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DIANNE E. RAY, CPA

STATE AUDITOR

FOR IMMEDIATE RELEASE

Contact: Stelios Pavlou (303) 869-2833
stelios.pavlou@state.co.us

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DELINQUENT REPORTING ON OIL, GAS, AND MINING ACTIVITIES UNDERMINES STATE'S SEVERANCE TAX SYSTEM, AND COULD RESULT IN MILLIONS OF DOLLARS IN PENALTIES FOR OPERATORS

DENVER—the Office of the State Auditor (OSA) has released its performance audit of Colorado's severance taxes and has found a system where many operators are failing to submit, or are submitting incomplete, production reports; where production data is incomplete or under reported; and where the Colorado Oil and Gas Conservation Commission (COGCC) within the Department of Natural Resources (DNR), which can levy fines of $200 per day, per well for missing or incomplete reports, is failing to take action to hold operators accountable. Had it done so, for the 316 operators that auditors found to potentially be in violation for over 51,000 missing or incomplete reports, COGCC could have levied penalties totaling $308 million for just 30 days of delinquency, and much more if violations exceeded 30 days.

These reporting issues have a significant impact on the State's ability to know if the amount of severance taxes that it collects is accurate. The Department of Revenue (DOR), which is responsible for assessing, collecting, and auditing severance taxes, was unaware that reporting data was missing, and therefore, did not have complete production data to determine if taxpayers were paying the correct amount of severance taxes. One operator that DOR audited in

OFFICE OF THE STATE AUDITOR
1525 SHERMAN STREET
7TH FLOOR
DENVER, 80203
COLORADO

303.869.2800

2016, was responsible for 1,123 of the missing reports identified by OSA auditors. Based on its average monthly production amounts, OSA auditors estimated that this operator under reported production amounts to COGCC by 850,000 barrels of oil and 4 million MCF of natural gas in 2016 alone. As a result, this operator may have potentially owed an additional $2.7 million in severance taxes.

Severance taxes are intended to recapture a portion of the wealth that is lost when nonrenewable natural resources such as oil, gas, coal, metallic minerals, molybdenum, and oil shale, are removed from the earth and sold for private profit. The State collected $102.7 million in severance taxes for Fiscal Year 2018. Of this amount, 94 percent ($96.1 million) is attributable to oil and gas.

Auditors also found that COGCC did not verify that operators had conducted the proper maintenance and calibrations of measurement equipment to ensure the accuracy of oil and gas production reporting, and that DNR has not required mine operators to submit required production reports, nor has it produced a statutorily required annual report on the mining industry since 1981.

The audit makes 5 recommendations and discusses Colorado's severance tax system to help legislators assess potential policy changes.

The full report is available @ www.colorado.gov/auditor.

Under the direction of the state auditor, the OSA is the state's nonpartisan, independent external auditor with broad authority to audit state agencies, departments, institutions of higher education, and the Judicial and Legislative Branches. The OSA's professional staff serve the people of Colorado by addressing relevant public issues through high-quality, objective audits and reviews that promote accountability and positive change in government. Performance audits address whether programs operate in compliance with laws and regulations and in a manner that accomplishes intended program goals. Financial audits include annual audits of the state's basic financial statements and federal grants on a statewide level. IT audits review procedures and technology to ensure the confidentiality, integrity and availability of the state's critical computer systems and taxpayer data. The OSA also tracks about 4,000 Colorado local governments for compliance with the Local Government Audit Law.