Policy, Budget and Administration) and Daniel Miller (Energy and Minerals).

"The new agency will have ready access to the Secretary and will require a high level of involvement and direction," Watt said. "The transfer of functions governing the administration of mineral leases away from the Geological Survey should strengthen that agency. Relieved of its regulatory duties, the Survey will be better able to carry out its prime responsibilities for scientific research and for gathering, analyzing and disseminating scientific information about the Nation's resources." '

Watt credited the Commission's six-month investigation, headed by David F. Linowes and including a panel of four nationally recognized fiscal, legal and scientific authorities, with having pinpointed major long-standing deficiencies in the royalty management process.

The Minerals Management Service, through new regulations, will require improved security on about 46,500 wells on 17,600 Federal leases. Operators will be required to develop site security plans and will face stiff penalties for violations. Federal monitoring will be intensified. States and tribes will be urged to cooperate in augmenting the work of an expanded inspection team.

"I am implementing a policy whereby we will enter into cooperative agreements with the States and tribes to augment much of the enforcement work now performed by the Geological Survey," Watt said.

Watt agreed with a Commission proposal to create a Legislative Task Force which will develop an omnibus royalty management bill to be forwarded to Congress. The task force, to be headed by Theodore J. Garrish, Legislative Counsel to the Secretary, will consider legislative changes required to make States and Indian tribe's equal partners in the collection program. Proposed also are penalties up to $10,000 a day for security and reporting violations, creation of a self-sustaining royalty management fund, adoption of a reward incentive plan for encouraging reports on fraud or mismanagement, and other improvements.

The Secretary also announced his intention to name an Advisory Commission composed of Federal, State and Indian representatives, to assist in implementing the Commission's recommendations and in improving the levels of cooperation among the various governments. The Linowes Commission had strongly urged creation of such a group.

The Secretary said a proposal by the Linowes Commission to raise the onshore minimum royalty rate from its present 12 1/2 percent to 16 2/3 percent (the current rate on most offshore and recent Indian leases) merits further study, which he ordered be conducted and completed by April 1.

The Department's Office of Inspector General was requested by Watt to report on a Commission recommendation to determine whether minerals sales could and should be traced beyond the first purchaser. The Commission had made that recommendation as a means by which the Department could independently verify information from producers, royalty payers and first purchasers.

The commission recommended that Interior conduct intensive "lookback audits" regarding the sufficiency of past royalty payments of the top 25 royalty payers. The Secretary reaffirmed his commitment to such audits and agreed that an analysis of ' 1 lookbacks 11 into the payments of two major producers, now under way, will guide the Department in deciding which additional lookbacks will be worthwhile and to speed their completion.

The USGS, meanwhile, has instituted major changes in auditing procedures as a result of its own investigations of irregularities, as well as a review by the Secretary early in 1981. The agency recently awarded contracts totaling $12.4 million for work over a multi-year period to support a more automated accounting system.

Growing problems in the system, spotlighted by earlier investigations and brought into focus by oil price increases, led Watt last February to advise governors of oil-producing States that he planned to modernize the royalty collection system.

In appointing the Commission in July, he urged it to use its independent authority to probe waste and fraud, asking that it report its findings directly to him within six months. The Commission conducted five hearings in Washington, New York and Denver, listening to scores of witnesses, while visiting a number of oil and gas lease sites in the Western States.

The Commission maintained coordination with the President's Council on Integrity and Efficiency, and the Office of Management and Budget. Besides Linowes, an international authority in management, the Commission members are Elmer B. Staats, former comptroller general of the United States; Michel T. Halbouty, renowned earth scientist and engineer; Charles J. Mankin, State Geologist of Oklahoma; and Mary Gardiner Jones, attorney and consumer affairs specialist.