

OPERATIONAL AUDIT

OKLAHOMA ENERGY RESOURCES BOARD

For the period July 1, 2015 through June 30, 2016



*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, 2015 through June 30, 2016**



Oklahoma State Auditor & Inspector

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January 18, 2017

TO THE OKLAHOMA ENERGY RESOURCES BOARD

This is the audit report of the Oklahoma Energy Resources Board (OERB) for the period July 1, 2015 through June 30, 2016. 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,

A handwritten signature in blue ink that reads "Gary A. Jones". The signature is written in a cursive style.

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

Oklahoma Energy Resources Board Operational Audit

Background

The Oklahoma Energy Resources Board (OERB) was created by the Oklahoma Legislature in 1993 to conduct environmental restoration for orphaned and abandoned well sites and to educate Oklahomans about energy. The 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.

As per Oklahoma Statute 52 § 288.5(C) effective July 1, 2013, the Commission on Marginally Producing Oil and Gas Wells was transferred to the Committee for Sustaining Oklahoma's Energy Resources (SOER) and SOER was placed under the control of the OERB.

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 mission of SOER is to encourage new processes and technological advancements to sustain the oil and natural gas industry in the future for the benefit of the citizens of Oklahoma, and to advance activities to support marginally producing oil and natural gas wells.

Oversight is provided by an unpaid, twenty-one member board (the Board). Eighteen members are independent oil or natural gas producers or representatives of major oil companies which do business in the state: six appointed by the Governor, six appointed by the President Pro Tempore of the Senate, and six appointed by the Speaker of the House of Representatives. The remaining three members, appointed by the independent producer Board member and major oil company members of the Board, consist of one member from a royalty owner association and two members that represent crude oil purchasing. Members of the Board are appointed for a term of three years.

Oklahoma Energy Resources Board Operational Audit

Board members as of January 2017:

Danny Morgan	Chairman
Julie S. Musselman.....	Secretary
Rusty Johnson.....	Treasurer
Mark Aebi.	Member
Bill Gifford.	Member
Wade Hutchings.	Member
Ronnie Irani.	Member
Doug Johnson.....	Member
Rob Johnston.....	Member
David Le Norman.	Member
Tim Munson.....	Member
Mike McDonald.....	Member
Garrett Phelan.....	Member
John Pilkington.....	Member
A. Hearne Williford	Member

Oklahoma Energy Resources Board Operational Audit

The following charts illustrate the Agency's primary funding sources, and where those funds are expended.¹

Chart 1 - Revenues by Category for FY 2016

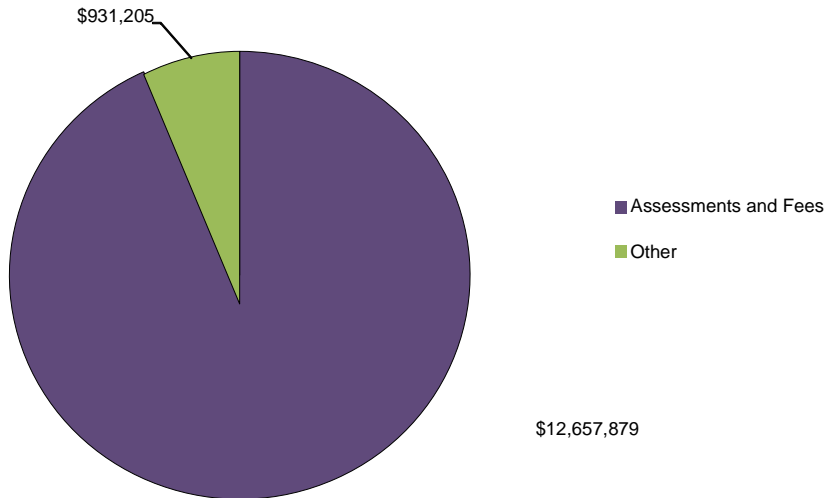
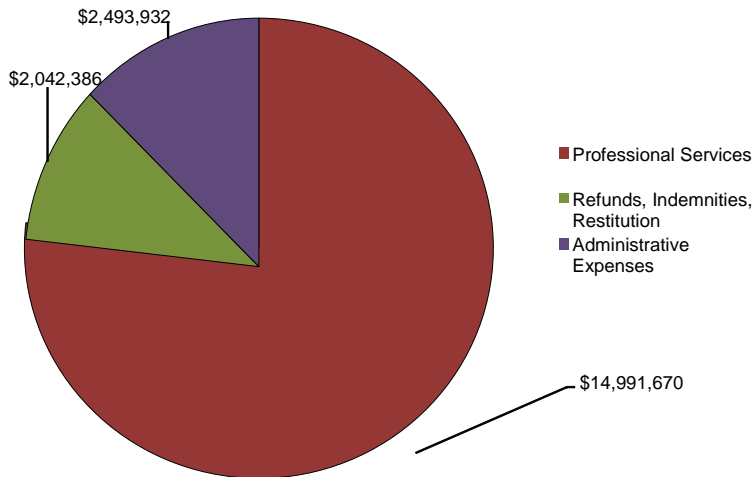


Chart 2 - Expenditures by Category for FY 2016



¹ This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

Oklahoma Energy Resources Board Operational Audit

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 duties it is to collect, disburse, or manage funds of the state.

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, 2015 through June 30, 2016.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the OERB’s operations. We utilized sampling of transactions to achieve our objectives. To ensure the samples 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.

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.

OBJECTIVE I

Determine whether the Agency’s internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records.

Conclusion

The Agency’s internal controls provided reasonable assurance that expenditures were accurately reported in the accounting records.

No exceptions were noted as a result of our procedures.

OBJECTIVE II

Determine whether the Agency's internal controls provide reasonable assurance that expenditures incurred under the Oklahoma Independent Petroleum Foundation (OIPF) contract were allowable and were accurately reported in the accounting records.

Conclusion

The Agency's internal controls did not provide reasonable assurance that expenditures incurred under OIPF contract were allowable and accurately reported in the accounting records.

FINDINGS AND RECOMMENDATIONS

Inadequate Segregation of Duties over OIPF related Expenditures

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government (2014 Revision)*² states, "Key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. "

The Oklahoma Energy Resources Board (OERB) is in the 5th year of a 5-year contract (renewable annually) with the OIPF to provide administrative services to the OERB. Invoices are submitted to the OERB Executive Director and Board Chairman for payment approval. However, in some instances, invoices reflecting actual expenditures are not submitted. Instead, the OIPF is taking 1/12th of the annual budget amount (approved by the Board for the OERB and for Sustaining Oklahoma's Energy Resources {SOER}), subdividing the amount into various categories, and substituting these cost estimates as an invoice for payment approval. Therefore, for expenditures represented by such cost estimate invoices, duties are not properly segregated because only the OIPF is aware of the actual expenditure amounts. In addition, for those invoices that did not reflect actual expenditures, in the first eleven months of FY 2016, the OIPF billed for and retained approximately \$211,230 in excess OERB funds.

It appears management was not aware of the risks created by this arrangement of duties.

This arrangement of duties creates the risk that the OERB could be paying for expenses that were not incurred or are unallowable. The potential for

² Although this publication addresses controls in the federal government, this criterion can be treated as best practices. The theory of controls applies uniformly to federal or state government.

the loss of funds also exists if the OIPF were to become financially insolvent.

Recommendation

We recommend that the OIPF invoice the OERB for actual costs incurred on a monthly basis. The monthly invoices should be approved by the OERB Executive Director and Board Chairman, or designee. In addition, the OERB should reconcile actual invoices to estimates paid during the 5-year contract period to ensure only actual OERB/SOER expenditures have been paid and any overage in payment is returned to the OERB.

Views of Responsible Officials

The OERB has instructed the OIPF to invoice for actual costs incurred on a monthly basis. The OIPF will no longer invoice 1/12th of the annual contract budget amount each month. The OERB will reconcile actual expenditures paid during the 5-year contract period and any overage in payment will be returned to the OERB without delay.



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