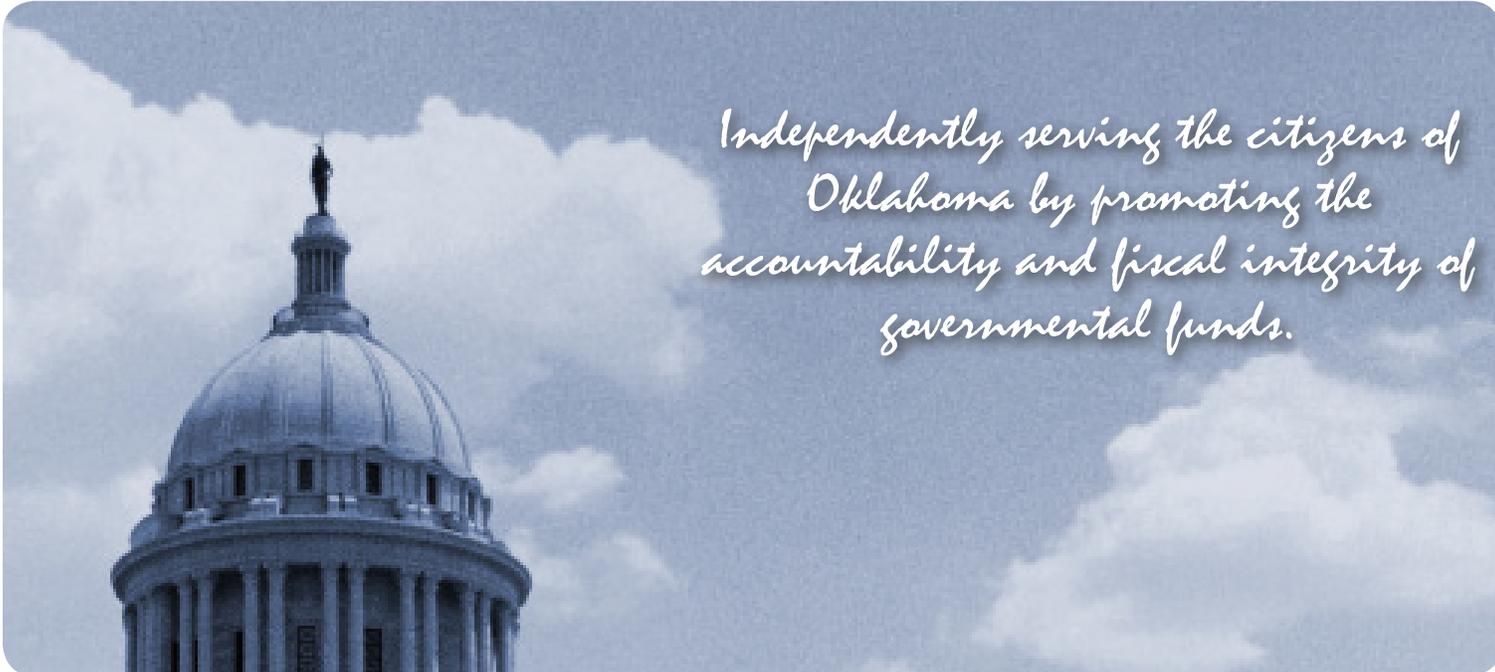


OPERATIONAL AUDIT

# OKLAHOMA ENERGY RESOURCES BOARD

For the period July 1, 2010 through June 30, 2011



*Independently serving the citizens of  
Oklahoma by promoting the  
accountability and fiscal integrity of  
governmental funds.*



Oklahoma State  
Auditor & Inspector  
Gary A. Jones, CPA, CFE

**Audit Report of the  
Oklahoma Energy Resources Board**

**For the Period  
July 1, 2010 through June 30, 2011**



# Oklahoma State Auditor & Inspector

2300 N. Lincoln Blvd. • State Capitol, Room 100 • Oklahoma City, OK 73105 • Phone: 405.521.3495 • Fax: 405.521.3426

May 31, 2012

## **TO THE OKLAHOMA ENERGY RESOURCES BOARD**

This is the audit report of the Oklahoma Energy Resources Board for the period of July 1, 2010 through June 30, 2011. 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,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is fluid and cursive, with a long horizontal stroke at the end.

GARY A. JONES, CPA, CFE  
OKLAHOMA STATE AUDITOR & INSPECTOR

**Oklahoma Energy Resources Board  
Operational Audit**

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**Background**

In 1993, leaders representing Oklahoma's oil producers and royalty owners, working with the Oklahoma State Legislature, formed the Oklahoma Energy Resources Board (OERB). Oklahoma's natural gas producers joined soon after. The mission of the OERB is to use the strength of Oklahoma's greatest industry to improve the lives of all Oklahomans through education and restoration.

The OERB is a privatized state agency funded through a voluntary one-tenth of one percent assessment on oil and natural gas, also known as the "Oklahoma Oil Check-Off." The assessment is paid by oil and natural gas companies and royalty owners and is remitted to the Oklahoma Tax Commission. The assessment is refundable annually between January 1 and March 31 for any contributor who does not wish to participate in the program.

Operations are governed by 74 O.S. §85.39, 52 O.S. §288, as well as Oklahoma Administrative Code Title 243. Oversight is provided by twenty-one board members. The twenty-one members shall be independent oil or natural gas producers, or representatives of major oil companies which do business in the state. Six are appointed by the governor, six are appointed by the President Pro Tempore of the Senate, six are appointed by the Speaker of the House of Representatives and three are appointed by the Board of Directors of the OERB.

Board members are:

David W. House .....	Chairman
Ronnie Irani .....	Vice-Chairman
Julie S. Kruger .....	Secretary
Suzette Hatfield .....	Treasurer
Terry J. Adamson .....	Member
Mark Aebi .....	Member
Pete Brown .....	Member
Mike Cantrell .....	Member
Phil Cook .....	Member
Mike Cross .....	Member
Bill Gifford .....	Member
Tom Goresen .....	Member
Rusty Johnson .....	Member
Rob Johnston .....	Member
Sam Langford .....	Member
Tim W. Munson .....	Member
Garrett Phelan .....	Member
John Pilkington .....	Member
Will Whitley .....	Member
Dale Malody .....	Member
Vacant .....	Member

**Oklahoma Energy Resources Board**  
**Operational Audit**

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Table 1 summarizes OERB's sources and uses of funds for state fiscal years 2010 and 2011 (July 1, 2009 through June 30, 2011).

**Table 1 - Sources and Uses of Funds for FY 2010 and FY 2011**

	2010	2011
Sources:		
Energy Resources Assessments	\$ 11,858,017	\$ 13,002,572
Interest on Investments	308,699	284,909
Federal Reimbursements	17,817	-
Other	58,293	122,697
Total Sources	<u>\$ 12,242,825</u>	<u>\$ 13,410,177</u>
Uses:		
Professional Services	\$ 9,723,771	\$ 12,720,602
Miscellaneous Administrative Expenses	51,408	59,904
General Operating Expenses	135,517	121,841
Scholarship, Tuition, Incentive Payment	294,815	277,500
Refunds, Indemnities, Restitution	1,055,460	1,264,653
Program Reimb. Litigation Costs	-	178,593
Payments-Local Government, Non-Profits	126,940	2,616
Other	2,509	1,543
Total Uses	<u>\$ 11,390,421</u>	<u>\$ 14,627,252</u>

*Source: Oklahoma PeopleSoft accounting system (unaudited, for informational purposes only)*

**Purpose,  
Scope, and  
Sample  
Methodology**

This audit was conducted in response to 52 O.S. § 288.5(9), which requires an independent audit of OERB's financial transactions.

The audit period included the year ended June 30, 2011.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 conclusion based on our audit objectives. This report

# Oklahoma Energy Resources Board Operational Audit

is 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.

**Objective - To determine if OERB's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records, and OERB's financial operations complied with 52 O.S. § 288.4(I), 52 O.S. § 288.5(5)-(6), 52 O.S. § 288.8A(A)-(B), 52 O.S. § 288.9A, and 74 O.S. § 85.39(A).**

## Conclusion

OERB's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

With respect to the items tested, financial operations complied with the following statutes:

- 52 O.S. § 288.4(I) – No member of the Board shall receive a salary for duties performed as a member of the Board however, members are eligible to receive reimbursement for expenses and travel reimbursement as provided for in the State Travel Reimbursement Act;
- 52 O.S. § 288.5(5)-(6) –The Oklahoma Energy Resources Board shall establish and administer the Energy resources Revolving Fund, and approve or disapprove the budget of the Board;
- 52 O.S. § 288.8A(A)-(B) – An assessment of one tenth of one percent (1/10 of 1%) of the gross revenues received at the wellhead for oil, natural gas, casinghead gas or condensate produced from each well in the State of Oklahoma shall be collected;
- 52 O.S. § 288.9A – Requests for refunds; and
- 74 O.S. § 85.39(A) – Approval of internal purchasing procedures by the Department of Central Services.

## Methodology

To accomplish our objective, we performed the following:

- Reviewed the CORE Expenditures report noting if there were any Board members receiving a salary for duties performed;
- Reviewed the Board's Revenue and Expenditures report to ensure that the Board was properly administering the revolving fund. In addition, we obtained the Oklahoma Tax Commission reconciliation of the revenues and expenditures for the Energy Resources revolving fund. We reviewed the Board minutes where the budget was approved and we reviewed the CORE Revenue and Expenditures report;
- Documented internal controls related to the expenditure process (excluding payroll<sup>1</sup>) which included discussions with agency personnel, observation, and review of documents;
- Tested controls, which included:
  - Reviewing a random sample of 40 contracts totaling \$557,233.25 from the period under audit to ensure an invitation to bid was sent to potential bidders (contracts between \$2,500 and \$30,000), an ad soliciting bids was placed in the newspaper for contracts over \$30,000,

<sup>1</sup> OERB employees are not considered to be state employees; therefore, the agency has no state payroll expenses.

## Oklahoma Energy Resources Board Operational Audit

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- the contracts were approved by the chairman of the Board and the contracts were supported with the proper documentation;
- Reviewing a random sample of 78 vouchers totaling \$2,555,410.34 to ensure the expenditures were approved by the executive director/chairman of the Board, the voucher and invoice were approved, the claims were supported by adequate documentation, the charges were allowable under the provisions set forth in the contract and the nature of the expenditure was consistent with the Board's mission; and
  - Reviewing 10 refunds totaling \$886,340.66 to ensure the refund requests were properly approved and to ensure the refund requests were properly noted in the logbook.
- Reviewed the Oklahoma Tax Commission apportionment collection report for the energy resources assessment for each month of the audit period compared to the total amount deposited into fund 200 (Oklahoma Energy Resources Board) to determine whether the total deposit was \$2000<sup>2</sup> less than amount collected in accordance with 52 O.S. § 288.8A(A)-(B).;
  - Reviewed a random sample of 10 assessment refund requests totaling \$886,340.66 to ensure the refund was within three months following the calendar year in which the assessment was paid as required by 52 O.S. § 288.9A and the refund request was supported with the required documentation; and
  - Reviewed the approval letter from the Department of Central Services relating to OERB's internal purchasing procedures.

There were no exceptions as a result of these procedures.

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<sup>2</sup> 52 O.S. § 288.8A(B) states... "To defray the costs of receiving and depositing the assessments levied by this section, the Oklahoma Tax Commission shall retain Two Thousand Dollars (\$2,000.00) per month of the assessments received for deposit in the Oklahoma Tax Commission Revolving Fund created pursuant to Section 113 of Title 68 of the Oklahoma Statutes."



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