



OKLAHOMA TAX COMMISSION

Operational Audit

For the period July 1, 2021 through June 30, 2023

Cindy Byrd, CPA
State Auditor & Inspector

**Audit Report of the
Oklahoma Tax Commission**

**For the Period
July 1, 2021 through June 30, 2023**



February 14, 2024

TO THE OKLAHOMA TAX COMMISSION

We present the audit report of the Oklahoma Tax Commission for the period July 1, 2021 through June 30, 2023. 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

Background

The Oklahoma Tax Commission (the Agency or OTC) is responsible for the administration and enforcement of state tax laws, the collection of a majority of all state-levied taxes, fees, and licenses; and the subsequent apportionment and allocation of revenues earmarked to various state agencies and local units of government.

The agency is overseen by three Governor-appointed and Oklahoma Senate-confirmed commissioners. The Commission directs the administration and enforcement of Oklahoma state tax laws and the collection of taxes and fees through its agency. Under the direction of the commissioners, an executive director oversees the general practices of the agency and is assisted by a team of division directors whose staff encompasses the Agency.

Commission members as of January 2024 are:

Mark Wood..... Chairman
Shelly Paulk Vice-Chairman
Charles Prater Member

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The following table summarizes the Agency’s sources and uses of funds for fiscal years 2022 and 2023 (July 1, 2021 through June 30, 2023). Note these figures represent the full agency, not solely the Gross Production revenues discussed later in the report.

Sources and Uses of Funds for FY 2022 and FY 2023

	2022	2023
Sources:		
Net Appropriations	\$ 124,833,650	\$ 303,589,883
Taxes	127,299,607	125,661,451
Licenses, Permits, Fees	44,834,454	48,881,162
Grants, Refunds & Reimbursements	241,133	1,186,370
Fines, Forfeits, Penalties	17,843	20,503
Income from Money and Property	9,451	15,971
Non-Revenue Receipts	2,169,207	6,775
Total Sources	\$ 299,405,345	\$ 479,362,115
Uses:		
Assistance, Payments to Local Govn'ts	\$ 178,931,733	\$ 168,676,255
Personnel Services	48,686,770	47,261,334
Administrative Expenses	20,373,642	15,783,180
Professional Services	13,469,667	14,878,225
Property, Furniture, Equipment	412,812	4,834,567
Travel	409,992	517,360
Transfers and Other Disbursements	357,972	277,199
Total Uses	\$ 262,642,588	\$ 252,228,120

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

We noted that appropriations greatly increased in FY 2023. Senate Bill 1179 created the “Perform Fund” and allocated \$180 million to the Tax Commission to be expended for the purpose of paying rebates for economic development; the funds had not yet been expended by FYE 2023.

**Scope and
Methodology**

Our audit was conducted in response to 74 O.S. § 212.A.3, which requires the State Auditor and Inspector's office to audit the Oklahoma Tax Commission annually.

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, 2021 through July 30, 2023. To assess risk and develop our audit objective, we held discussions with management, distributed surveys to the Agency's personnel, and performed data analysis and prior audit follow up. These procedures included:

- Reviewing revenue, expenditure, and asset-related data from the state accounting system and gathering information from Agency personnel to assess the related financial processes and trends for any notable risks.
- Discussing expenditure processes with staff from the State Auditor Office State Agency Audit Division, which conducts routine audits of the Agency's financial records, and analyzing top vendors and payments.
- Reviewing the Agency's HR All Actions Report from the state accounting system to assess personnel changes with a financial impact during the audit period and reviewing a selection of payroll approval documentation for such changes.
- Reviewing inventory listings and discussing the inventory count process with staff.
- Reviewing pertinent statutes and regulations and assessing related risks.
- Reviewing the Agency's various funds and their authorizing statutes.

One objective related to Gross Production tax collection was developed as a result of these procedures and is discussed in the body of the report. No other significant risks or findings were identified.

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.

Internal Control Considerations

The Government Accountability Office (GAO) emphasizes the importance of internal controls at all levels of government entities. Their *Standards for Internal Control*¹ outline the five overarching components of internal control: the control environment, risk assessment, information and communication, monitoring, and detailed control activities. Any component considered significant to our audit objectives is assessed during our procedures and included as appropriate in this report.

The *Standards for Internal Control* underscore that an internal control system is effective only when the five components of internal control are operating together in an integrated manner. They also stress that documentation is a necessary part of an effective internal control system and is required to demonstrate its design, implementation, and operating effectiveness.

¹ *Standards for Internal Control in the Federal Government*, or the “Green Book,” sets standards and the overall framework for an effective internal control system in federal agencies and is treated as best practices for other levels of government. Last update 2014, accessible online at <https://www.gao.gov/products/GAO-14-704G>.

OBJECTIVE Determine whether the Agency is collecting all taxes owed to the State of Oklahoma from gross production in compliance with statutes 68 O.S. § 1001 and 68 O.S. § 1101.

Conclusion Based on discussions with management and staff and review of tax calculation reports, gross production taxes were charged in the percentages required by 68 O.S. §§ 1001 and 1101. However, we noted control deficiencies, discussed below, that could result in some gross production taxes not being collected.

Background The OneLink System, used to track gross production revenues, was implemented in November 2022. Our detailed procedures focused on the time since this change (November 2022 through June 2023) to provide the Agency with the most timely and useful recommendations.

The Oklahoma Tax Commission collected \$1,834,786,434 in gross production revenues in FY 2023 and 12% (or \$154,290,469) of those revenues were received as cash or checks.

Scope and Methodology To accomplish our objective, we performed the following.

- Documented our understanding of the revenue processes through discussion with staff and review of documentation.
- Evaluated those processes and identified and assessed significant internal controls related to our objective.
- Reviewed internal reports from the OneLink system to ensure the tax calculation percentages complied with statutes 68 O.S. § 1001 and 68 O.S. § 1101 (7% gross production tax, or 5% for qualified new production, and 0.095 of 1% excise tax per barrel of oil produced).

FINDINGS AND RECOMMENDATIONS

Formal Process Needed to Ensure All Gross Production Tax Revenues Are Collected Statutes 68 O.S. §§ 1001 and 1101 require the Oklahoma Tax Commission to collect a percentage of the gross value of each barrel of petroleum oil produced in the State of Oklahoma. The first purchaser of the product is required to collect, remit, and report gross production taxes to the Tax Commission. In some cases operators and reclaimers may also report and remit taxes.

The majority of gross production payments are made electronically through the Agency’s online payment portal, OkTAP. Electronic and physical payments for gross production are processed by Central

Processing and are entered into the Agency's internal database, OneLink. The Agency's Finance Division is responsible for reconciling the payments entered into the OneLink System to the Treasury's Activity Statement.

The Business Tax Services Division inputs data from the taxpayers' gross production reports into the OneLink system and then manually matches the payments processed by Central Processing to gross production reports. Gross production balances are added to the billing cycle that exists in the OneLink system. If a liability has been established and goes unpaid after set points in time, the OneLink system will generate and send the purchaser a bill. The balances are processed by the Business Tax Services Division and, if not paid, are turned over to the Collection Division.

It is difficult for the Agency to identify all entities that should be remitting gross production taxes or to determine if an applicable first producer, operator, or reclaimer fails to submit their gross production tax reports. While they do have some processes in place to review trends and expectations against prices and may receive feedback from third parties using production data, these are not formal procedures. As a result, the Agency may not be collecting all gross production taxes that are owed to the state. According to management, they are currently researching all outstanding liabilities.

Gross Production Audit is a new program within Audit Services created in January 2023. Audit Services is in the process of developing system infrastructure and policies and procedures that will allow them to efficiently review and audit gross production taxes.

Recommendation

We recommend management:

- Implement processes to identify all purchasers and other applicable entities in the state and ensure they are remitting all taxes owed for gross production.
- Follow up with those entities that have submitted taxes on gross production in the past three years but are no longer submitting those taxes to ensure there has been no activity.
- Ensure systems are in place to alert management if taxes owed on gross production are not received from every active purchaser, operator, or reclaimer as applicable.
- Develop or update written policies and procedures to reflect any process changes.

Views of Responsible Officials

#1: Implement processes to identify all purchasers and other applicable entities in the state and ensure they are remitting all taxes owed for gross production.

The Oklahoma Tax Commission (OTC) and the Oklahoma Corporation Commission (OCC) have begun working on a data exchange program. The OCC currently requires all oil and gas companies engaged in operating, purchasing, and plugging to register with them. The OCC maintains a historical list of all these entities and their status as active or inactive. The OTC will reconcile its list with the OCC to verify that both agencies are working with current data and there are no discrepancies. This will be complete by the end of fiscal year 2025. The OTC will also establish procedures for periodically reviewing the OCC data to ensure our records maintain integrity between both agencies.

#2: Follow up with those entities that have submitted taxes on gross production in the past three years but are no longer submitting those taxes to ensure there has been no activity.

The OTC currently has gross production records going back to January 2017. The OTC's Business Tax Services is working with Audit Services to establish discovery programs for gross production. We will be able to build a discovery program around this recommendation. We are working to have an implementation by the end of calendar year 2024.

#3: Ensure systems are in place to alert management if taxes owed on gross production are not received from every active purchaser.

The OTC's Gross Production will work with the OneLink developers to establish a report identifying entities that reported in the previous month but did not report during the current reporting period. We will develop a process and procedures for reviewing the report and contacting the companies to identify the reason for the reporting discrepancy. The Tax Commission is working to have this report built before the end of fiscal year 2024.

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