



STATE OF OKLAHOMA
OFFICE OF THE STATE AUDITOR & INSPECTOR

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**COMMISSION ON marginally
PRODUCING OIL AND GAS
WELLS**

REPORT ON AGREED-UPON PROCEDURES



JEFF A. McMAHAN, CFE
OKLAHOMA STATE AUDITOR & INSPECTOR

Commission on Marginally Producing Oil and Gas Wells

Agreed-upon Procedures Report

**For the Period
July 1, 2004 - December 31, 2005**



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

May 10, 2006

TO THE COMMISSION ON MARGINALLY PRODUCING OIL AND GAS WELLS

Transmitted herewith is the agreed-upon procedures report for the Commission on Marginally Producing Oil and Gas Wells. The procedures we performed were conducted pursuant to 74 O.S., §212.

The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector

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Mission Statement

The mission of the Marginal Well Commission is to define, identify, and evaluate the economic and operational factors of marginally producing oil and natural gas wells, and to ensure that appropriate efforts are made to extend the life of these wells for the betterment of the state of Oklahoma.

Board Members

David Paul Spencer..... Chairman
Charles B. Davis Vice-Chairman
David Moore..... Secretary
Thomas F. Dunlap Member
Bill Gifford Member
John Godwin..... Member
J. Tom Hull Member
Michael Krenger Member
Robin Stead..... Member
David Guest Chairman, Advisory Council

Key Staff

Liz Fajen Executive Director
Sam Farris Assistant Director
Toni Kitchell Director of Operations
Regina Finney Administrative Assistant
Brian Lindley Deputy Administrator



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by management of the Commission on Marginally Producing Oil and Gas Wells (the Commission), solely to assist you in evaluating your internal controls over the receipt and disbursement process, and in determining whether selected receipts and disbursements are supported by underlying records for the period from July 1, 2004 to December 31, 2005. This agreed-upon procedures engagement was conducted in accordance with standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified parties in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

1. We compared the Commission's internal controls over receipts and disbursements with the following criteria:
 - Accounting duties were segregated by functions into those who initiate or authorize transactions; those who execute transactions; and those who have responsibility for the asset, liability, expenditure, or revenue resulting from the transaction;
 - Receipts were issued for cash and/or checks received;
 - Incoming checks were restrictively endorsed upon receipt;
 - Receipts not deposited daily were safeguarded;
 - Voided receipts were retained;
 - Receipts and disbursements were reconciled to Office of State Treasurer and Office of State Finance records;
 - Disbursements were supported by an original invoice;
 - Timesheets were prepared by employees and approved by supervisory personnel;

There were no findings as a result of applying the procedures.

2. We randomly selected 20 deposits and:
 - Compared the Treasurer's deposit date to agency deposit slip date to determine if dates were within one working day.
 - Examined receipts to determine if they were pre-numbered and issued in numerical order.
 - Agreed cash/check composition of deposits to the receipts issued.
 - Agreed the total receipts issued to the deposit slip.
 - Inspected agency receipts to determine whether the deposit was made in accordance with the attributes described in 62 O.S., § 7.1c.
 - Compared the fund type to which the deposit was posted in CORE to the CAFR fund type listing for consistency;
 - Compared the nature of the deposit to the account code description to determine consistency.

62 O.S. § 7.1c states, "All such monies collected pursuant to this section shall be deposited as follows in the agency clearing account or agency special account established therefore[. . .]Receipts of One Hundred Dollars (\$100.00) or more shall be deposited on the same banking day as received." During our

examination of the Commissions deposits, we noted that each of the 20 deposits examined included cash or checks amounting to at least \$100 that were not deposited on the same banking day as received. The Commission makes a weekly deposit regardless of the amount of monies collected. As a result of the Commission's policy to make a weekly deposit, the Commission is not depositing funds within the required time of one business day. We recommend the Commission implement policies/procedures requiring all funds be deposited within one business day of being received.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 10, 2006

Corrective Action Planned: The Commission has instituted a procedure where all checks and cash received will be deposited within one business day of receipt.

A component objective of an adequate internal control system is to provide for accountability of funds. To ensure proper accountability of funds, pre-numbered receipts for monies received should be issued and the receipt book should be regularly reviewed for unexplained gaps in the sequence of receipts. This reduces the opportunity for any person to both perpetrate and conceal errors and irregularities in the normal course of their duties. During our examination of the Commission's deposits, we noted that the Commission did not use pre-numbered receipts for cash collected and that for one (1) deposit, the Commission deposited \$510 cash but only had \$240 in receipts to support the cash that was deposited. Without issuing pre-numbered receipts, the Commission has no means of ensuring that all cash collected is being deposited. We recommend the Commission implement policies and procedures requiring pre-numbered receipts be issued for all cash collected and to perform a periodic review of the receipt book to ensure there are no gaps in the sequence of issued receipts.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 10, 2006

Corrective Action Planned: The incident cited was at the 2004 Trade Expo. Following the expo, staff noted that receipts had not properly been issued. Procedures were written to ensure that receipts were properly issued at subsequent events.

All staff members, Commissioners and Advisory Council members who receive cash on behalf of the Commission on Marginally Producing Oil and Gas Wells will issue numbered receipts from the Commission pre-numbered receipt book upon receipt of said cash.

With respect to the other procedures applied, there were no findings.

3. We randomly selected 60 vouchers and:
 - Compared the voucher amount and payee to the invoice amount and payee;
 - Compared the voucher amount and payee to the CORE system;
 - Compared the fund type to which the disbursement was charged in CORE to the CAFR fund type listing for consistency;
 - Compared the nature of the purchase to the account code description to determine consistency.

A component objective of an adequate internal control system is to provide accurate and reliable information. To ensure accurate and reliable information, voucher payments should be reviewed prior to payment to ensure proper classification of funds. During our examination of the Commission's vouchers, we noted three of 60 disbursement transactions we examined were for PikePass charges. The Commission classified payment of PikePass charges to expenditure code 532140. The Oklahoma Office of State Finance describes Object Code 532140 as being "Payment for rent of equipment and machinery used for and in the operation of a state agency." The more appropriate expenditure code for this expense is expenditure code 522110, Purchase of Transportation Costs – Agency Direct. This expenditure code explicitly includes "PikePass toll collection fees for the Oklahoma Turnpike System." Due to clerical error, the Commission miscoded this transaction each time the charge was paid. Because the Commission is

incorrectly classifying PikePass expenditures, management may be unable to rely on expenditure reports for budgetary and fiscal decisions. We recommend the Commission classify PikePass charges under expenditure code 522110, Purchase of Transportation Costs – Agency Direct, and to perform a periodic review of the classification of its expenditures.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 10, 2006

Corrective Action Planned: Commission will correctly classify PikePass expenditures as code 522110.

With respect to the other procedures applied, there were no findings.

4. We compared salaries set by statute to the actual salary paid to determine the statutory limit was not exceeded.

There were no findings as a result of applying the procedure.

5. We selected the one employee who appeared on the December 2005 payroll but not on the June 2004 payroll and observed the initial "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedure.

6. We selected the one employee who appeared on the June 2004 payroll but not on the December 2005 payroll and:
 - Observed the final "Request for Personnel Action" (OPM-14) to determine it was signed by the appointing authority.
 - Observed the main payroll funding sheet for the month subsequent to termination to determine employee no longer appeared.

There were no findings as a result of applying the procedures.

7. We selected the one employee whose gross salary at December 2005 had increased since June 2004 (excluding legislative pay raises) and observed the "Request for Personnel Action" (OPM-14) or equivalent form to determine it was signed by the appointing authority.

There were no findings as a result of applying the procedure.

8. We randomly selected 10% of the employees from the June 2005 payroll and agreed the amount paid to the "Request for Personnel Action" (OPM-14) or equivalent form that was in effect for June 2005.

There were no findings as a result of applying the procedure.

9. We compared the Commission's internal controls over purchase cards with the following criteria:
 - Purchase card policies and procedures as required by the *State Purchase Card Procedures* and the *Oklahoma Central Purchasing Act* were incorporated into the Commission on Marginally Producing Oil and Gas Wells' policies and procedures, (1.6. *Conditions of participation*)
 - Purchase card Administrator, designated back-up Administrator, and Approving Official were established, (3.5. *State Entity P/Card Administrator* and 3.6. *State Entity Approving Officials*).
 - Purchase card Administrator, designated back-up Administrator, Approving Official(s), and purchase cardholders completed the training prescribed by the State Purchasing Director and signed the State of Oklahoma Purchase Card Employee Agreement form, (3.9. *Training* and 3.10. *Purchase Card Employee Agreement*).
 - Cardholders submitted monthly transaction logs with supporting documentation which were

- reviewed and approved by the appropriate personnel, (6.4. *Transaction logs*, 6.5. *Receipts for purchase*, 6.9.1. *Cardholder responsibility* and 6.9.2. *Entity approving official(s) responsibility*).
- Mandatory categories of controls and limits were established for each purchase card, i.e. credit limit, single purchase limit, and Merchant Category Code Group, (6.1.5.1. *Card controls and limits*).
 - Controls were established to ensure that purchase cards are not used for prohibited purchases, i.e. travel, cash advances, motor fuel, etc...., (6.2.3. *Other prohibited purchases*).
 - Duties, control responsibilities, and the appropriate channels of communication were established and communicated to purchase cardholders to report suspected improprieties regarding purchase card usage.

According to the *Oklahoma State Purchase Card Procedures* 6.9.1. Cardholder responsibility, “[...]All cardholders (including Entity P/card Administrators and Approving Officials for other cardholders) must have their reconciliation approved by an approving official at least one level above their position.” Additionally, the *Oklahoma State Purchase Card Procedures* 6.9.2. Entity approving official(s) responsibility, states that the “[...]State Entity Approving Official(s) shall review the [p/card] holders reconciled memo statement and supporting documentation for accuracy, completeness, appropriateness of the purchase and whether the transactions were conducted according to State statutes, rules, these procedures, and sound business practice.” Based on inspection of transactions made by the Approving Official at the Commission, we noted that she did not receive approval from one level above her position for the purchases she made on her p/card. Also, she did not receive a periodic review of her reconciliation from an approving official one level above her position. Since the governor appoints this position, there is not another level above her to approve her transactions. The Commission is not in compliance with the State of Oklahoma Purchase Card Procedures. The approving official must be one hierarchical level above the p/card holder. We recommend that the approving official no longer have a p/card assigned to her due to that fact that there is not an approving official one level above her to approve her purchases.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 14, 2006

Corrective Action Planned: Approving Official for the Commission will no longer have a Pcard assigned to him/her. Current approving official has turned in her Pcard for cancellation.

With respect to the other procedures applied, there were no findings.

10. We identified employees that are purchase card holders and determined the Commission retained the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement, (6.1.3. *Employee p/card agreement*).

Section 6.1.3 of the State of Oklahoma Purchase Card Procedures states, “The Entity P/Card Administrator shall maintain the original employee signed copy of the State of Oklahoma Purchase Card Employee Agreement. A copy of the signed agreement shall be provided to the employee. The form shall also contain card limitations applying to the employee.” We noted that the Commission did not have any of the originally signed State of Oklahoma Employee Purchase Card Agreements, nor did any of the cardholders retain a copy themselves. The Commission is not in compliance with the State of Oklahoma Purchase Card Procedures. We recommend the Commission retain signed copies of the State of Oklahoma Employee Purchase Card Agreements.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 10, 2006

Corrective Action Planned: All Employees have signed the State of Oklahoma Employee Purchase Card Agreement. The original copy is in the Pcard binder and a copy has been provided to each employee.

11. We examined all purchase card transactions to determine they were in compliance with the mandatory categories as specified in 6.1.3. *Employee p/card agreement*, 6.1.5. *Card controls and limits* and 6.2.2. *Split purchases* of the *State of Oklahoma Purchase Card Procedures* issued by the Department of Central Services:
- A credit limit (dollar amount per cycle) was established for each cardholder;
 - The dollar amount of each transaction did not exceed the single purchase limit of \$2,500;
 - Each purchase card was assigned an approved Merchant Category Code Group;
 - We compared purchases from the same vendor on the same date to determine whether the purchase was for the same item and whether in the aggregate, the card purchase limit was exceeded (i.e. split purchasing).

There were no findings as a result of applying the procedures.

12. We randomly selected 21 of the Commission's purchase card transactions and:
- Determined transactions were **not** for prohibited purchases as stated in 6.2.3. *Other prohibited purchases* of the *State of Oklahoma Purchase Card Procedures*. These prohibited purchases include:
 - Travel including, but not limited to, transportation, entertainment, food and beverages, travel agencies, and lodging.
 - Cash, cash advances, automatic teller machines (ATM).
 - Any transaction or series of transactions, which exceed the limits established on the individual purchase card.
 - Motor fuel or fluids.
 - Gift certificates.
 - Inspected transaction logs to determine they were supported by receipts and/or other supporting documentation and the cardholder and approving official reconciled the supporting documentation to the monthly memo statement, (6.4. *Transaction logs*, 6.5. *Receipts for purchase*, 6.9.1. *Cardholder responsibility*, and 6.9.2 *Entity approving official(s) responsibility*).
 - Reviewed transaction receipts to determine if the use of the purchase card was limited to the employee whose name is embossed on the card; (6.10. *Card security*).
 - Examined transaction logs to determine the log was reviewed and approved (signed) by the cardholder and the approving official, (6.9.1. *Cardholder responsibility* and 6.9.2 *Entity approving official(s) responsibility*);
 - Reviewed receipts and/or other supporting documentation to determine they were annotated "Received", signed, and dated by the receiving employee, (6.7. *Receiving goods and services*).
 - Examined the receipt and/or supporting documentation to determine state sales tax was **not** charged during the transaction, (6.6. *State sales tax*)
 - Reviewed transactions to determine they were in compliance with other requirements documented in the *State of Oklahoma Purchase Card Procedures* and the *Oklahoma Central Purchasing Act*:
 - Verified with the Department of Central Service that the Purchase card Administrators, back-up Administrators, Authorized Signers, Approving Officials, and Cardholders have successfully completed the Purchase Card Training conducted by the Department of Central Services prior to being issued purchase cards, (3.9. *Training*).
 - Inspected transactions to determine if merchant preference was used by the Commission for certain merchants or types of contracts, i.e. statewide contractions, (6.2.5 *Merchant preference*).
 - Determined documents were retained in accordance with the Commission on Marginally Producing Oil and Gas Wells' procedures (6.9.3. *Entity retention of statements*).
 - Compared the nature of the purchase to the commission's mission for consistency.

Section 6.2.4 of the State of Oklahoma Purchase Card Procedures states, "The p/card, Statewide Contract p/card, and Travel p/card shall **NOT** be used for the following types of purchases... Motor fuel or fluids." In addition, Oklahoma Administrative Rules dictates that if a state owned vehicle is stationed in or near the Oklahoma City Metro area, vehicle maintenance service shall be performed by the Division of Fleet

Management of the Department of Central Services. The Commission purchased an oil change including motor oil from a private vendor by using a p/card. In instances where the Commission's schedule did not allow for them to take the vehicle to the Motor Pool Division, they had the oil changed by a local auto-maintenance business. The Commission is not in compliance with the State of Oklahoma Purchasing Card Procedures. We recommend the Commission use p/card's for only approved purchases and that the Commission use appropriate facilities for the care and maintenance of its vehicle.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 10, 2006

Corrective Action Planned: All oil change maintenance on the agency owned vehicle will be done by the Oklahoma State Motorpool.

Section 6.2.5.3 of the State of Oklahoma Purchase Card Procedures states, "State entities shall make purchases from mandatory statewide contracts regardless of the purchase price unless the State Purchasing Director has issued a waiver to the entity." There were fourteen (14) incidents in which the Commission purchased items from vendors other than the mandated merchants of the Statewide Contracts. The Commission indicated that they were exempt from this restriction due to an exception in Title 74-85.7(A)(16), which states, "The Commission shall be exempt from the competitive bid requirements of this section for contracts with local vendors for the purpose of holding special events and exhibitions throughout the state." The Commission is not in compliance with the State of Oklahoma Purchase Card Procedures. State Purchasing Director of the Central Purchasing Division of the Department of Central Services reviewed this statute and concluded that the statute exempts them from the competitive bid requirements as stated, but it does not exempt them from State Use or the State Use mandatory statewide contracts. We recommend the Commission comply with Merchant Preferences as set forth in the State of Oklahoma Purchase Card Procedures by regularly reviewing statewide contracts before making p/card purchases.

Views of Responsible Official(s)

Contact Person: Toni Kitchell

Anticipated Completion Date: April 10, 2006

Corrective Action Planned: Commission will purchase from State Use or the State Use mandatory statewide contracts even when those contract prices are greater than local vendors.

With respect to the other procedures applied, there were no findings.

We also prepared a Schedule of Receipts, Disbursements and Changes in Cash from information obtained from the statewide CORE accounting system, which is presented in the "Other Information" section. This schedule has been included for informational purposes only.

We were not engaged to, and did not, conduct an examination or a review, the objective of which would be the expression of an opinion or limited assurance on the cash, receipts, and disbursements for the agency. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of and commission members of the Commission and should not be used for any other purpose. This report is also a public document pursuant to the Oklahoma Open Records Act (51 O.S. § 24A.1 et seq.), and shall be open to any person for inspection and copying.



JEFF A. McMAHAN
State Auditor and Inspector

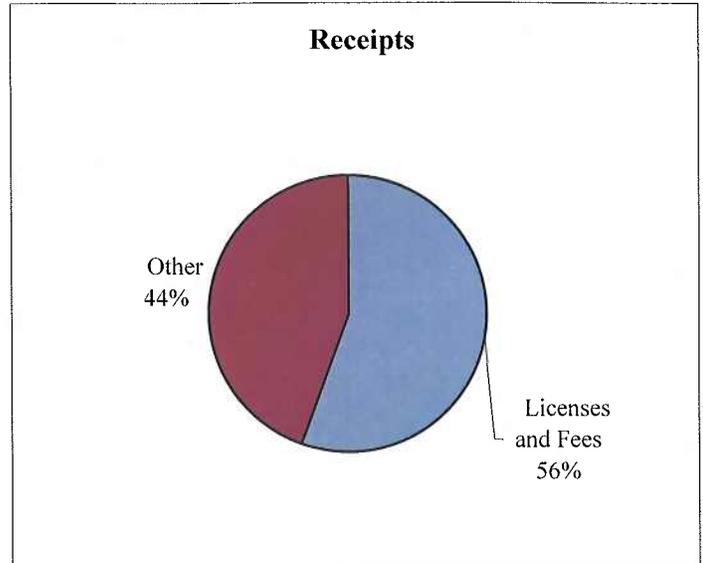
April 4, 2006

Other Information

**Commission on Marginally Producing Oil and Gas Wells
Schedule of Receipts, Disbursements, and Changes in Cash
For the Fiscal Year Ending June 30, 2005**

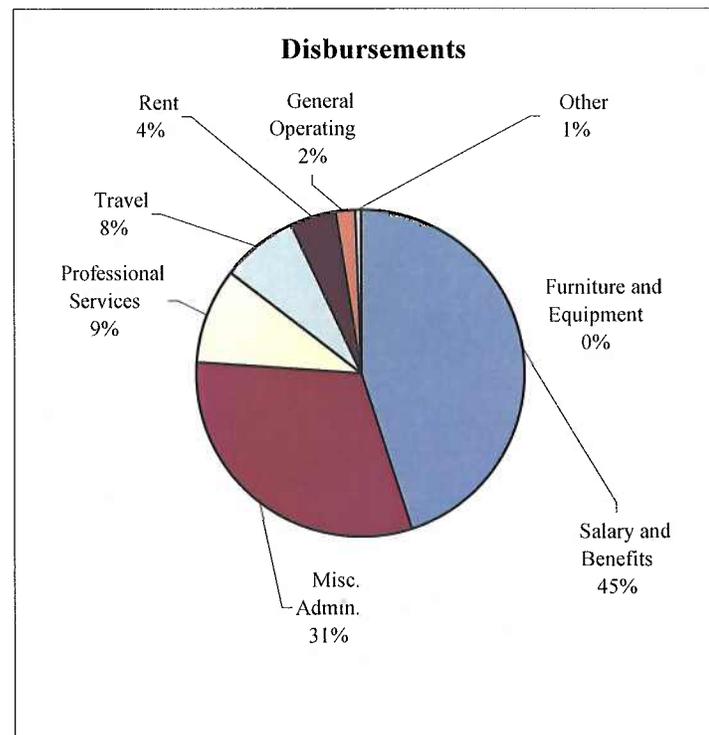
RECEIPTS:

Licenses and Fees	\$ 251,861
Other	200,774
Total Receipts	<u><u>452,634</u></u>



DISBURSEMENTS:

Salary and Benefits	209,282
Misc. Admin.	144,619
Professional Services	43,627
Travel	35,197
Rent	20,654
General Operating	8,898
Furniture and Equipment	150
Other	2,337
Total Disbursements	<u><u>464,764</u></u>



RECEIPTS OVER (UNDER) DISBURSEMENTS (12,129)

CASH--Beginning of Year 374,572

CASH--End of Year **\$ 362,442**



Office of the State Auditor and Inspector

2300 North Lincoln Boulevard, Room 100
Oklahoma City, Oklahoma 73105-4896
(405) 521-3495

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