

**OKLAHOMA ENERGY RESOURCES BOARD
REPORT ON APPLYING
AGREED-UPON PROCEDURES
COMPLIANCE WITH LAWS AND REGULATIONS
FOR THE PERIOD JULY 1, 2002
THROUGH JUNE 30, 2003**

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STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN
State Auditor and Inspector

June 22, 2004

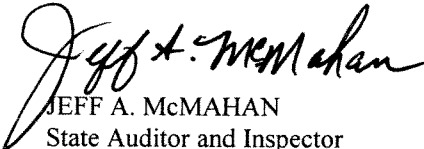
TO THE OKLAHOMA ENERGY RESOURCES BOARD

Transmitted herewith is the agreed-upon procedures report for the Oklahoma Energy Resources Board's compliance with specific laws and regulations, for the period July 1, 2002, through June 30, 2003. The procedures we performed were at the request of the Executive Director and the Board of Directors of the Agency.

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

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

Sincerely,


JEFF A. McMAHAN
State Auditor and Inspector



STATE OF OKLAHOMA
OFFICE OF THE AUDITOR AND INSPECTOR

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State Auditor and Inspector

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

**MIKE TERRY, EXECUTIVE DIRECTOR
OKLAHOMA ENERGY RESOURCES BOARD**

We have performed the procedures enumerated below, which were agreed to by management of the Oklahoma Energy Resources Board (OERB), solely to assist OERB in evaluating the Board's compliance with specific laws and regulations for the period of July 1, 2002, through June 30, 2003. Management is responsible for the Board's compliance with these laws and regulations. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. 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.

Determine if the Board received 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.

We randomly selected three months and recalculated the assessments levied to ensure the Board had received the correct amount.

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

Determine if accurate financial records are kept.

We randomly selected three months of reconciliations between OERB and the Office of State Finance (OSF) to determine:

- Who performed the reconciliations?
- Who reviewed the reconciliations?
- Were the reconciliations performed timely?
- Did the reconciling items appear reasonable?

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

Determine if the Board is administering the Energy Resources Revolving Fund.

We reviewed OSF's fiscal year 2003 funding book to determine the existence of the Oklahoma Resources Revolving Fund.

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

Determine if the Board approves an annual budget.

We reviewed the May 14, 2002 Board meeting minutes to ensure that the Board had approved the fiscal year 2003 annual budget.

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

Determine if any grants, contributions, or gifts were received and, if so, were deposited into the Energy Resources Revolving Fund.

We examined all deposits made into the Energy Resources Revolving Fund with a revenue code of 56101, 56102, and 55201 to ensure any grants, contributions, or gifts had been deposited.

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

Determine expenditures from the Energy Resources Revolving Fund were made upon warrants issued by the State Treasurer against claims filed with the Office of State Finance for approval and payment.

From an Energy Resources Revolving Fund expenditure report, we selected the largest claims from each object code and tested for the following;

- Expenditures were properly authorized.
- Expenditures were properly supported.

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

Determine refunds paid to persons subject to the assessment levied by 52 O.S. § 288.8A. A were in accordance with state law and Board policy.

We ran an Energy Resources Revolving Fund expenditure report to determine the claims with an object code of 5319 (refunds). From these claims, we selected ten to perform the following:

- Trace refunds to supporting documentation to ensure the correct amount was refunded.
- Determine whether expenditures were made in accordance with 52 O.S. § 288.8A. A and Board policy.

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

Determine if any monies from the Energy Resources Revolving Fund were invested and, if so, were approved by the Board.

We reviewed monthly activity statements from the State Treasurer's Office indicating the investments made by the Board, as well as documentation noting the Chairman of the Board approves investments.

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

Determine expenditures from the Energy Resources Revolving Fund were not used to influence government policy with the exception of recommending amendments to the Oklahoma Energy Education and Marketing Act.

We reviewed an Energy Resources Revolving Fund expenditure report to ensure the object codes and their descriptions appeared reasonable considering the nature of OERB's mission. We also scanned the vendors to ensure they appeared reasonable.

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

Determine expenditures from the Energy Resources Revolving Fund were not used to compensate Board members with the exception of travel reimbursement.

We reviewed an Energy Resources Revolving Fund expenditure report to ensure that the Board members were not compensated with the exception of travel.

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

Determine the Oklahoma Tax Commission (OTC) retained \$2,000 per month of the assessments received to defray their costs of receiving and depositing the funds.

We reviewed the OTC apportionment journals for the energy resources assessment for each month of the audit period to ensure the amount deposited into the Energy Resources Revolving Fund was \$2,000 less than the amount collected.

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

Determine if the Board complied with their internal purchasing procedures.

We selected a sample of contracts and tested to ensure the following:

- The bids were reviewed.
- The bids were approved.
- If the contract was for an amount equal to \$10,000 or less, an invitation to bid was sent out.
- If the contract was for an amount greater than \$10,000, an ad requesting bids was placed in newspapers.

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

However, based on review of the internal purchasing procedures, the following finding was noted:

Criteria: 74 O.S. § 85.12 B.23. states, "Except as otherwise provided by this section, the acquisitions specified in this subsection shall be made in compliance with Section 85.39 of this title but are not subject to other provisions of the Oklahoma Central Purchasing Act:.... 23. Acquisitions by the Oklahoma Energy Resources Board."

74 O.S. § 85.39 A.1. states, "Each state agency shall develop internal purchasing procedures for acquisitions by the state agency. Procedures shall, at a minimum, include provisions for the state agency's needs assessment, funding, routing, review, audits, monitoring and evaluations. Following development, the state agency shall submit the procedures to the State Purchasing Director."

Condition: OERB's internal purchasing policies have not been approved by the State Purchasing Director.

Effect: Without proper purchasing procedures in place, inappropriate expenditures could occur.

Recommendation: We recommend the OERB establish and implement internal purchasing procedures and submit them to the State Purchasing Director for approval.

Management's Response: On January 4, 1999, I received a memo from the OERB's legal counsel informing me of HB 1822's requirements concerning internal purchasing policies. I informed the OERB Executive Committee of the new requirements and asked the Committee to make recommendations to the Board, which were immediately approved 1-12-99. Furthermore, the Board approved the Committee recommendations and our office forwarded the purchasing policy document to the State Purchasing Director as required.

In June 1999, I received a memo from an auditor in the Central Purchasing office asking for a few more items. Although I believe the additional items were provided, I have been unable to verify any hard copy documentation as such. Our attempts to contact a person at the Central Purchasing offices have been unsuccessful, as Central Purchasing will not return our calls. Therefore, we have been unable to verify that our purchasing policy was ever approved as presented.

We were not engaged to, and did not; conduct an examination, the objective of which would be the expression of an opinion on compliance with the applicable laws and regulations. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The American Institute of Certified Public Accountants' Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of management of the Oklahoma Energy Resources Board and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



JEFF A. McMAHAN
State Auditor and Inspector

May 3, 2003