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Report Highlights

Department of Revenue

Severance Tax Payments

Audit Control # 40120021
Performance Audit Services • November 2013

Why We Conducted This Audit

We conducted this audit to determine whether the Louisiana Department of Revenue (LDR) ensured that the state received complete, accurate, and timely oil and gas severance tax payments during fiscal years 2009 through 2012.

What We Found

In fiscal year 2013, Louisiana received severance tax payments of $731 million for oil and $90 million for natural gas. While LDR ensured the state received severance tax payments on time during fiscal years 2009 through 2012, it needs to improve its current processes to ensure that these payments are complete and accurate.

We found the following:

- Severances taxes owed but not paid to the state may have gone undetected by LDR over the past three years. In September 2010, LDR turned off its automated program within GenTax that checks for companies that did not file required severance tax returns. According to LDR officials, the program was sending out erroneous tax assessments and the department was receiving complaints.

- LDR does not adequately verify the accuracy of the self-reported data companies use to determine the amount of severance taxes they owe to Louisiana. According to LDR, it relies on computer system "edit checks," which we found to be limited, to discover inaccuracies in severance tax data.

- LDR does not adequately track the severance tax audit coverage it achieves through desk audits. According to LDR officials, they rely on desk audits to identify inaccurate severance tax payments that the department's automated systems do not catch. As stated above, the department turned off the non-filer program in GenTax in September 2010.

- The amount of unpaid severance taxes identified through field audits decreased by 99.8% from approximately $26 million in fiscal year 2010 to $40,729 in fiscal year 2012. This decrease was caused by several issues (differences in the criteria used to select companies to audit, differences in audit scope/coverage, and resource shortages) that occurred when the audit function was transferred from LDR to the Department of Natural Resources (DNR) in fiscal year 2011. In July 2013, the function moved back to LDR.

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What We Found (Cont.)

In addition, part of LDR's responsibility in ensuring that payments are accurate involves ensuring that refund requests, which are primarily a result of severance tax exemptions, are accurate. We found:

- As required by state law, LDR paid companies approximately $23.9 million in interest related to severance tax payment refunds from fiscal year 2009 through fiscal year 2012. This is primarily due to current program rules which require companies to pay severance taxes to LDR until they submit their exemption application to the Office of Conservation within DNR. The longer companies take to submit their exemption applications, the more interest they earn. This creates an incentive for companies to delay submission of their exemption applications.

- LDR's review of severance tax refund requests is inadequate. Currently, LDR only reviews refund requests of $250,000 and above. As a result, from July 2010 through May 2012, LDR auditors identified that the department overpaid at least $12.9 million in refund payments to companies. As of January 2013, agency staff had recouped approximately $3.3 million (25%) of this amount.

Severance Oil and Gas Refunds and Interest, Fiscal Years 2009-2012

Fiscal Year	Number of Refunds	Refund Before Interest*	Interest	Total Refund Amount
2009	1,396	$16,883,031	$2,240,960	$19,123,991
2010	4,991	67,645,706	7,185,150	74,830,856
2011	3,898	99,472,690	6,359,215	105,831,905
2012	3,533	176,189,156	8,073,687	184,262,843
Total	**13,818**	**$360,190,583**	**$23,859,012**	**$384,049,595**

* In January 2010, LDR stopped giving companies the choice of either receiving a refund or a credit to their account to offset future taxes owed because of issues with the process, including the time involved for LDR staff. Instead, LDR began only refunding overpayments.

Source: Prepared by legislative auditor's staff using information obtained from LDR.