

OKLAHOMA ENERGY RESOURCES BOARD

FOR THE PERIOD
JULY 1, 2008 THROUGH
JUNE 30, 2009

OPERATIONAL AUDIT



Oklahoma State Auditor
& Inspector

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

**For the Period
July 1, 2008 through June 30, 2009**

STATE AUDITOR AND INSPECTOR

STEVE BURRAGE, CPA
State Auditor

MICHELLE R. DAY, ESQ.
Chief Deputy



2300 N. Lincoln Boulevard State Capitol, Room 100 Oklahoma City, OK 73105-4801 Phone (405) 521-3495 Fax (405) 521-3426 www.sai.ok.gov

June 30, 2010

TO THE OKLAHOMA ENERGY RESOURCES BOARD

This is the audit report of the Oklahoma Energy Resources Board for the period of July 1, 2008 through June 30, 2009. The Office of the State Auditor and Inspector is committed to serving the public interest by providing independent oversight and by issuing reports that serve as a management tool to the State. Our goal is to ensure a government that is accountable to the people of the State of Oklahoma.

We wish to take this opportunity to express our appreciation to the agency's staff for the assistance and cooperation extended to our office during the course of our engagement.

Sincerely,

A handwritten signature in blue ink, reading "Steve Burrage", is positioned above the printed name.

STEVE BURRAGE, CPA
STATE AUDITOR & INSPECTOR

Oklahoma Energy Resources Board Operational Audit

Background

The Oklahoma Energy Resources Board (OERB) was established by the Legislature in 1993; 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, paid for by oil and natural gas companies and royalty owners, is refundable annually between January 1 and March 31 for any contributor who does not wish to participate in the program.

Oversight is provided by twenty-one board members. The twenty-one members shall be independent oil or natural gas producers, or representatives of major oil companies which do business in the state, six to be appointed by the governor, six to be appointed by the President Pro Tempore of the Senate, six to be appointed by the Speaker of the House of Representatives and three are appointed by the Board of Directors of the OERB.

Board members are:

Dewey F. Bartlett, Jr.	Chairman
David W. House.....	Vice-Chairman
Julie S. Kruger	Secretary
Mike Cantrell	Member
Terry J. Adamson.....	Member
Mark Aebi.....	Member
Andrew Ampriester.	Member
Lee Boothby	Member
Pete Brown.	Member
Phil Cook	Member
Mike Cross	Member
Bill Gifford.	Member
Tom Goreson	Member
Suzette Hatfield	Member
Ronnie Irani	Member
Jim Medico	Member
Steve Slawson	Member
Rob Johnston	Member
Michael T. Wiskofske	Member
Vacant	Member
Vacant	Member

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Table 1 summarizes OERB's sources and uses of funds for state fiscal years 2008 and 2009 (July 1, 2007 through June 30, 2009).

Table 1 - Sources and Uses of Funds for FY 2008 and FY 2009

	2008	2009
Sources:		
Energy Resources Assessments	\$ 17,315,208	\$ 17,609,992
Interest on Investments	473,565	517,787
Federal Reimbursements	72,703	-
Other	43,873	67,625
Total Sources	<u>\$ 17,905,349</u>	<u>\$ 18,195,404</u>
Uses:		
Professional Services	\$ 13,942,192	\$ 15,434,985
Miscellaneous Administrative Expenses	66,487	42,921
General Operating Expenses	42,454	117,778
Scholarship, Tuition, Incentive Payment	458,019	505,218
Refunds, Indemnities, Restitution	375,478	4,444,584
Payments-Local Government, Non-Profits	73,132	108,232
Other	1,595	2,675
Total Uses	<u>\$ 14,959,357</u>	<u>\$ 20,656,393</u>

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

Purpose, Scope, and Sample Methodology

This audit was conducted in response to 52 O.S. § 288.5.9., which requires an independent audit of OERB's financial transactions.

The audit period covered was July 1, 2008 through June 30, 2009.

We selected our samples in such a way that whenever possible, the samples are representative of the populations and provide sufficient evidential matter. Sample methodologies can vary and are selected based on the audit objective and whether the total population of data was available. Random sampling is the preferred method; however, we may also use haphazard sampling (a methodology that produces a representative selection for non-statistical sampling), or judgmental selection when data limitation prevents the use of the other two methods. We identified specific attributes for testing each of the samples. When appropriate, we projected our results to that population.

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. 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.

Objective 1 - To 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 52 O.S. § 288.8A A. and B., 52 O.S. § 288.9A, and 74 O. S. § 85.39 A. 1. through A. 3.

Conclusion

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

With respect to the items tested, financial operations complied with the following statutes:

- 52 O.S. § 288.8A A. and B. – 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. § 288.9A – Requests for refunds; and
- 74 O.S. § 85.39 A. 1. through A. 3. – Approval of internal purchasing procedures by the Department of Central Services.

Methodology

To accomplish our objective, we performed the following:

- Documented internal controls related to the expenditure process (excluding payroll¹) which included discussions with agency personnel, observation, and review of documents;
- Tested controls, which included:
 - Reviewing a random sample of 25 contracts totaling \$408,916 from the period under audit to ensure an invitation to bid was sent to potential bidders (contracts between \$2,500 and \$10,000), an ad soliciting bids was placed in the newspaper for contracts over \$10,000, the contracts were approved by the chairman of the Board and the contracts were supported with the proper documentation;
 - Reviewing a sample of 40 (25 were random and 15 were judgmentally selected) vouchers totaling \$2,661,709.08 to ensure the expenditures were approved by the executive director/chairman of the Board, the voucher and invoice were approved, the charges were allowable under the provisions set forth in the contract and the nature of the expenditure was consistent with the Board's mission; and
 - Reviewing a random sample of 25 refunds totaling \$2,109,223.91 to ensure the refund request was properly approved.
- Reviewed the Oklahoma Tax Commission apportionment collection report for the energy resources assessment for each month of the audit period compared to the total amount deposited into fund 200 (Oklahoma Energy Resources Board) to determine whether the total deposit was \$2000² less than amount collected in accordance with 52 O.S. § 288.8A A. and B.;

¹ OERB employees are not considered to be state employees; therefore, the agency has no state payroll expenses.

² 52 O.S. § 288.8A B. states..."To defray the costs of receiving and depositing the assessments levied by this section, the Oklahoma Tax Commission shall retain Two Thousand Dollars (\$2,000.00) per month of the assessments received for deposit in the Oklahoma Tax Commission Revolving Fund created pursuant to Section 113 of Title 68 of the Oklahoma Statutes."

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- Reviewed a random sample of 25 assessment refund requests totaling \$2,109,223.91 to ensure the refund was within three months following the calendar year in which the assessment was paid as required by 52 O.S. § 288.9A and the refund request was supported with the required documentation; and
- Reviewed the approval letter from the Department of Central Services relating to OERB's internal purchasing procedures.

There were no exceptions as a result of the procedures performed.



**OFFICE OF THE STATE AUDITOR AND INSPECTOR
2300 N. LINCOLN BOULEVARD, ROOM 100
OKLAHOMA CITY, OK 73105-4896**

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