



OKLAHOMA ENERGY RESOURCES BOARD

Operational Audit

For the Period of July 1, 2019 through June 30, 2021

Cindy Byrd, CPA
State Auditor & Inspector

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

**For the Period
July 1, 2019 through June 30, 2021**

August 20, 2021

TO THE OKLAHOMA ENERGY RESOURCES BOARD

We present the audit report of the Oklahoma Energy Resources Board for the period July 1, 2019 through June 30, 2021. The goal of the State Auditor and Inspector is to promote accountability and fiscal integrity in state and local government. Maintaining our independence as we provide this service to the taxpayers of Oklahoma is of utmost importance.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during our engagement.

This report 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.

Sincerely,



CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



**Oklahoma Energy Resources Board
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Background

The Oklahoma Energy Resources Board (OERB or the Agency) was created by the Oklahoma Legislature in 1993 to conduct environmental restoration for orphaned and abandoned well sites and to educate Oklahomans about energy. OERB is funded voluntarily by oil and natural gas producers and royalty owners through a one-tenth of one percent assessment on the sale of oil and natural gas.

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.

Oversight is provided by an unpaid, twenty-one-member board. Representation is divided between independent oil and natural gas companies, major oil and natural gas companies, petroleum purchasers, and royalty owners.

There are two board member vacant positions. Board members as of July 2021 are:

David Le Norman	Chairman
Kristin Thomas	Vice Chairman
Shilpa Abbitt	Secretary
David Ferris	Treasurer
Mike McDonald.....	Member
Pete Brown.....	Member
Joe Brevetti.....	Member
Christopher Hyde	Member
Jeremy Fitzpatrick.....	Member
Aaron Ketter	Member
Ty Peck	Member
Greg Shepherd.....	Member
Richard Lewis.....	Member
John Pilkington.....	Member
Gordon Pennoyer.....	Member
David Sikes	Member
A. Hearne Williford.....	Member
Todd Wall.....	Member
Shea Loper.....	Member

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2020 and 2021 (July 1, 2019 through June 30, 2021).

Sources and Uses of Funds for FY 2020 and FY 2021

	2020	2021
Energy Resources Assessments	\$ 15,456,328	\$ 11,671,466
SOER Fee	1,159,834	867,781
Interest on Investments	547,682	322,784
Other Non-Revenue Receipts	492,510	414,765
Total Sources	\$ 17,656,354	\$ 13,276,796
Uses:		
Professional Services	\$ 14,866,790	\$ 10,102,163
Assistance, Payments to Local Govn'ts	2,587,759	1,234,728
Administrative Expenses	586,024	83,421
Property, Furniture, Equipment	40,146	17,500
Total Uses	\$ 18,080,719	\$ 11,437,812

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

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212, which requires the State Auditor and Inspector’s office to audit the books and accounts of all state agencies whose duty it is to collect, disburse, or manage funds of the state and to 52 O.S. § 288.5.9, which subjects OERB’s financial records to an annual, independent audit.

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 findings and conclusions based on our audit objectives.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessment of materiality and risk for the period July 1, 2019 through June 30, 2021. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to the Agency’s personnel, and performed data analysis. These procedures included:

- Reviewing revenue and expenditure data from the State-Wide Accounting System and gathering information from Agency personnel to assess the related financial processes and trends for any notable risks
- Reviewing evidence of the Director’s review of expenditure reports for two months during the audit period
- Assessing the risk related to production refunds in statutes 52 O.S. § 288.5E and 52 O.S. § 288.9A; we reviewed the refund expenditures for the audit period and noted a decrease in activity in FY20 due to the impacts of COVID-19 to the oil and gas industry
- Reviewing board meeting minutes to gain an understanding of the Board’s and management’s processes for approving and working with their main contract vendors
- Reviewing evidence of the Board’s active role in budgeting and other financial processes

One objective was developed as a result of the procedures performed, as discussed in the next section. No other significant risks or findings were identified.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

We utilized sampling of transactions to achieve our objective. To ensure the sample were representative of the population and provided sufficient, appropriate evidence, the random sample methodology was used. We identified specific attributes for testing each of the samples and when appropriate, we projected our results to the population.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report. The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness

¹ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE Determine whether expenditure internal control activities are operating effectively in accordance with *GAO Standards for Internal Control*.

Conclusion Expenditure internal control activities are operating effectively in accordance with *GAO Standards for Internal Control*.

Scope and Methodology

To accomplish our objective, we performed the following:

- Documented our understanding of the expenditure processes. Evaluated those processes and identified significant internal controls related to expenditures.
- Reviewed a random sample of six monthly reconciliation report packets from the audit period (25% of 24 months) to ensure they were approved by the Director and sent to the Board Secretary for additional review.
- Reviewed any contract expenditures from the six months selected above (a total of 15 invoices) to ensure the expenditures paid were approved by the Director and allowable per the applicable vendor contracts.

No findings were identified as a result of these procedures.

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