

OPERATIONAL AUDIT

OKLAHOMA ENERGY RESOURCES BOARD

July 1, 2011 through June 30, 2012



Oklahoma State
Auditor & Inspector
Gary A. Jones, CPA, CFE

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

**For the Period
July 1, 2011 through June 30, 2012**



Oklahoma State Auditor & Inspector

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September 3, 2013

TO THE OKLAHOMA ENERGY RESOURCES BOARD

This is the audit report of the Oklahoma Energy Resources Board for the period of July 1, 2011 through June 30, 2012. 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, appearing to read "Gary A. Jones".

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

Background

In 1993, leaders representing Oklahoma's oil producers and royalty owners, working with the Oklahoma State Legislature, formed the Oklahoma Energy Resources Board (OERB). Oklahoma's natural gas producers joined soon after. 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 of abandoned well sites.

The 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 is paid by oil and natural gas companies and royalty owners and is remitted to the Oklahoma Tax Commission. The assessment 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, as well as Oklahoma Administrative Code Title 243. Oversight is provided by at least eighteen board members. The eighteen members shall be independent oil or natural gas producers, or representatives of major oil companies which do business in the state. Six are appointed by the governor, six are appointed by the President Pro Tempore of the Senate, and six are appointed by the Speaker of the House of Representatives.

Board members as of August 21, 2013 are:

Tim Munson	Chairman
Danny Morgan	Vice-Chairman
Julie S. Kruger	Secretary
Rusty Johnson	Treasurer
Terry J. Adamson	Member
Mark Aebi	Member
Pete Brown.....	Member
David House	Member
Phil Cook	Member
Mike Cross	Member
Bill Gifford	Member
Tom Goresen	Member
Rob Johnston	Member
Danny Morgan	Member
Mike McDonald	Member
Garrett Phelan	Member
John Pilkington	Member
Will Whitley	Member
Wade Hutchings	Member
Ronnie Irani	Member

**Oklahoma Energy Resources Board
Operational Audit**

Table 1 summarizes OERB’s sources and uses of funds for state fiscal years 2011 and 2012 (July 1, 2010 through June 30, 2012).

Table 1 - Sources and Uses of Funds for FY 2011 and FY 2012

	2011	2012
Sources:		
Energy Resources Assessments	\$ 13,002,572	\$ 17,101,848
Interest on Investments	284,909	286,737
Other	122,696	124,634
Total Sources	\$ 13,410,177	\$ 17,513,219
Uses:		
Professional Services	\$ 12,720,602	\$ 12,881,001
Miscellaneous Administrative Expenses	59,904	71,448
General Operating Expenses	121,841	96,259
Scholarship, Tuition, Incentive Payment	277,500	338,000
Refunds, Indemnities, Restitution	1,264,653	1,481,638
Program Reimb. Litigation Costs	178,593	236,153
Payments-Local Government, Non-Profits	2,616	-
Other	1,543	7,203
Total Uses	\$ 14,627,252	\$ 15,111,702

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

**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. In addition, 52 O.S. § 288.5(9) requires an annual independent audit of OERB’s financial transactions.

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.

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, 2011 through June 30, 2012. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of OERB’s operations. We also tested a sample 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

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 applicable finance-related laws and regulations.

Conclusion

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

Financial operations complied with the following finance-related laws and regulations:

- 52 O.S. § 288.4(I) – No member of the Board shall receive a salary for duties performed as a member of the Board however, members are eligible to receive reimbursement for expenses and travel reimbursement as provided for in the State Travel Reimbursement Act;
- 52 O.S. § 288.5(5) and (6) –The Oklahoma Energy Resources Board shall establish and administer the Energy Resources Revolving Fund, and approve or disapprove the budget of the Board;
- 52 O.S. § 288.8A(A) – 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. § 288.8A(B) - To defray the costs of receiving and depositing assessments, the Oklahoma Tax Commission shall retain Two Thousand Dollars (\$2,000.00) per month of the assessments received. The remaining monies received shall be deposited in the Energy Resources Revolving Fund.
- 52 O.S. § 288.9A – Requests for refunds;
- 74 O.S. § 85.39(A) – Approval of internal purchasing procedures by the State Purchasing Director; and
- Oklahoma Administrative Code – Title 243:1-3-2 - Funding, Title 243:10-3-1 – Payment of Assessment, Title 243:10-3-2 – Collection of Assessment, and Title 243:10-3-3 – Request for Refund.

There were no exceptions noted as a result of applying our procedures.



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