



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

REPORT ON THE AUDIT OF ROYALTY REPORTING

SEPTEMBER 2021

OVERALL CONCLUSION

The Minerals Review section of the Energy Resources program area has established written policies and procedures to perform compliance activities for late reporting, late royalty payments, and oil and gas volume and pricing errors. Each activity reviewed generally provided reasonable assurance of compliance with state regulations and agency policies. There were no significant issues identified as a result of the audit.

There were additional areas of consideration identified as opportunities to strengthen the internal controls associated with royalty reporting processes but, they did not meet the criteria for inclusion in this report. These areas were presented to management in a separate communication.

ACKNOWLEDGMENTS

Energy Resources-Minerals Review, Financial Management-Accounts Receivable, and the Enterprise Technology Solutions (ETS) division are to be commended for their efforts in the administration, processing, compliance, and reporting efforts of the royalty revenue receivables. Specifically, the Minerals Review group is to be commended for their exceptional accuracy and diligence in the performance of their complex compliance activities.

We appreciate the assistance and cooperation provided to us by the management and staff of these areas during this audit.

For questions about this report, please contact Tracey Hall at (512) 463-6078.

Tracey Hall, CPA, CISA
Director of Internal Audit

September 28, 2021
Date

BACKGROUND INFORMATION

The Texas General Land Office (GLO) manages oil and gas leases on state-owned land, in which revenue generated from these leases is allocated for the benefit of the Permanent School Fund (PSF). It is the responsibility of the GLO to ensure the lessee/operator, or agent, complies with the lease agreements and reports royalty revenues accurately and timely. The Minerals Review section of the Energy Resources program area performs compliance activities which result in various assessments billed to lessees for late reporting, late royalty payments, and oil and gas volume and pricing errors.

These assessments, also referred to as “detections,” are reported to the Legislative Budget Board (LBB) quarterly by the GLO. Through the work performed by the Minerals Review section, the GLO reported detections (customer assessments) to the Legislative Budget Board in FY2019 and FY2020 \$34,265,914.00 and \$18,223,987.00, respectively.

The Texas Natural Resources Code, under Sections 52.131 and 52.135 dedicated to Oil and Gas Royalty payments, authorizes the GLO to conduct royalty audits, reviews, and reconciliations relating to the payment of royalties, in-kind volume deliveries, and other consideration due to the state. It also empowers the GLO, if it determines that additional royalties are due, to send an audit billing notice notifying the lessee of additional royalties, and interest and penalty, due and of the reasons for the determination.

The Minerals Review section is tasked with overseeing the late royalty reporting, royalty payment billing analyses, and lease reconciliations processes.

APPENDICES

APPENDIX A

OBJECTIVE

The objectives of the audit were:

1. To determine if the controls over royalty receivables are efficient and effective.
2. To determine whether the controls over the automated processes for royalties are sufficient and are effectively working as intended.

SCOPE & METHODOLOGY

The scope of the audit consisted of reviewing and evaluating information and documents from September 1, 2018 through February 28, 2021 associated with the three major activities conducted by the Minerals Review group (Late Report, Late Royalty Payment, and Lease Reconciliation Billing analyses) and the associated activities performed by Financial Management - Accounts Receivable to receive, review, approve and post the assessment invoices into MIP.

The methodology consisted of observing processes, diagramming the process flows of the Minerals Review processes, interviewing knowledgeable staff, collecting information, performing tests, and analyzing and evaluating the information. We reviewed our draft report with the appropriate management of the various program areas and solicited comments before issuing the final report.

The audit was conducted in accordance with *Government Auditing Standards* and *International Standards for the Professional Practice of Internal Auditing*. 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.

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