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Office of the Auditor General

Report Summary

Performance Audit

Oil and Gas Management

Department of Natural Resources (DNR)

Report Number:
751-0700-14

Released:
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DNR offers State-owned oil and gas mineral rights through public lease auctions and direct leases. DNR receives bonus payments to acquire the lease rights, rental payments for the acreage leased, and royalty payments on the sale of oil and gas when production begins. At the end of fiscal year 2014, DNR had 11,906 oil and gas leases outstanding and had collected \$47.5 million in oil and gas revenue for the year, of which approximately 90% was attributable to royalties.

Audit Objective			Conclusion
Objective #1: To assess DNR's efforts to ensure the accuracy of State-owned oil and gas royalties and lease revenue.			Effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DNR needs to strengthen its oil and gas mineral rights revenue verification process to increase assurance that the State consistently receives proper rent and royalties from leases. Lease and royalty revenue verification policies and procedures were not comprehensive (<u>Finding #1</u>).		X	Agrees
Observations Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
The State does not have a coordinated effort in place to share oil and gas production, transport, and sales information received by DNR, the Department of Environmental Quality, the Michigan Public Service Commission, and the Department of Treasury to help ensure that the State receives the maximum benefit from its oil and gas interests (<u>Observation #1</u>).	Not applicable	Not applicable	Not applicable

A copy of the full report can be
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