

OPERATIONAL AUDIT

OKLAHOMA ENERGY RESOURCES BOARD

For the period July 1, 2009 through June 30, 2010



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



Oklahoma State
Auditor & Inspector
Gary Jones, CPA, CFE

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

**For the Period
July 1, 2009 through June 30, 2010**



Oklahoma State Auditor & Inspector

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

July 20, 2011

TO THE OKLAHOMA ENERGY RESOURCES BOARD

This is the audit report of the Oklahoma Energy Resources Board for the period of July 1, 2009 through June 30, 2010. 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

Background

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

The Oklahoma Energy Resources Board (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, paid for by oil and natural gas companies and royalty owners, 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. §288.8A and B, 52 O.S. § 288.9A 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 to be appointed by the governor, six to be appointed by the President Pro Tempore of the Senate, six to be 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
Lee Boothby	Member
Pete Brown	Member
Mike Cantrell	Member
Phil Cook	Member
Mike Cross	Member
Bill Gifford	Member
Rusty Johnson	Member
Tom Goresen	Member
Rob Johnston	Member
Jim Medico	Member
Tim W. Munson	Member
John Pilkington	Member
Will Whitley	Member
Michael T. Wiskofske	Member
Vacant	Member

**Oklahoma Energy Resources Board
Operational Audit**

Table 1 summarizes OERB's sources and uses of funds for state fiscal years 2009 and 2010 (July 1, 2008 through June 30, 2010).

Table 1 - Sources and Uses of Funds for FY 2009 and FY 2010

	2009	2010
Sources:		
Energy Resources Assessments	\$ 17,609,992	\$ 11,858,017
Interest on Investments	517,787	308,699
Federal Reimbursements	-	17,817
Other	67,625	58,293
Total Sources	<u>\$ 18,195,404</u>	<u>\$ 12,242,825</u>
Uses:		
Professional Services	\$ 15,434,985	\$ 9,723,771
Miscellaneous Administrative Expenses	42,921	51,408
General Operating Expenses	117,778	135,517
Scholarship, Tuition, Incentive Payment	505,218	294,815
Refunds, Indemnities, Restitution	4,444,584	1,055,460
Payments-Local Government, Non-Profits	108,232	126,940
Other	2,675	2,509
Total Uses	<u>\$ 20,656,393</u>	<u>\$ 11,390,421</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 covered was July 1, 2009 through June 30, 2010.

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 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. § 288.8A A. and B., 52 O.S. § 288.9A, and 74 O. S. § 85.39 A. 1. through A. 3.

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. § 288.8A A. and 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. 1. through A. 3. – Approval of internal purchasing procedures by the Department of Central Services.

Methodology To accomplish our objective, we performed the following:

- Documented internal controls related to the expenditure process (excluding payroll¹) which included discussions with agency personnel, observation, and review of documents;
- Tested controls, which included:
 - Reviewing a random sample of 40 contracts totaling \$562,045 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, the contracts were approved by the chairman of the Board and the contracts were supported with the proper documentation;
 - Reviewing a sample of 40 vouchers (randomly selected) totaling \$2,356,105.87 to ensure the expenditures were approved by the executive director/chairman of the Board, the voucher and invoice were approved, 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 38 refunds totaling \$442,649.79 to ensure the refund requests were properly approved and to ensure the refund requests were properly notated on the logbook.
- Reviewed the Oklahoma Tax Commission apportionment collection report for the energy resources assessment for each month of the audit period compared to

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

the total amount deposited into fund 200 (Oklahoma Energy Resources Board) to determine whether the total deposit was \$2000² less than amount collected in accordance with 52 O.S. § 288.8A A. and B.;

- Reviewed a random sample of 38 assessment refund requests totaling \$442,649.79 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.

² 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."



OFFICE OF THE STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BOULEVARD, ROOM 100

OKLAHOMA CITY, OK 73105-4896

WWW.SAI.OK.GOV