



OKLAHOMA ENERGY RESOURCES BOARD

Operational Audit

For the Period July 1, 2018 through June 30, 2019

Cindy Byrd, CPA
State Auditor & Inspector

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

**For the Period
July 1, 2018 through June 30, 2019**



Cindy Byrd, CPA | State Auditor & Inspector

2300 N. Lincoln Blvd., Room 123, Oklahoma City, OK 73105 | 405.521.3495 | www.sai.ok.gov

August 24, 2020

TO THE OKLAHOMA ENERGY RESOURCES BOARD

We present the audit report of the Oklahoma Energy Resources Board for the period July 1, 2018 through June 30, 2019. 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". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

CINDY BYRD, CPA
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. 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. 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 July 2020 are:

Mike McDonald.....	Chairman
David Le Norman	Vice-Chairman
A. Hearne Williford	Treasurer
Mark Aebi	Member
Shilpa Abbitt.....	Member
David Ferris	Member
Jeremy Fitzpatrick.....	Member
Bill Gifford	Member
Chad Haglin.....	Member
Richard Lewis.....	Member
John Pilkington.....	Member
Gordon Pennoyer.....	Member
David Sikes	Member
Danny Morgan	Member
Allen Wright	Member
Todd Wall.....	Member

Note: Five board member positions are currently vacant.

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The following table summarizes the Agency's sources and uses of funds for fiscal years 2018 and 2019 (July 1, 2017 through June 30, 2019).

Sources and Uses of Funds for FY 2018 and FY 2019

	2018	2019
Sources:		
Energy Resources Assessment	\$ 16,312,913	\$ 20,605,202
SOER Fee	975,625	1,147,400
Other Non- Receipts	592,796	1,057,096
Interest on Investments	267,023	430,296
Total Sources	\$ 18,148,357	\$ 23,239,994
Uses:		
Professional Services	\$ 13,840,720	\$ 15,430,725
Scholarships, Refunds/Reimbursements	3,716,940	2,292,873
Administrative Expenses	304,709	324,754
Library Equipment-Resources	-	25,741
Total Uses	\$ 17,862,369	\$ 18,074,093

Source: Oklahoma statewide 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 state agencies who collect, disburse, or manage funds of the state, and to 52 O.S. § 288.5 (9), which subjects OERB's financial records to an annual, independent audit.

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, 2018 through June 30, 2019.

Our audit procedures included inquiries of appropriate personnel, data analysis, and inspections of documents and records. Further details regarding our methodology are included in Appendix A.

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 expenditures paid under the Oklahoma Independent Petroleum Foundation (OIPF) contract were allowable.

Conclusion Expenditures paid under the Oklahoma Independent Petroleum Foundation (OIPF) contract were allowable.

Objective Methodology To accomplish our objective, we performed the following:

- Documented the Agency's process for making payments to OIPF, for administrative services they perform for OERB, and confirmed allowable expenditures for reimbursement per the OIPF-OERB contract.
- Tested a random sample of 30 OIPF expenditure claims from a population of 88 claims (34% of claims, totaling \$773,795.05 or 38% of the \$2,026,396.88 population) to ensure the expenditures paid were allowable as stated in the OIPF contract. We also noted the Executive Director's and Board Chair's signature approval on each claim.

No findings were identified as a result of these procedures.

OBJECTIVE II Determine whether the agency has recovered overpayments made to OIPF that were discovered in the 2016 OERB audit.

Conclusion The Agency has recovered the overpayments to OIPF that were discovered in the 2016 OERB audit.

Objective Methodology To accomplish our objective, we performed the following:

- Reviewed the 2016 OERB audit report and workpapers and confirmed the amount to be recovered from the original overpayment was \$211,230.
- Discussed with OERB staff and reviewed internal documentation, including a copy of the check sent from OIPF in the amount of \$211,230.
- Confirmed the deposit in State-Wide Accounting System records.

No findings were identified as a result of these procedures.

APPENDIX A: Detailed Methodology

In gaining an understanding of the agency and developing our objectives, in addition to routine discussions, surveys, questionnaires, analysis, and research, we performed the following:

- Reviewed revenue, expenditure, and asset-related data from the State-Wide Accounting System and gathered information from Agency personnel to assess the related financial processes and trends for any notable risks. No significant risks were identified in these general areas.
 - This included reviewing an example from the audit period of a detailed expenditure review performed by the agency's Executive Director, to confirm expenditures are being appropriately reviewed and approved.
- Assessed the risk related to several key statutes pertaining to OERB and SOER (including 52 O.S. §§ 288.5E, 288.9A, 288.7, and 288.5D), and reviewed the Agency's processes and past audit findings where applicable, to confirm that further detailed procedures were not warranted.
 - This included comparing the environmental cleanup expenditures for the audit period to the overall expenditure total from the prior year, to ensure the amount spent on cleanup was reasonable in light of the requirements outlined in 52 O.S. § 288.7.
- Gained an understanding of the Agency and Board's processes for approving and working within their contracts with OIPF and confirmed the Board's active role in budgeting and other financial processes. Determined follow-up on the specific issues contained in our detailed objectives would be sufficient to address the identified risks related to the OIPF contract.

Note that we did not identify any components or principles of internal control as significant to our objectives.



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