



Report Highlights

Mineral Royalty Payments

Department of Natural Resources

DARYL G. PURPERA,
CPA, CFE

Audit Control # 40120018
Performance Audit Services • September 2013

Why We Conducted This Audit

We determined whether the Office of Mineral Resources (OMR), within the Department of Natural Resources, ensured that the state received complete, accurate, and timely mineral royalty payments during fiscal years 2008 through 2012.

What We Found

Mineral royalty payments are made to the state when companies extract minerals, primarily crude oil and natural gas, from state-owned land or water bottoms. In fiscal year 2013, Louisiana received approximately \$537 million in mineral royalties. However, we determined that OMR did not always ensure the state received complete, accurate, and timely mineral royalty payments during fiscal years 2008 through 2012. Specifically, we found that:

- During fiscal years 2008 through 2012, the percentage of total royalties that OMR audited in the field steadily decreased from approximately 23% to 12.75%, for an average of 18% over the five-year period.** OMR conducts field audits to ensure the accuracy and completeness of royalty payments. One of OMR's performance objectives is to increase the percentage of royalties on which it conducts field audits by 1% each year until it reaches 25%. (See *Exhibit A at right.*)
- Overall, the amount of potentially underpaid royalties identified by OMR through field audits decreased from \$8.3 million in fiscal year 2008 to \$3.5 million in fiscal year 2012.**
- Overall, the amount of underpaid royalties collected by OMR increased from \$2.8 million in fiscal year 2008 to \$4.1 million in fiscal year 2012.** However, the amount of underpaid royalties collected during a given year includes underpaid royalties identified in prior years. As a result, the amount collected in the future may decrease because of OMR's decreased audit coverage and identification of fewer underpaid royalties. (See *Exhibit B at right.*)
- From fiscal years 2008 through 2012, OMR did not penalize all companies that made late mineral royalty payments. In addition, OMR and the State Mineral and Energy Board waived \$5.8 million (45%) of the \$12.8 million in penalties that were assessed to companies.** This practice may not deter companies from paying royalties late, failing to pay, underpaying, or submitting inaccurate royalty reports.
- OMR did not collect at least \$1.7 million in royalty payments from companies that incorrectly deducted severance taxes from their mineral royalty payments.** We found 10 companies that underpaid royalties by at least \$1.4 million because they paid severance taxes to the Louisiana Department of Revenue and later received severance tax refunds, but did not amend their mineral royalty payments accordingly. In addition, OMR did not collect at least \$323,450 in royalty payments from companies that deducted more in severance taxes than they should have when calculating their royalty payments.

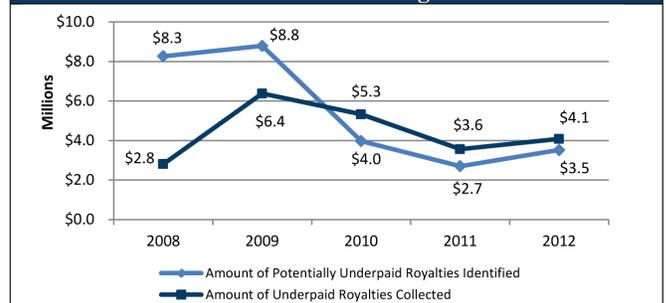
Exhibit A: Percentage of Royalties Paid that were Field Audited Fiscal Year 2008 through Fiscal Year 2012

Fiscal Year	Total Royalties Received in Audited Year* (Two-Year Lag)	Total Amount Field Audited	% Field Audited	Performance Objective
2008	\$445,171,703	\$102,193,175	22.96%	To increase the percentage of royalties audited to royalties paid by 1% each year until it reaches 25%.
2009	519,377,804	96,652,761	18.61%	
2010	687,659,342	127,405,030	18.53%	
2011	689,689,990	123,408,889	17.89%	
2012	421,160,164	53,718,149	12.75%	
Total	\$2,763,059,003	\$503,378,004	18.22%	

* OMR conducts field audits two years after royalty payments are received. As a result, the audits conducted in fiscal year 2008 are for royalties received in fiscal year 2006.

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

Exhibit B: Potentially Underpaid Royalties Identified and Underpaid Royalties Collected Through Field Audits Fiscal Years 2008 through 2012



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