

OPERATIONAL AUDIT

OKLAHOMA ENERGY RESOURCES BOARD

For the period July 1, 2016 through June 30, 2017



*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, 2016 through June 30, 2017**



Oklahoma State Auditor & Inspector

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July 24, 2018

TO THE OKLAHOMA ENERGY RESOURCES BOARD

This is the audit report of the Oklahoma Energy Resources Board for the period July 1, 2016 through June 30, 2017. 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 with a long horizontal stroke at the end.

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

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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 governed 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.

Board members as of June 2018:

Mike McDonald.	Chairman
David Le Norman.	Vice-Chairman
Wade Hutchings.	Secretary
Rusty Johnson.....	Treasurer
Mark Aebi	Member
David Ferris.	Member
Jeremy Fitzpatrick.....	Member
Bill Gifford	Member
Chad Haglin.....	Member
Ronnie Irani.	Member
Doug Johnson.	Member
Tony Maranto.....	Member
Danny Morgan	Member
Tim Munson.....	Member
John Pilkington.....	Member

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David Sikes. Member
A. Hearne Williford..... Member

The following table summarizes the Agency's sources and uses of funds for fiscal years 2016 and 2017 (July 1, 2015 through June 30, 2017).

Sources and Uses of Funds for FY 2016 and FY 2017

	2016	2017
Sources:		
Energy Resources Assessment	\$ 11,825,490.78	\$ 12,175,442.14
SOER Fee	832,388.10	838,548.85
Income from Money and Property	361,744.63	266,230.12
Non-Revenue Receipts	569,459.97	206,404.75
Total Sources	\$ 13,589,083.48	\$ 13,486,625.86
Uses:		
Professional Services	\$ 14,991,670.28	\$ 14,098,151.98
Administrative Expenses	377,100.14	405,503.74
Refunds, Indemnities, Restitution	2,042,386.00	348,597.07
Program Reimbursement, Litigation	1,639,951.14	193,404.21
Other Assistance/Payments	476,880.47	255,000.00
Total Uses	\$ 19,527,988.03	\$ 15,300,657.00

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

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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.

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, 2016 through June 30, 2017.

Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the Oklahoma Energy Resources Board operations. Further details regarding our methodology are included under each conclusion.

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 provide reasonable assurance that expenditures were accurately reported in the accounting records.

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Objective Methodology

To accomplish our objective, we performed the following:

- Documented significant processes and internal controls related to expenditures and tested those controls, which included:
 - Reviewing a random sample of 25 expenditure claims from the period (Less than 1% or \$152,211 of the population of \$15,300,657 tested) to determine whether the invoice was independently approved as evidenced by a signature, the invoice was mathematically correct, and the voucher is signed by the Board Chairman.
 - Reviewing three randomly selected monthly reconciliations prepared during the period (25% of months in the population tested) to ensure they were independently reviewed, as reflected by a signature/initial and included a line-item detailed expenditure report.

OBJECTIVE II

Determine whether the Agency's financial operations complied with 52 O.S. § 288.5(D) - Sustaining Oklahoma's Energy Resources (SOER) Collection of Unpaid Fees.

Conclusion

The Agency is in compliance with 52 O.S. § 288.5(D). No exceptions were noted as a result of our procedures.

Objective Methodology

To accomplish our objective, we performed the following:

- Reviewed a random sample of seven, and judgmental selection of five, letters sent to companies regarding their payment of assessments to SOER, to ensure they received a letter stating the amount owed or in dispute, as required by statute. Our sample included: five companies that failed to pay - exceeding the threshold amount (5 out of 5 or 100% of the population tested), two that overpaid (2 out of 30 or 6.7% of the population tested) and five that underpaid (5 out of 59 or 8% of the population tested).

OBJECTIVE III

Determine whether the Agency's financial operations complied with 52 O.S. § 288.8(A) -Oklahoma's Energy Resources Board (OERB) Collection of Unpaid Fees.

Conclusion

The Agency is in compliance with 52 O.S. § 288.8(A). No exceptions were noted as a result of our procedures.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Reviewed a random sample of thirteen, and judgmental selection of one, letters sent to companies regarding their payment of assessments to OERB, to ensure they received a letter stating the amount owed or in dispute, as required by statute. Our sample included: one that failed to pay - exceeding the threshold amount (1 out of 1 or 100% of the population tested), three that overpaid (3 out of 35 or 9% of the population tested) and ten that underpaid (10 out of 117 or 9% of the population tested).

OBJECTIVE IV

Determine whether expenditures incurred under the Brothers & Company contract were allowable and accurately reported in the accounting records.

Conclusion

Expenditures incurred under the Brothers & Company contract were allowable and accurately reported in the accounting records. No exceptions were noted as a result of our procedures.

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Documented significant internal controls related to expenditures and verified that Brothers expenditures were allowable under the Brothers contract:
 - Reviewing a random sample of twenty-five claims from the 75 (33%) non-zero, non-negative claims and reviewed them for compliance with the contract requirements.

PRIOR YEAR FINDING FOLLOW-UP (REPEAT FINDING)

According to the OIPF contract, section 7.4 (Annual Budget of the OERB), "Any unencumbered funds remaining in the hands of the Consultant at termination of this Agreement for whatsoever reason shall be promptly returned to the OERB and the Consultant will make no claim to same." The contract between OERB and the OIPF ended on June 30, 2017.

Per standard auditing procedures, we followed up on the prior year finding in relation to the Oklahoma Independent Petroleum Foundation (OIPF) contract. For the prior year finding, it was noted that OIPF invoices submitted to OERB, were not based on actual expenditures but were based on 1/12th of the annual budget amount. In addition, the OIPF was holding excess (unexpended) OERB funds for FY 16 totaling \$211,230. Management's response and corrective action for the prior year

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finding was that they had instructed the OIPF to invoice for actual costs incurred on a monthly basis. OERB was to reconcile actual expenditures paid during the 5-year contract period and any overage in payment was to be returned to the OERB without delay.

Conclusion

The prior year finding has been partially corrected. Beginning in February 2017, invoices were modified to reflect actual expenditures. However, no reconciliation has been performed of the actual OIPF expenses incurred to the payments OERB made during the 5-year contract period based on 1/12th of the annual budget amount. Therefore, excess funds paid to OIPF have not been recovered by OERB at the time of this report.

The OIPF does not appear to be in compliance with the contract.

Recommendation

The OERB should make every effort to expedite the reconciliation of 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 without delay as stated in the previous corrective action plan for the prior year audit.

Views of Responsible Officials

Although the actual invoices to estimates paid during the 5-year contract period have not been reconciled, the OERB has instructed the OIPF to return the estimated FY-16 overage of \$211,230 for the estimated FY-16 overage. The OIPF has submitted payment in the amount of \$211,230 for the estimated FY-16 overage. Once the OIPF has filled its open controller position, the OERB will work with that person to reconcile the actual invoices to estimates paid during the 5-year contract. As stated in the current OIPF contract, a "deposit" will be retained so that the OIPF will have adequate funds to cover expenses incurred as reimbursement invoices are calculated and submitted for payment. Any overages above the necessary deposit will be returned to the OERB as soon as possible. The deposit retained for the new contract period will also serve as the final payment, or partial payment at the end of the contract term.



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