



Michigan  
*Office of the Auditor General*  
**REPORT SUMMARY**

*Performance Audit*

Report Number:  
761-0300-13

*Office of Oil, Gas, and Minerals*

*Department of Environmental Quality*

Released:  
September 2013

*The Office of Oil, Gas, and Minerals (OOGM) oversees the locating, drilling, operating, and plugging of wells used for the exploration and production of oil, gas, brine, and other minerals, including wells for underground storage and waste disposal. OOGM also regulates the operation and reclamation of mines. OOGM's mission is to promote the best use of Michigan's nonrenewable geological resources for their social and economic benefits while protecting associated resource values, property rights, the environment, and public health and safety.*

***Audit Objective:***

To assess the effectiveness of OOGM's efforts to monitor oil and gas wells to protect resource values, the environment, and the public's health and safety.

***Audit Conclusion:***

We concluded that OOGM's efforts to monitor oil and gas wells to protect resource values, the environment, and the public's health and safety were effective. However, we noted one reportable condition (Finding 1).

***Reportable Condition:***

OOGM did not complete field inspections of all well sites at the targeted inspection frequencies identified in OOGM policy and procedure (Finding 1).

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***Audit Objective:***

To assess the effectiveness of OOGM's efforts to promote compliance with selected oil and gas well regulations.

***Audit Conclusion:***

We concluded that OOGM's efforts to promote compliance with selected oil and gas well regulations were moderately effective. We noted five reportable conditions (Findings 2 through 6).

***Reportable Conditions:***

OOGM did not always enter into stipulation and consent agreements (SCAs) and transfer settlement agreements (TSAs) on a timely basis or enforce all terms of those agreements. In addition, when OOGM modified the terms of SCAs or TSAs, it did not always document why the modifications occurred (Finding 2).

OOGM did not always notify the well's responsible party of violations noted during inspections. Also, OOGM did not conduct or document that it conducted follow-up inspections to ensure that the responsible party corrected the violations (Finding 3).

OOGM did not consistently document inspection and violation information within the Michigan Implementation of Risk Based Data Management System or maintain supporting documentation related to violations within the wells' hard-copy files (Finding 4).

OOGM had not pursued changes in legislation to update current well drilling laws related to surety bonds (Finding 5).

OOGM did not ensure that permittees updated contingency plans for wells that contained hydrogen sulfide (H<sub>2</sub>S) (Finding 6).

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**Audit Objective:**

To assess the effectiveness of OOGM's efforts to track production volumes that are used to calculate severance tax and privilege fee amounts collected from producing oil and gas wells.

**Audit Conclusion:**

We concluded that OOGM's efforts to track production volumes that are used to calculate severance tax and privilege fee amounts collected from producing oil and gas wells were moderately effective. We noted one reportable condition (Finding 7).

**Reportable Condition:**

OOGM and the Department of Treasury should coordinate their efforts to reconcile oil production totals and gas sold amounts (Finding 7).

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**Agency Response:**

Our audit report contains 7 findings and 9 corresponding recommendations. The Department of Environmental Quality's preliminary response indicates that it agrees with all of the recommendations. The Department of Treasury's preliminary response indicates that it agrees with Finding 7.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



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