OPERATIONAL AUDIT

Oklahoma Energy Resources Board

For the period July 1, 2013 through June 30, 2014

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

Audit Report of the Oklahoma Energy Resources Board

For the Period July 1, 2013 through June 30, 2014

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Oklahoma State Auditor & Inspector

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March 24, 2015

TO THE OKLAHOMA ENERGY RESOURCES BOARD

This is the audit report of the Oklahoma Energy Resources Board (OERB) for the period July 1, 2013 through June 30, 2014. 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 to the OERB staff for their assistance and cooperation extended to our office during this 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,

Gary A Jones

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

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 provided by an unpaid, twenty-one member board (the Board). Eighteen members are independent oil or natural gas producers or representatives of major oil companies which do business in the state: six appointed by the Governor, six appointed by the President Pro Tempore of the Senate, and six appointed by the Speaker of the House of Representatives. The remaining three members, appointed by the independent producer Board member and major oil company members of the Board, consist of one member from a royalty owner association and two members represent crude oil purchasing. Members of the Board are appointed for a term of three years.

Board members as of March 2015:

Tim Munson.. Chairman

Danny Morgan. .... Vice-Chairman

Julie S. Musselman...Secretary

Rusty Johnson...Treasurer

Terry J. Adamson .... Member

Mark Aebi. .... Member

Phil Cook. .... Member

Bill Gifford. .... Member

Tom Goresen... Member

David House. .... Member

Wade Hutchings. .... Member

Ronnie Irani. .... Member

Rob Johnston... Member

David Le Norman. .... Member

Mike McDonald... Member

Tony Maranto .... Member

Garrett Phelan.. Member

John Pilkington.. Member

Will Whitley... Member

The following charts illustrate the Agency's primary funding sources, and where those funds are expended.[1]

Chart 1 – Revenues by Category for FY 2014

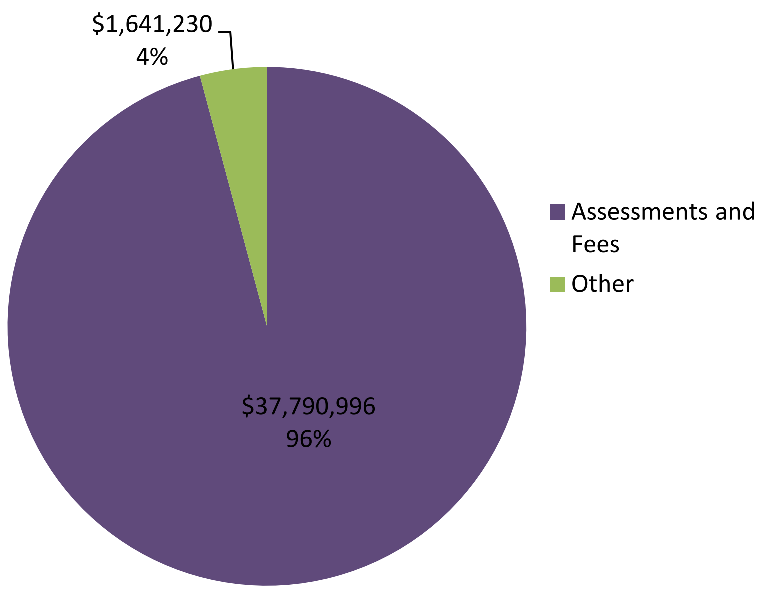
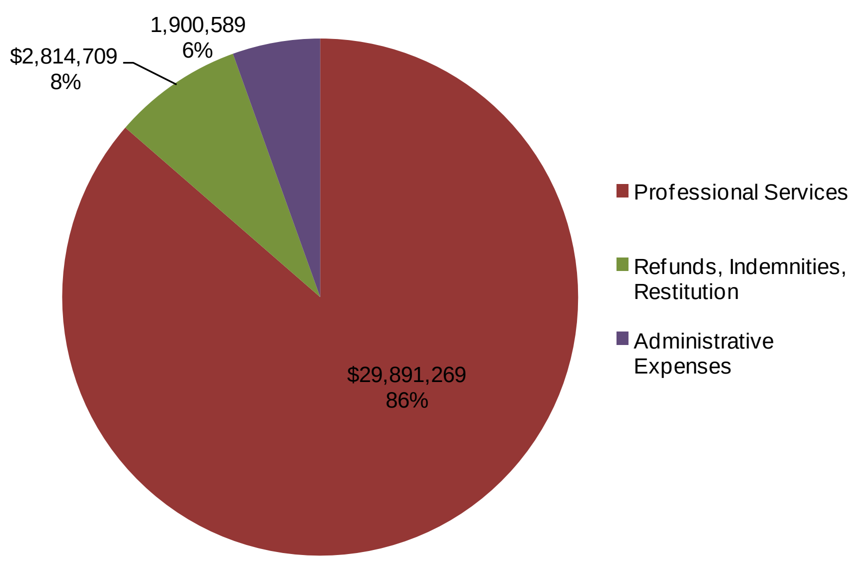


Chart 2 – Expenditures by Category for FY 2014



[1] This information was obtained from the Oklahoma PeopleSoft accounting system. It is for informational purposes only and has not been audited.

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, 2013 through June 30, 2014. As per the OERB Executive Director's request, due to the newness of the SOER program, our audit procedures specifically included revenues (with a focus on SOER). Overall, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the OERB operations. 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 Determine whether the Agency's internal controls provide reasonable assurance that revenue and expenditures were accurately reported in the accounting records, and that expenditures under the contract with Brothers & Co. were allowable and accurately reported in the accounting records.

Conclusion The Agency's internal controls provide reasonable assurance that expenditures were accurately reported in the accounting records and that expenditures under the contract with Brothers & Co. were allowable. However, internal controls for revenues, with respect to checks and cash (constituting less than 1 % of total agency revenues), did not provide reasonable assurance that revenues were accurately reported in the accounting records.

Financial operations did not comply with 62 O.S. § 34.57(C), *Timely Deposits.*

FINDINGS AND RECOMMENDATIONS

Funds are not Deposited in a Timely Manner An effective internal control system provides for adequate safeguarding of assets. In addition, 62 O.S. § 34.57(C) states that receipts of one hundred dollars or more shall be deposited on the same banking day as received; and that receipts of less than one hundred dollars may be held until accumulated receipts equal one hundred dollars or for five business days, whichever occurs first, and shall then be deposited no later than the next business day.

The Agency receives checks through the mail, and cash and checks from walk-ins, and expos. Funds are stored in a secured locking desk drawer until they are deposited. However, due to the immaterial amount of funds received, deposits are only made once or twice a month. Agency management was not aware of the statutory requirement.

Retaining funds at the agency for extended periods increases the risk of misappropriation and conflicts with the requirements of 62 O.S. § 34.57(C).

Recommendation

Management should implement a process to immediately receipt and deposit funds when they are received to ensure compliance with 62 O.S. § 34.57(C). Since almost all receipts are in the form of checks, the agency could also implement procedures where a check scanner is used to deposit checks directly into the agency clearing account upon receipt, thereby virtually eliminating the need for making physical deposits.

Views of Responsible Officials

Management has instructed the controller to make daily deposits of all cash and checks to comply with 62 O.S. § 34.57(C). Management and staff are investigating the possibility of purchasing a check scanner so that checks can be scanned and immediately deposited into clearing account, eliminating the need for physical deposits. Management has also instructed all staff to discontinue receiving cash for merchandise sales and workshop registration with the exception of during the one-day annual Expo. The Expo booth will be manned with at least three people at all times to reduce the risk of fraud.

Deposits are not Reconciled to an Independent Record

The United States Government Accountability Office's *Standards for Internal Control in the Federal Government(2014 Revision)*[2] provides that key duties and responsibilities need to be segregated among different people to reduce the risk of error or fraud, and no one individual should control all key aspects of a transaction.

Someone independent of the deposit preparation reconciles bank deposits against PeopleSoft data. However, the PeopleSoft records are not an "independent" record of funds received since PeopleSoft entries are made by the same individual that prepares and makes bank deposits. The agency does not maintain an "independent" record of all funds received that can be compared to bank deposits.

In the absence of a mechanism in place to ensure that all funds receipted are deposited, the Agency is open to the risk of fraud.

Recommendation

Management should implement changes to ensure that there is proper segregation of duties related to receipts or that a mitigating control is operating to help detect any misappropriation that could occur as a result of conflicting duties. One example of a mitigating control would be to reconcile deposits to an independent record of receipts.

Views of Responsible Officials

The majority of the checks received are received via the U.S. Postal Service. Management will implement a process in which all mail is opened with two staff members present (in most instances this will be the receptionist and the office manager). Neither staff member will be the

[2] 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.

same individual (controller) that prepares and makes the bank deposits. A check received will be documented in an independent record of receipts (ledger) and a copy of the check will be made and attached to the record. If the check is a payment to SOER, it will then be given to the SOER program director for recording into a database. Once the check has been recorded in the database, the program director will initial the check and give the check to the controller for deposit preparation. If the check is a payment to the OERB, it will be initialed by the office manager and then given directly to the controller for deposit preparation. If a check is received by another delivery method (via walk-in or event) the check will be immediately submitted to the office manager for recording in the ledger. The office manager will record and copy the check with the other person (the person delivering the check) present. Once the check is documented in the ledger and copied, the staff will follow the same procedures detailed above for SOER payments versus OERB payments. The ledger will be submitted to management once a month for reconciliation with the PeopleSoft data.

The staff will also research ways to use the SOER program director's database reports, along with the existing registration software and online store reports to reconcile the PeopleSoft data.

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