



OKLAHOMA ENERGY RESOURCES BOARD

Operational Audit

For the period July 1, 2017 through June 30, 2018

Cindy Byrd, CPA
State Auditor & Inspector

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

**For the Period
July 1, 2017 through June 30, 2018**



Cindy Byrd, CPA | State Auditor & Inspector

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July 15, 2019

TO THE OKLAHOMA ENERGY RESOURCES BOARD

We present the audit report of the Oklahoma Energy Resources Board for the period July 1, 2017 through June 30, 2018. 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 "Cindy Byrd".

CINDY BYRD, CPA
OKLAHOMA STATE AUDITOR & INSPECTOR



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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. 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 2019 are:

Mike McDonald.	Chairman
David Le Norman.	Vice-Chairman
Wade Hutchings.	Secretary
A. Hearne Williford.....	Treasurer
Mark Aebi	Member
Shilpa Abbitt.....	Member
David Ferris.	Member
Jeremy Fitzpatrick.....	Member
Bill Gifford	Member
Chad Haglin.....	Member
Cindy Hassler.	Member
Richard Lewis.....	Member
John Pilkington.....	Member
Gordon Pennoyer.....	Member
David Sikes.	Member

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Danny Morgan Member
 Tim Munson..... Member
 Kristin Thomas Member
 Todd Wall..... Member

The following table summarizes the Agency's sources and uses of funds for fiscal years 2017 and 2018 (July 1, 2016 through June 30, 2018).

Sources and Uses of Funds for FY 2017 and FY 2018

	2017	2018
Sources:		
Energy Resources Assessment	\$ 12,175,442	\$ 16,312,913
SOER Fee	838,549	975,625
Interest on Investments	266,230	267,023
Non-Revenue Receipts	206,405	592,796
Total Sources	\$ 13,486,626	\$ 18,148,357
Uses:		
Professional Services	\$ 14,098,152	\$ 13,840,720
Assistance, Payments to Local Govn'ts	452,404	2,596,935
Refunds, Indemnities, Restitution	347,597	1,120,005
Administrative Expenses	405,504	304,709
Total Uses	\$ 15,303,657	\$ 17,862,369

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, 2017 through June 30, 2018.

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.

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.

Financial operations complied with:

- O.S. 52 § 288.7 (OERB 50% Minimum Rule for Expenditures on Cleanup Projects) and
- O.S. 52 § 288.5E (SOER Requests for Fee Refunds).

However, due to the unavailability of certain records we were unable to conclude as to whether the Agency complied with O.S. 52 § 288.9A (OERB Requests for Fee Refunds).

**Objective
Methodology**

To accomplish our objective, we performed the following:

- Documented processes and identified significant internal controls related to miscellaneous expenditures and tested those controls, which included:
 - Reviewing a random sample of 25 expenditure claims from a total of 1,541 claims for the period (1.6% of the population) to determine whether the invoice was independently approved as evidenced by a signature, the invoice is mathematically correct, and the voucher was 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.
- Evaluated the process for ensuring 50% of expenditures are spent on Cleanup Projects for compliance with O.S. 52 § 288.7, which included:
 - Evaluating reports and spreadsheets provided by OERB and recalculating the amounts as well as reviewing ten randomly selected expenditures with a department code of 1000003 to ensure that expenditures credited to environmental cleanup are in fact environmental cleanup related.
- Evaluated the process for ensuring compliance with 52 O.S. §§ 288.5E and 288.9A, which included:

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- Reviewing 14 assessment refund claims totaling \$1,120,004.76 to determine whether OERB received the refund request within the allowable time frame and to determine that the application was reviewed for completeness and mathematical accuracy, and the pro forma invoice was signed by the Executive Director; see results in conclusion and related finding.

FINDINGS AND RECOMMENDATIONS

Missing Documentation for Assessment Refund Expenditures

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government*¹ states, "Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination."

In addition, the *Oklahoma Archives and Records Commission Amendments to Records Disposition Records Disposal Schedule – Oklahoma Energy Resources Board Assessment Refund Files* section 1-4 states: "Retain in office one (1) year, then destroy provided all audits have been completed and all applicable audit reports have been accepted and resolved by all applicable federal and state agencies provided no legal actions are pending."

Documentation for 3 of 14 tested refund claims, totaling \$1,071,119 of \$1,120,005, was not available for review. All three claims were FY17 OERB refunds paid in FY 18. As a result, we were unable to determine whether the Agency complied with the refund timing requirements in statute 52 O.S. § 288.9A.

Management stated that the FY17 refund supporting documentation had accidentally been shredded as part of the destruction of records process. An employee not familiar with the refund process did not realize the FY17 refunds could be included in the FY18 audit and therefore shredded the box of documents unintentionally.

Failure to maintain documentation of transactions increases the risk that unapproved payments could be made without detection and impedes the ability of auditors or other independent parties to verify the appropriateness of transactions. It also places the Agency out of compliance with state agency records retention guidelines.

¹ 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.

Recommendation

Management should ensure that Assessment Refund expenditure documentation is safely maintained and readily available for examination, and should observe the records disposal timelines established for state agencies by the Archives and Records Commission.

Views of Responsible Officials

Management has implemented a new policy that should decrease the risk of premature and/or unintentional destruction of records/documentation. Moving forward, any files deemed scheduled for disposal shall first be visually inspected and approved for disposal by the OERB Controller and/or Executive Director. Approval shall be provided in writing and include a list of records approved for disposal. Written disposal approvals shall be maintained by the Controller and retained for no less than three years.

OBJECTIVE II

Determine whether expenditures incurred under the Beacon Environmental contract were allowable and accurately reported in the accounting records

Conclusion

Expenditures incurred under the Beacon Environmental 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 the expenditure process and identified significant internal controls related to expenditures and verified that Beacon expenditures were allowable under the Beacon contract:
 - Selected a random sample of twenty-five claims from the 36 claims (69%) and reviewed them for compliance with the contract requirements.

No findings were noted as a result of these procedures.

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