

Office of the Auditor General

Performance Audit Report

Statewide Oil and Gas Management

Department of Environment, Great Lakes, and Energy

Department of Natural Resources

Department of Treasury

October 2026

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

The auditor general may make investigations pertinent to the conduct of audits.

Article IV, Section 53 of the Michigan Constitution



OAG

Office of the Auditor General

Report Summary

Performance Audit

Report Number:

000-0701-26

Statewide Oil and Gas Management

*Department of Environment, Great Lakes,
and Energy (EGLE)*

Released:

October 2026

Department of Natural Resources (DNR)

Department of Treasury (Treasury)

The Geologic Resource Management Division (GRMD), within EGLE, regulates the locating, drilling, operating, inspecting, and plugging of wells used for producing oil and gas. GRMD's mission is to foster the best use and understanding of Michigan's geologic resources for social and economic benefits while protecting associated resource values, property rights, the environment, and public health and safety. As of June 18, 2026, GRMD oversaw 13,547 oil and gas wells, of which, 11,771 are currently in production.

The State of Michigan collects severance taxes, privilege fees, and royalties from the production of oil and gas. Treasury collects severance taxes and privilege fees while DNR processes the royalties from oil and gas leases on State land. From October 2024 to June 2026, the State of Michigan received \$39.0 million in severance taxes, \$4.6 million in privilege fees, and \$22.3 million in royalties.

Audit Objective			Conclusion
Objective 1: To assess the <u>effectiveness</u> of EGLE's GRMD efforts to ensure compliance with select State laws governing oil and gas well production.			Moderately effective
Findings Related to This Audit Objective	<u>Material Condition</u>	<u>Reportable Condition</u>	Agency Preliminary Response
Inspections were not completed in the last three years for 3% (344) of all oil and gas producing wells. Without performing periodic on-site inspections, GRMD cannot identify potential violations such as contaminated soil, leaks, or potential fire hazards (<u>Finding 1</u>).		X	Agrees
GRMD did not notify well operators of violations identified during 5 (15%) of 33 sampled inspections and appropriately track the details of the violations in GRMD's application for 16 (48%) of the 33 inspections (<u>Finding 2</u>).		X	Agrees

Findings Related to This Audit Objective (Continued)	Material Condition	Reportable Condition	Agency Preliminary Response
Hydrogen sulfide (H ₂ S) (a colorless, toxic and flammable gas) well contingency plans were not updated or certified for 5 (56%) of 9 sampled H ₂ S wells. Updated contingency plans provide a clear framework for alerting and protecting the health and safety of personnel and the public in emergency situations involving an H ₂ S release (<u>Finding 3</u>).		X	Agrees

Audit Objective			Conclusion
Objective 2: To assess the sufficiency of DNR's, EGLE's, and Treasury's efforts to ensure the accuracy and completeness of oil and gas well production revenue.			Sufficient
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
A process was not in place for EGLE and Treasury to share and compare oil and gas production totals, increasing the risk of oil and gas operators reporting inaccurate severance tax and production to the State (<u>Finding 4</u>).		X	Agrees

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October 13, 2026

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Director Roos, Director Bowen, and State Treasurer Eubanks:

This is our performance audit report on Statewide Oil and Gas Management, Department of Environment, Great Lakes, and Energy; Department of Natural Resources; and Department of Treasury.

We organize our findings and observations by audit objective. Your agencies provided preliminary responses to the recommendations at the end of our fieldwork. The *Michigan Compiled Laws* require an audited agency to develop a plan to comply with the recommendations and submit it to the State Budget Office (SBO) upon audit completion. State administrative procedures require the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to the Office of Internal Audit Services (OIAS), SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

Doug Ringler
Auditor General

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AUDIT OBJECTIVES, CONCLUSIONS, FINDINGS, AND OBSERVATIONS

COMPLIANCE WITH SELECT STATE LAWS GOVERNING OIL AND GAS WELL PRODUCTION

BACKGROUND

Part 615 of Michigan's Natural Resources and Environmental Protection Act, Public Act 451 of 1994, as amended, empowers the supervisor of wells, under the Department of Environment, Great Lakes, and Energy's (EGLE) Geologic Resources Management Division (GRMD), to regulate oil and gas operations in the State of Michigan.

GRMD requires oil and gas well operators to:

- Submit an application for a permit prior to drilling.
- Provide the State with sufficient financial assurance to ensure compliance during production.
- Complete appropriate closure activities including plugging the well and restoring the drilling site.
- Maintain a hydrogen sulfide* (H₂S) contingency plan for class 1 and class 2 wells. H₂S is a colorless, toxic, and flammable gas.

Throughout the drilling, production, and closure processes, GRMD inspects oil and gas wells to ensure the maintained conditions protect public health and the environment. If a violation occurs, such as leaks, faulty equipment, contamination at the site, and/or there are signs of abandonment, GRMD notifies the operator and attempts to resolve the violation.

Also, GRMD oversees the Orphan Well* Program which plugs wells and performs associated surface remediation activities when wells are abandoned by operators.

AUDIT OBJECTIVE

To assess the effectiveness* of EGLE's GRMD efforts to ensure compliance with select State laws governing oil and gas production.

CONCLUSION

Moderately effective.

FACTORS IMPACTING CONCLUSION

- GRMD performed 18,627 on-site inspections of oil and gas wells from October 1, 2024 to June 18, 2026.
- All sampled well applications were appropriately completed.
- All sampled bond documentation existed and was accurate.

* See glossary at end of report for definition.

- The well closure process was appropriately completed for all sampled closed wells.
- All sampled serious accidents and incidents at oil and gas well sites were reported appropriately and in a timely manner by GRMD.
- All sampled Orphan Well Fund contracted service expenditures were complete, accurate, and approved by GRMD.
- Three reportable conditions* related to not completing oil and gas well inspections every three years (Finding 1), improvements needed for compliance and enforcement activity tracking (Finding 2) and updating H₂S well data and contingency plans (Finding 3).

* See glossary at end of report for definition.

FINDING 1

On-site inspections should be performed every three years.

GRMD should perform on-site inspections for all producing oil and gas wells in Michigan to ensure conditions are safe for public health and the environment.

GRMD policy 204.05 states staff will conduct inspections on wells not previously inspected within the past three years.

As of June 18, 2026, our review noted 344 (3%) of the 11,771 producing wells did not have an on-site inspection within the last three years. Without performing periodic on-site inspections GRMD cannot identify potential violations such as contaminated soil, leaks, or potential fire hazards.

GRMD informed us these wells were not inspected because of staffing reductions, turnover, retention, training, and because high risk inspections, such as responses to spills, complaints, new wells, plugging operations, and noncompliance, take precedence over general inspections.

RECOMMENDATION

We recommend GRMD perform on-site inspections for all producing oil and gas wells in Michigan.

AGENCY PRELIMINARY RESPONSE

EGLE provided us with the following response:

EGLE agrees with the OAG's recommendation to inspect wells every three years, consistent with the GRMD's internal policy requirement. The GRMD will ensure that the Area Geologist uses provided tools to easily identify wells that have not been inspected for a period of time and to prioritize their inspection before other wells to ensure regular inspection of all wells.

FINDING 2

Follow up and tracking of violations noted during inspections needs improvement.

GRMD should improve its tracking of oil and gas well compliance and enforcement activities to ensure operators are notified of non-compliance and escalated enforcement activities occur in a timely manner.

GRMD policy 601.02 requires staff to notify the operator of any violations observed during inspections and follow up to determine if the violation remains unresolved. The violation type, date of notification, and resolution status must be tracked in GRMD's system to ensure identified violations are responded to in a consistent and effective manner.

We randomly sampled 33 of 1,028 noncompliant inspections, conducted between October 1, 2024 and June 18, 2026, with displayed blank data fields for violation type, date of notification, and/or date of resolution, and noted GRMD did not:

- a. Notify operators of all noncompliance for 5 (15%) of the 33 inspections. Without notifications operators may not resolve violations in a timely manner, which could cause harm to the public or the environment.
- b. Appropriately track the violation type, date of notification, or date of resolution in GRMD's application for 16 (48%) of the 33 inspections. Specifically:
 - The type of violation and/or notification to the operator was not documented in nine noncompliant inspections.
 - Resolution dates were not documented for seven resolved noncompliant inspections.

Not tracking this information may impair GRMD's ability to determine if appropriate enforcement activities occurred, identify patterns of noncompliance, effectively escalate enforcement actions, and consistently respond to violations.

GRMD informed us the deficiencies noted above are the result of staff oversight, needed improvements in system entry efficiency*, and competing priorities.

RECOMMENDATION

We recommend GRMD improve its tracking of oil and gas well compliance and enforcement activities.

* See glossary at end of report for definition.

**AGENCY
PRELIMINARY
RESPONSE**

EGLÉ provided us with the following response:

EGLÉ agrees with the OAG's recommendation. EGLÉ will address this finding by prioritization with staff, review of policies related to tracking, and improvements in system entry.

FINDING 3

Updated or certified class 1 and 2 H₂S well contingency plans needed.

GRMD should ensure contingency plans for producing class 1 and 2 H₂S wells are updated every three years or obtain certification from the well operators that contingency plans are current. Updated contingency plans provide a plan of action for alerting and protecting the health and safety of the personnel at the well site and the public in emergency situations involving an H₂S release.

Michigan Administrative Code R 324.1105 and GRMD policy 204.05 require H₂S contingency plans for class 1 and 2 wells to be updated or certified every three years. Michigan Administrative Code R 324.1105 classifies H₂S wells based upon the radius of exposure potential according to the H₂S concentration of the well and the volume available to be released. There are four levels of classification assigned to H₂S wells, class 1 through class 4, with class 1 having the highest radius of potential exposure.

We reviewed 9 of 82 contingency plans for producing high risk (class 1 and class 2) H₂S wells as of June 18, 2026 and noted:

- a. Contingency plans for 5 (56%) of the 9 wells were not updated or certified in the last three years.
- b. Inappropriate classification for 4 (44%) of the 9 wells. In these instances, GRMD indicated the wells were not high risk based on updated data documented outside of their system. Inaccurate well classifications could impair management's ability to efficiently allocate resources to high-risk wells.

GRMD informed us unless anything pursuant to *Michigan Administrative Code R 324.1110(7)* required an updated contingency plan, it did not always track the required certifications of the contingency plans.

RECOMMENDATION

We recommend EGLE ensure contingency plans for producing H₂S wells are updated every three years or obtain certification from the well operators that contingency plans are up to date.

AGENCY PRELIMINARY RESPONSE

ELGE provided us with the following response:

EGLE agrees with the OAG's recommendation. EGLE will ensure that contingency plans are updated or certified that they are up to date by reviewing internal policies and data tracking, and will identify a point person for the GRMD or within each district to ensure consistent filing of required contingency plans.

ACCURACY AND COMPLETENESS OF OIL AND GAS WELL PRODUCTION REVENUE

BACKGROUND

Producers of oil and gas wells in Michigan are required to pay severance taxes, privilege fees, and royalties. The amount paid to the State is based on the value of the oil and gas produced.

The Department of Treasury (Treasury) administers the severance taxes and privilege fees by processing monthly tax forms and payments, which are owed on any gas or oil produced in the State.

The Department of Natural Resources (DNR) administers royalty revenue by processing monthly remittances submitted by each producer on State land.

EGLE requires all producers to submit monthly production totals into a system application to ensure compliance with State laws.

AUDIT OBJECTIVE

To assess the sufficiency of DNR's, EGLE's, and Treasury's efforts to ensure the accuracy and completeness of oil and gas well production revenue.

CONCLUSION

Sufficient.

FACTORS IMPACTING CONCLUSION

- Royalties paid to the State were sufficiently accurate and complete based on production reported to DNR and EGLE for a sample of 33 remittances.
- Severance taxes and privilege fees paid to the State were sufficiently accurate and complete based on production reported to EGLE and Treasury for a sample of 33 severance tax forms.
- One reportable condition related to establishing a process to share data between EGLE and Treasury to ensure oil and gas production is accurately reported (Finding 4).

FINDING 4

Data sharing is needed to ensure oil and gas production is accurately reported.

EGLE and Treasury should establish a process to share and compare production totals to improve the accuracy of production reporting. Comparisons could potentially help the State identify instances when oil and gas operators report inaccurate severance tax and production to the State.

Section 205.303 of the *Michigan Compiled Laws (MCL)* requires oil and gas producers to pay a severance tax to Treasury based on gross cash market value of the total production of oil and gas. Also, *MCL* Section 324.61506(b) designates EGLE to maintain the records and check the accuracy of the records and reports filed by operators. In addition, *Michigan Administrative Code* R 324.610 requires operators to report the amount of oil or gas produced monthly to EGLE.

We compared production totals reported to EGLE and Treasury and noted:

- a. One operator did not submit severance tax forms to Treasury for two months but reported production of 5,524 barrels of oil to EGLE for the same two months. We estimated unpaid severance taxes and fees to be \$14,160.
- b. Inconsistent gas production totals were reported to both departments. Specifically:
 - 1) Differences totaling 2.7 million barrels reported for natural gas liquids.
 - 2) Total gas produced on 23 (85%) of 27 sampled Treasury severance tax forms did not match what was reported to EGLE for the same operator and time period.

Production Totals for 23 Sampled Items

<u>Reported To</u>	<u>Gas (Metric Cubic Feet)</u>	<u>Natural Gas Liquids (Barrels)</u>
Treasury	2,961,275	195,163
EGLE	3,099,643	36,089
Difference	(138,368)	159,074

Both departments require natural gas liquids to be reported in barrels; however, we noted some of the discrepancies were due to operators reporting in gallons.

RECOMMENDATION

We recommend EGLE and Treasury establish a process to share and compare production totals to improve the accuracy of production reporting.

**AGENCY
PRELIMINARY
RESPONSE**

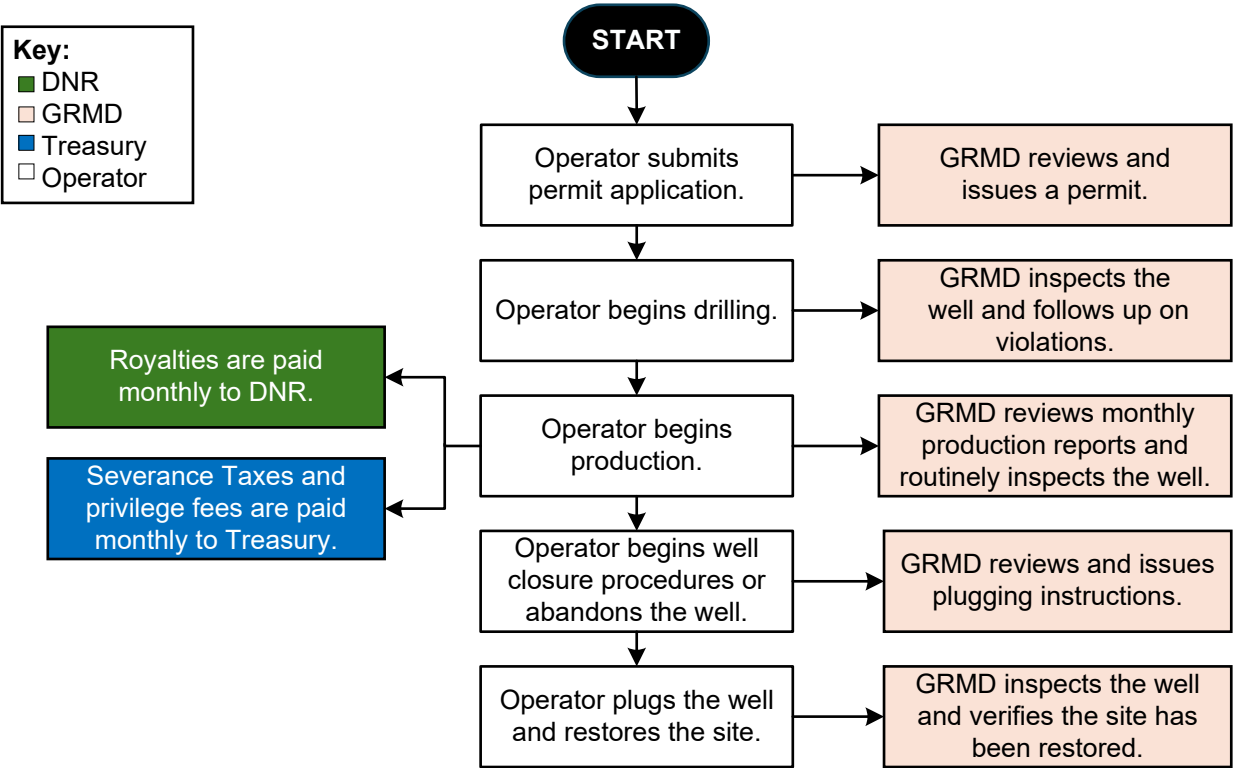
EGLE and Treasury provided us with the following response:

*EGLE and Treasury agree with the OAG's recommendation.
EGLE and Treasury will work collaboratively to explore methods
to share data to improve the accuracy of production reporting.*

SUPPLEMENTAL INFORMATION

UNAUDITED

STATEWIDE OIL AND GAS MANAGEMENT
Departments of Environment, Great Lakes, and Energy; Natural Resources; and Treasury
Statewide Oil and Gas Management Overview Flowchart



Source: OAG created this flow chart to visualize the process as explained by EGLE, DNR, and Treasury.

DESCRIPTION

GRMD, within EGLE, regulates the locating, drilling, operating, inspecting, and plugging of wells used for oil and gas production. GRMD's mission is to foster the best use and understanding of Michigan's geologic resources for social and economic benefits while protecting associated resource values, property rights, environment, and public health and safety. As of June 18, 2026, GRMD oversaw 13,547 oil and gas wells, of which 11,771 were in production.

The State of Michigan collects severance taxes, privilege fees, and royalties from the production of oil and gas. Treasury collects severance taxes and privilege fees while DNR processes the royalties from oil and gas leases on State land. From October 2024 to June 2026, the State of Michigan received \$39.0 million in severance taxes, \$4.6 million in privilege fees, and \$22.3 million in royalties.

See the supplemental information for an overview of the processes related to oil and gas well production in the State.

AUDIT SCOPE, METHODOLOGY, AND OTHER INFORMATION

AUDIT SCOPE

To examine the records and processes related to regulating oil and gas well production in the State. We conducted this performance audit* in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As part of the audit, we considered the five components of internal control* (control environment, risk assessment, control activities, information and communication, and monitoring activities) relative to the audit objectives and determined all components were significant.

PERIOD

Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered October 1, 2024 through June 30, 2026.

SUPPLEMENTAL INFORMATION

Our audit report includes supplemental information presented on page 17. Our audit was not directed toward expressing a conclusion on this information.

METHODOLOGY

We conducted a preliminary survey of the State's oil and gas management. During our preliminary survey, we:

- Interviewed DNR, EGLE, and Treasury management and staff to obtain an understanding of their processes and responsibilities.
- Reviewed applicable State laws, administrative rules, and procedures related to oil and gas management.
- Reviewed the financial coding and data from the Statewide Integrated Governmental Management Applications* (SIGMA) as of April 30, 2026 related to oil and gas revenue.
- Reviewed the program statistics and data from GRMD's publicly available data as of May 4, 2026 related to oil and gas wells.
- Reviewed meeting minutes of the oil and gas advisory board.

* See glossary at end of report for definition.

- Performed limited testing of oil and gas regulatory documentation. Specifically:
 - Severance tax, privilege fee, and royalty revenue and production reports.
 - Orphan Well Fund annual reports, financial data, and forms.
 - Well inspection and violation reports.
 - Bond documentation.
 - Applications and well plugging process.

OBJECTIVE 1

To assess the effectiveness of EGLE's GRMD efforts to ensure compliance with select State laws governing oil and gas well production.

To accomplish this objective, we:

- Randomly and judgmentally sampled 9 of 32 well permits issued between October 1, 2024 and June 18, 2026, to ensure the completeness of the applications.
- Randomly and judgmentally sampled 38 of 5,000 active wells, as of June 18, 2026, to ensure the accuracy and existence of their bonds.
- Judgmentally selected 4 bonds covering 8,547 active wells, as of June 18, 2026, to ensure their accuracy and existence.
- Randomly sampled 33 of 327 wells closed between October 1, 2024 and June 30, 2026 to ensure the closure process was completed appropriately.
- Performed an analytical review of 11,771 producing oil and gas wells, as of June 18, 2026, to assess compliance with GRMD policy requiring the inspection of oil and gas wells at least once every three years.
- Observed GRMD geologists on July 16, 2026 and July 23, 2026 perform inspections of 41 wells and 2 facilities to obtain an understanding of the inspection process.
- Performed an analytical review of 1,466 noncompliant inspection records from October 1, 2024 to June 18, 2026 to determine if GRMD appropriately tracked violations.
- Randomly sampled 33 of 1,028 noncompliant inspections, conducted between October 1, 2024 and June 18, 2026, with displayed blank data fields: violation type, date of

notification, and/or date of resolution to determine if GRMD appropriately tracked violations.

- Randomly sampled 3 of 11 serious accidents and incidents, between October 1, 2024 and June 18, 2026, at oil and gas well sites to determine if GRMD appropriately responded to these events.
- Randomly sampled 9 of 82 class 1 and 2 H₂S wells, as of June 18, 2026, to determine if H₂S data and contingency plans were up to date.
- Reviewed Orphan Well Fund annual reports for 2024 and 2025 to determine if the reports were accurate and complete.
- Analytically reviewed 208 orphan wells as of June 17, 2026 to determine if inspections were completed.
- Randomly sampled 5 of 44 Orphan Well Fund contracted service expenditures, between October 1, 2024 and June 22, 2026, to determine if they were complete, accurate, and approved.
- Reviewed the applicability of the Government Accountability Standards Board* (GASB) Statement 83 Asset Retirement Obligations* and GASB Statement 49 Pollution Remediation Obligations* to GRMD's Orphan Well Fund.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective populations. We selected other samples judgmentally to ensure representativeness or based on risk and could not project those results to the respective populations.

OBJECTIVE 2

To assess the sufficiency of DNR's, EGLE's, and Treasury's efforts to ensure the accuracy and completeness of oil and gas well production revenue.

To accomplish this objective, we:

- Randomly selected 33 of 783 oil and gas tax forms filed with the Treasury from October 2024 to December 2025 to determine if the revenue was accurate.
- Randomly selected 33 of 612 remittances submitted to DNR, between October 1, 2024 and June 18, 2026, to determine if production totals were under reported to DNR when compared to production reported to EGLE.

* See glossary at end of report for definition.

- Reconciled oil and gas production totals on Treasury tax forms filed from October 2024 to December 2025 to production totals for the same periods reported to EGLE. This ensured:
 - Total amounts produced were reported consistently to both departments.
 - Producing operators filed severance tax forms.
- Analytically reconciled severance tax revenue in Treasury's database to SIGMA for October 2024 through December 2025.
- Analytically reconciled royalty revenue in DNR's Land Ownership and Tracking System to SIGMA, for transactions between October 1, 2024 and June 30, 2026.

Our random samples were selected to eliminate any bias and enable us to project the results to the respective populations.

CONCLUSIONS

We base our conclusions on our audit efforts and any resulting material conditions* or reportable conditions.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve State government operations. Consequently, we prepare our performance audit reports on an exception basis.

AGENCY RESPONSES

Our audit report contains 4 findings and 4 corresponding recommendations. EGLE's preliminary response indicates it agrees with all of the recommendations. Treasury's preliminary response indicates it agrees with one of the recommendations.

The agency preliminary response following each recommendation in our report was taken from the agencies' written comments and oral discussion at the end of our fieldwork. Section 18.1462 of the *Michigan Compiled Laws* requires an audited agency to develop a plan to comply with the recommendations and submit it to SBO upon audit completion. The State of Michigan Financial Management Guide (Part VII, Chapter 3, Section 100) requires the audited agency to develop the plan as early as practicable and within 60 days after report issuance and submit the plan to OIAS, SBO. Within 30 days of receipt, OIAS will either accept the plan as final or contact the agency to take additional steps to finalize the plan.

* See glossary at end of report for definition.

GLOSSARY OF ABBREVIATIONS AND TERMS

DNR	Department of Natural Resources.
effectiveness	Success in achieving mission and goals.
efficiency	Achieving the most outputs and the most outcomes practical with the minimum amount of resources.
EGLE	Department Environment, Great Lakes, and Energy.
GASB Statement 49 Pollution Remediation Obligations	Addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups.
GASB Statement 83 Asset Retirement Obligations	Addresses accounting and financial reporting for certain asset retirement obligations. Asset retirement obligations are a legally enforceable liability associated with the retirement of a tangible capital asset. A government with legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.
Governmental Accountability Standards Board (GASB)	An arm of the Financial Accounting Foundation established to promulgate standards of financial accounting and reporting with respect to activities and transactions of state and local governmental entities.
GRMD	Geologic Resources Management Division.
hydrogen sulfide (H₂S)	A colorless, poisonous, and flammable gas that can emanate from a well.
internal control	The plan, policies, methods, and procedures adopted by management to meet its mission, strategic plan, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes the systems for measuring, reporting, and monitoring program performance. Internal control serves as a defense in safeguarding assets and in preventing and detecting errors; fraud; violations of laws, regulations, and provisions of contracts and grant agreements; or abuse.

material condition	A matter, in the auditor's judgment, which is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program. Our assessment of materiality is in relation to the respective audit objective.
MCL	<i>Michigan Compiled Laws.</i>
orphan well	Abandoned or improperly plugged wells for which there is no known financially sound owner or operator.
performance audit	An audit which provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision-making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.
reportable condition	A matter, in the auditor's judgment, less severe than a material condition and falls within any of the following categories: a deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, or grant agreements; opportunities to improve programs and operations; or fraud.
Statewide Integrated Governmental Management Applications (SIGMA)	The State's enterprise resource planning business process and software implementation suite supporting budgeting, accounting, purchasing, human resource management, and other financial management activities.
Treasury	Department of Treasury.

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