ATTESTATION REPORT
OF THE
NEBRASKA OIL AND GAS
CONSERVATION COMMISSION

JULY 1, 2018, THROUGH JUNE 30, 2020

Issued on August 11, 2020

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NEBRASKA OIL AND GAS CONSERVATION COMMISSION

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NEBRASKA OIL AND GAS CONSERVATION COMMISSION

BACKGROUND

The Nebraska Oil and Gas Conservation Commission (Commission) was created in 1959 to curb wasteful practices in oil and gas production. The Commission:

- Encourages and promotes the development, production, and use of oil and gas in the State to prevent waste.
- Provides for operation and development of oil and gas properties to permit recovery of the most oil and gas possible while protecting owners' rights.
- Encourages and authorizes cycling, recycling, pressure maintenance, and secondary recovery operations to obtain maximum oil and gas economic recovery in the State.
- Conducts hearings to devise and adopt programs aimed at accomplishing the duties listed above.

The Commission's operation cost is paid by an oil and gas production levy, various fees, and a Federal grant.

The Commission has three members appointed by the governor to four-year terms with legislative approval. At least one member must have oil and gas production experience and must have lived in Nebraska for at least a year. The other members must have lived in Nebraska for at least three years. The State geological survey director serves as the Commission's technical adviser.

The Commission may meet monthly. Members are paid $400 per day when conducting commission business and are reimbursed for expenses.

The Commission hires a director and fixes his or her salary. The director administers and enforces the Oil and Gas Conservation Law of 1959 and all rules, regulations, and orders promulgated by the Commission. The director must be a qualified petroleum engineer with at least three years of actual field experience in the drilling and operation of oil and gas wells. The director acts as the Commission's secretary and keeps its minutes and records. The director serves an indefinite term at the Commission's pleasure.

Source: Nebraska Blue Book

KEY OFFICIALS AND COMMISSION CONTACT INFORMATION

Nebraska Oil and Gas Conservation Commissioners

Name	Title	Term Ending
John A. Rundel	Chairman	September 28, 2023
Thomas D. Oliver	Commissioner	September 28, 2021
Dallen Juelfs	Commissioner	September 28, 2021

Nebraska Oil and Gas Conservation Commission Executive Management

Name	Title
Stanley Belieu	Director
Todd Boesiger	Deputy Director

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P.O. Box 399
Sidney, NE 69162
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SUMMARY OF COMMENTS

During our examination of the Nebraska Oil and Gas Conservation Commission (Commission), we noted certain deficiencies and other operational matters that are presented here. The following comments are required to be reported in accordance with *Government Auditing Standards*: Comments #1, "Operator Certificates of Deposits," #2, "Incorrect Termination Payment," #3, "Other Payroll Processing Issues," #4, "Revenue Internal Control Issues," #5, "Fixed Asset Procedures," and #6, "Expenditure Control Issues," which are considered to be significant deficiencies.

These comments and recommendations are intended to improve the internal control over financial reporting or result in operational efficiencies in the following areas:

1. ***Operator Certificates of Deposits:*** The Commission accepts certificates of deposit in lieu of the bond required for each well under Title 267 NAC 3-004. As of June 30, 2020, the Commission held in excess of $3.1 million in such certificates of deposit. The Commission's rules and regulations require the certificates to be in the name of the Commission. In practice, however, the certificates are in the name of both the Commission and the operator filing the bond. The Commission does not confirm the certificates with the banks or financial institutions annually, requesting acknowledgement that the certificates can be released or assigned only upon approval of the Commission. Additionally, the Commission did not appear to be inspecting plugged wells timely, resulting in some certificates of deposit being held long after the Form 6, Plugging Record, had been filed.

2. ***Incorrect Termination Payment:*** The Commission failed to pay the former Director one-fourth of his unused sick leave balance upon retirement. The amount owed to the former Director is in excess of $23,000.

3. ***Other Payroll Processing Issues:*** The APA noted a number of other issues related to payroll processing, including an unallowable $3,080 severance payment to a terminated employee; questioned Federal payroll costs related to the allocation of payroll to the Federal program; lack of Commission approval for the $400 board per diem; lack of segregation of duties; lack of documentation to support a pay increase for a Nebraska Association of Public Employees (NAPE) employee; and other concerns. The total amount of payroll expenditures was $1,316,986.

4. ***Revenue Internal Control Issues:*** The Commission lacked adequate documentation to support three amounts received, totaling $77,938. The Commission failed to deposit 2 of 10 receipts tested within seven days, as required by statute. The two receipts, totaling $550, were deposited 9 and 15 days after their arrival in the office. Another $100 check, which arrived in the office during the APA's visit, was not deposited for nine days. The Commission did not create an initial control log of the monies received in the office, and several individuals had access to the funds prior to a receipt being written, which occurred after the Director approved the application that accompanied the payments.

5. ***Fixed Asset Procedures:*** The APA noted a number of issues related to the fixed asset processes, including a lack of segregation of duties, an outdated capitalization policy, and the untimely addition of assets in the system.

6. ***Expenditure Control Issues:*** The Commission failed to provide documentation to support a $1,083 expense reimbursement to the Director for travel. The Commission also lacked written agreements with vendors for services provided. The total paid to the vendors was $30,521. The Commission's pre-audit function failed to include a third individual in the processing of transactions, and the telephone policy is outdated.

7. ***Commission-Owned Vehicles:*** The Commission lacked a written vehicle usage policy, which is required by statute. The Commission owns four vehicles; however, two are not driven over 1,000 miles per month, the standard that the Department of Administrative Services uses for the necessity of a permanently assigned vehicle. There is no independent approval of the Director's travel logs. The locations noted on the inspector's travel logs are not specific enough to allow for a determination as to whether the miles driven were reasonable.

SUMMARY OF COMMENTS
(Concluded)

8. ***Fees & Fines:*** Commission statutes for the collection of fines or penalties conflict with applicable provisions of the Nebraska Constitution for the deposit of such receipts. Although there were no such fees and fines collected during the fiscal year, the issue still needs to be addressed.

9. ***Oil and Gas Severance and Conservation Tax Return Reconciliation Procedures:*** The Commission has a process for reconciling the oil sales reported by the operators to oil sales listed on the Nebraska Department of Revenue's Form 61 ("Nebraska Severance and Conservation Tax Return"), which are submitted with the Oil and Gas Severance and Conservation taxes. The Commission was not performing the reconciliation timely, however. When the APA began the attestation in June 2020, the Commission had not reconciled the January through April reports. The Commission also spot checks the conservation taxes reported to it by the Nebraska Department of Revenue but does not document the review.

10. ***Oil and Gas Severance and Conservation Taxes:*** The Nebraska Department of Revenue is responsible for the collection of the Oil and Gas Severance and Conservation taxes. For the period July 1, 2018, through June 30, 2020, the Nebraska Department of Revenue collected $5,783,277 in severance and conservation taxes, of which the Commission received $1,064,286 in conservation taxes. The value of the oil and gas severed is the basis for the severance and conservation taxes. The Nebraska Department of Revenue lacked procedures for ensuring that the value of the oil and gas severed and reported was accurate, and the exemptions claimed on each Form 61 were valid in accordance with statutes.

More detailed information regarding the above items is provided hereinafter. It should be noted that this report is critical in nature, containing only our comments and recommendations on the areas noted for improvement and does not include our observations on any accounting strengths of the Commission.

Draft copies of this report were furnished to the Commission to provide its management with an opportunity to review and to respond to the comments and recommendations contained herein. All formal responses received have been incorporated into this report. Responses that indicate corrective action has been taken were not verified at this time, but they will be verified in the next examination.

COMMENTS AND RECOMMENDATIONS

1. Operator Certificates of Deposits

The Nebraska Oil and Gas Conservation Commission's (Commission) rules and regulations require a bond for each well prior to the commencement of any work thereon. The Commission accepts certificates of deposit in lieu of the bond required. As of June 30, 2020, the Commission held in excess of $3.1 million in such certificates of deposit.

The Auditor of Public Accounts (APA) noted the following issues related to these certificates of deposit:

- The Commission's rules and regulations require the certificate to be in the name of the Commission. In practice, however, the certificates are in the name of both the Commission and the operator filing the bond, increasing the risk that the certificates could be cashed without Commission approval.

- The Commission failed to obtain annually the acknowledgement from the holding banks or financial institutions that the certificates can be released or assigned only upon approval of the Commission. Instead, the Commission obtained such acknowledgement at the time of the certificate filing alone, which could have been several years prior. The APA found that, for 1 of 10 certificates tested, for $10,000, the Commission lacked even this initial bank acknowledgement. For the same certificate, moreover, the bank acknowledged that it had been cashed by the operator, so it was no longer valid.

- The Commission did not appear to inspect plugged wells timely, resulting in some certificates of deposit being held long after the Form 6, Plugging Record, had been filed. Once a Form 6 is filed by the operator, the Commission is able to begin the inspection process. For 2 of the 10 certificates of deposit tested, the company filed a Form 6. One Form 6 was filed in September 2017. The Commission has not inspected or approved the plugging of the well and, as noted above, the operator had cashed the $10,000 certificate without the Commission's approval. The second certificate had been released in May 2016. The Commission had left a message for the operator and never heard back. The Commission still had the certificate as of June 30, 2020.

- At times, following a show cause hearing by the Commission, certificates of deposit were cashed and deposited to the Commission's funds for the expenses incurred by the Commission for plugging an abandoned well. Despite being the Commission's established practice, neither statute nor administrative rules and regulations expressly provide a specific process for such procedure – including, among other things, the timing for use or release of the funds, the amount of the funds to be retained by the Commission, or how disputes regarding the funds are to be resolved. The APA tested a total of four certificates that were cashed during the period tested. The total amount of operator certificates of deposit cashed and deposited to the Commission's funds was $103,655.

Neb. Rev. Stat. § 57-905(3)(d) authorizes the Commission to require the following:

> *[T]he furnishing of a reasonable bond with good and sufficient surety, conditioned for the performance of the duty to comply with all the provisions of the laws of the State of Nebraska and the rules, regulations, and orders of the commission[.]*

Title 267 NAC 3-004 states, in relevant part, the following:

> *Prior to commencement of dirt work preceding drilling, or assuming operation of any well, the person, firm or corporation commencing said drilling or operation shall make, or cause to be made, and <u>file with the Commission a good and sufficient bond</u> in the sum of not less than ten thousand dollars ($10,000) for each well or hole and payable to the State of Nebraska, conditioned for the performance of the duty to comply with all the provisions of the laws of the State of Nebraska and the rules, regulations and orders of the Commission. <u>Said bond shall remain in force and effect until plugging of said well or hole is approved by the Director or authorized deputy, a new bond is filed by a</u>*

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Operator Certificates of Deposits (Continued)

> *successor in interest or the bond is released by the Director. It is provided, however, that any owner in lieu of such bond may file with the Director a good and sufficient blanket bond in the principal sum of not less than one hundred thousand dollars ($100,000) covering all wells or holes drilling or to be drilled in the State of Nebraska by the principal in said bond; and upon acceptance and approval by the Director of such blanket bond, said bond shall be considered as compliance with the foregoing provisions requiring an individual well or hole bond.*
>
> *The Director may refuse to accept a bond or add wells to a blanket bond if the operator or surety company has failed in the past to comply with statutes, rules or orders relating to the operation of wells; or for other good cause. Any person required to file a surety bond pursuant to this rule may post cash or certificate of deposit in the amount required subject to the following conditions:*
>
> *If a person posts cash, it may be in the form of a cashier's check, certified check or legal tender of the United States of America delivered to the Commission.*
>
> *A certificate of deposit shall comply with the following:*
>
> - *The certificate of deposit shall be in the name of the Nebraska Oil and Gas Conservation Commission and only the signature of the Commission's authorized representative shall be on the withdrawal card as the authorized signature to withdraw the deposit.*
> - *The certificate of deposit shall be in a bank or financial institution insured by the Federal Deposit Insurance Corporation and located in the State of Nebraska.*
> - *The Commission may reject any certificate of deposit, when, combined with other certificates of deposit on that bank or financial institution, exceeds the limits of Federal Deposit Insurance Corporation insurance coverage.*
> - *The certificate of deposit shall be in the custody of the Commission.*
> - *The certificate of deposit shall be automatically renewable.*
> - *Interest earned on the certificate of deposit is the property of the person who provided the money for it. The certificate of deposit and the money it represents is the property of the Commission until released by the Director.*

(Emphasis added.) Per Title 267 NAC 3-007, "If any well is plugged or abandoned, a record of work done must be filed on Form 6 with the Director within thirty (30) days after the work is completed."

In addition to the concerns noted above, the APA found an instance in which the Commission cashed a $25,000 certificate of deposit, plus interest, of an operator who appears to have died. A Form 6 was filed in May 2016. According to information provided by the Commission, the operator died in September 2016. The Commission cashed the certificate of deposit in November 2019. As noted, the Commission lacked the authority to cash the certificate of deposit, which ultimately should have been released by the Commission and turned over to the State Treasurer as unclaimed property.

The APA has found no authority, statutory or otherwise, for the Commission to cash a certificate of deposit, issued pursuant to Title 267 NAC 3-004, and retain the proceeds thereof when the issuing operator has filed a proper Form 6 and complied with the applicable requirements. Such lack of formal authorization is problematic given that governmental entities are restricted to acting in accordance with the provisions of their enabling legislation. Regarding such statutory parameters, the Nebraska Attorney General has stated the following:

> *A state agency includes boards, commissions, departments, officers, divisions and other administrative offices of the state government. Unless they are constitutionally created officers or agencies, agencies have only that authority explicitly granted by statute.*

1. Operator Certificates of Deposits (Continued)

Op. Att'y Gen. No. 01041 (December 21, 2001). According to the Nebraska Supreme Court, moreover, "An administrative agency . . . has limited power, and its power is to be strictly construed." Governor's Policy Research Office v. KN Energy, 264 Neb. 924, 932, 652 N.W.2d 865, 872 (2002).

Consequently, absent express statutory authority to the contrary, when the issuer of a certificate of deposit pursuant to Title 267 NAC 3-004 has filed a proper Form 6 but cannot be located thereafter, the Commission should release the certificate and treat it as unclaimed property.

The statutes governing unclaimed property are found in the Uniform Disposition of Unclaimed Property Act, which is set out at Neb. Rev. Stat. §§ 69-1301 through 69-1329 (Reissue 2018, Supp. 2019). Specifically, Neb. Rev. Stat. § 69- 1307.01 (Reissue 2018) states the following:

> *Except as otherwise provided by law, all intangible personal property held for the owner by any court, public corporation, public authority, or public officer of this state, or a political subdivision thereof, that has remained unclaimed by the owner for more than three years is presumed abandoned.*

Neb. Rev. Stat. § 69-1310 (Reissue 2018) requires abandoned property to be reported and remitted to the Nebraska State Treasurer, as follows:

> *(a) Every person holding funds or other property, tangible or intangible, presumed abandoned under the Uniform Disposition of Unclaimed Property Act shall report to the State Treasurer with respect to the property as hereinafter provided.*
>
> * * * *
>
> *(d) The report shall be filed before November 1 of each year as of June 30 next preceding, but the report of life insurance corporations shall be filed before May 1 of each year as of December 31 next preceding. A one-time supplemental report shall be filed by life insurance corporations with regard to property subject to section 69-1307.05 before November 1, 2003, as of December 31, 2002, as if section 69-1307.05 had been in effect before January 1, 2003. The property must accompany the report unless excused by the State Treasurer for good cause. The State Treasurer may postpone the reporting date upon written request by any person required to file a report.*
>
> *(e) If the holder of property presumed abandoned under the act knows the whereabouts of the owner and if the owner's claim has not been barred by the statute of limitations, the holder shall, before filing the annual report, communicate with the owner and take necessary steps to prevent abandonment from being presumed. The holder shall exercise due diligence to ascertain the whereabouts of the owner.*

Good internal controls require procedures to ensure that operator certificates of deposit issued pursuant to Title 267 NAC 3-004 are handled in accordance with applicable administrative rules and regulations.

Without such procedures, there is an increased risk for not only loss of State funds but also the Commission's mishandling of operator certificates of deposit.

We recommend the Commission implement procedures to ensure compliance with Title 267 NAC 3-004 in the following particulars:

- The Commission's rules and regulations are updated to conform to the current practice of requiring certificates of deposit to be issued in the names of both the Commission and the operator.
- Certificates of deposit are confirmed annually with each holding bank or financial institution, including assurance that the certificates will be released only upon approval of the Commission.

COMMENTS AND RECOMMENDATIONS
(Continued)

1. Operator Certificates of Deposits (Concluded)

- Inspection of a plugged well for which a Form 6 has been submitted is conducted timely, so any certificate of deposit being held for that well can be released expeditiously.
- Rules and regulations governing certificates of deposit obtained to ensure operator performance, as authorized by § 57-905(3)(d), are revised to provide a specific process for the Commission's use and handling of those funds.
- Any certificate of deposit that cannot be returned due to the death or absence of the issuer is released and turned over to the State Treasurer as unclaimed property.

Commission Response: Our Commission will review our practices regarding the use, handling and maintenance of CD's. If deemed necessary, policy changes and/or formal rules changes implemented.

2. Incorrect Termination Payment

The Commission failed to pay the former Director one-fourth of his sick leave balance at termination, which would have totaled in excess of $23,000. The following table provides the relevant details for this payment:

Termination Date	Sick Leave Balance at Termination	¼ Sick Leave Hours	Pay Rate	Total Amount Due
6/30/2019	1,549.98	387.50	$ 61.58	$ 23,862.72

Neb. Rev. Stat. § 81-1325 (Reissue 2014) states the following:

> *Each employee who meets the minimum age and service requirements for retirement under any existing state or federal retirement system shall, upon termination of employment with the state by reason of retirement or voluntary resignation in lieu of retirement, be entitled to a one-time payment of one-fourth of his or her accumulated unused sick leave, with the rate of payment based upon his or her regular pay at the time of termination or retirement. Upon the death of an employee, his or her beneficiary shall be paid one-fourth of his or her accumulated unused sick leave, with the rate of payment based upon his or her regular pay at the date of death.*

The former Director met the minimum age and service requirements to be eligible for the payment.

Additionally, good internal controls require procedures to ensure that Commission personnel receive the payments to which they are entitled by law upon termination.

Without such procedures, there is an increased risk of both noncompliance with statute and incorrect payments to employees upon termination.

> We recommend the Commission implement procedures to ensure personnel receive the payments to which they are entitled by law upon termination. We recommend also the Commission make immediate payment to the former Director for one-fourth of his unused sick leave balance, in accordance with State statute.

Commission Response: NOGCC has corrected this issue, full payment has been completed.

3. Other Payroll Processing Issues

In addition to the incorrect termination payment addressed in the immediately preceding comment, the APA found a number of other issues related to payroll processing by the Commission, as follows:

Unallowable Severance Payment
The Commission terminated a new employee on December 10, 2018, and granted a two-week severance payment to the employee in the amount of $3,080. That payment was not made pursuant to any binding employment contract or settlement agreement.

Extra payments to State employees for services either previously provided or – as in this case – not provided at all, are prohibited by Article III, §19, of the Nebraska Constitution, which contains the following:

> *The Legislature shall never grant any extra compensation to any public officer, agent, or servant after the services have been rendered nor to any contractor after the contract has been entered into, except that retirement benefits of retired public officers and employees may be adjusted to reflect changes in the cost of living and wage levels that have occurred subsequent to the date of retirement.*

The Nebraska Attorney General offers this succinct explanation of the above constitutional prohibition: "Nebraska law generally requires work be performed in order for payment to be received." Op. Att'y Gen. 95071 (Sept. 13, 1995).

Good internal controls require procedures to ensure that the Commission does not make gratuitous payments in violation of Article III, §19.

Without such procedures, there is an increased risk of both improper distribution of Commission funds and violation on the Nebraska Constitution.

> We recommend the Commission implement procedures to prevent any unconstitutional severance payments to its employees.

Commission Response: NOGCC understands this severance payment should not have occurred.

Federal Payroll Allocation
During the period tested, the Commission charged 100% of the work time for the Director or the Deputy Director to a Federal grant for the Underground Injection Control (UIC) Program. This appears unreasonable, as both the Director and the Deputy Director perform administrative duties that are not related to the Federal grant. Therefore, it is unlikely that 100% of either employee's time is spent only on Federal activities.

The Commission charged the Federal grant the following amounts for the period tested:

Grant	Paid in FY19
2018 Grant	$ 5,184.30
2019 Grant	$ 71,794.85
Total FY19	**$ 76,979.15**

Grant	Paid in FY20
2019 Grant	$ 7,226.61
2020 Grant	$ 52,945.17
Total FY20	**$ 60,171.78**

Furthermore, the Commission's policy for documenting time spent on the UIC Program is outdated. The policy, last revised in June 2006, states that only one person is allowed to spend 100% of his or her time working on the program, as shown below:

3. Other Payroll Processing Issues (Continued)

> Only one NOGCC employee is allowed to certify that he, in fact, spent 100% of his time working on our UIC program. This individual is the Staff Petroleum Engineer/UIC Director.
>
> This position may certify that he worked 100% of his time on the UIC Program. The certification is to be made, at a minimum, on a semi-annual basis. The employee must certify that 100% of his work hours were spent on the program. Either the employee or supervisory official having first-hand knowledge of the work performed by the employee according to Circular A-87 must sign the certification.
>
> The certification will have two signatures attesting to the statement(s) made. The employee and his supervisor will sign the certification.

The Federal regulation governing compensation for personal services paid for with a Federal award is found at 2 CFR 200.430. Specifically, subsection (a) thereof states the following:

General. Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits which are addressed in § 200.431 Compensation - fringe benefits. Costs of compensation are allowable to the extent that they satisfy the specific requirements of this part, and that the total compensation for individual employees:

<u>(1) Is reasonable for the services rendered and conforms to the established written policy of the non-Federal entity consistently applied to both Federal and non-Federal activities</u>;

(2) Follows an appointment made in accordance with a non-Federal entity's laws and/or rules or written policies and meets the requirements of Federal statute, where applicable; and

(3) <u>Is determined and supported as provided in paragraph (i) of this section, Standards for Documentation of Personnel Expenses, when applicable</u>.

(Emphasis added.) The "Standards for Documentation of Personal Expenses" are found in 2 CFR 200.430(i), as follows:

(i) Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);

(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;

(v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and

(vi) [Reserved]

3. <u>Other Payroll Processing Issues</u> (Continued)

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

(ix) Because practices vary as to the activity constituting a full workload (for IHEs, IBS), records may reflect categories of activities expressed as a percentage distribution of total activities.

(x) It is recognized that teaching, research, service, and administration are often inextricably intermingled in an academic setting. When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected.

Because it is unreasonable for the Director or Deputy Director to spend 100% of their time on the UIC Program, and the Commission lacks an updated policy for documenting time spent on that program, the entire amount of payroll charged to the Federal program must be considered questioned costs.

Good internal controls require procedures to ensure the implementation of a reasonable method for charging costs to the UIC Program, and the Commission's policy for documenting time spent on that program is updated accordingly.

Without such procedures, there is an increased risk for loss or misuse of Federal funds.

> We recommend the Commission implement procedures to ensure its policy for allocation of Federal payroll costs is updated and reviewed regularly. We also recommend the Commission review those employees who perform activities related to the Federal program. If one person does not actually spend 100% of his or her time on the Federal program, time records detailing the amount spent on the Federal program versus the non-Federal programs would be required.

Commission Response: Normally, the position of Staff Petroleum Engineer is directly responsible for the Federal UIC program, this position is currently vacant and will be filled when the oil and gas industry improves and the agency budget allows.

Board Per Diem
The $400 per diem paid to the Commissioners has not been formally approved by the Commission, as required by statute.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. Other Payroll Processing Issues (Continued)

Neb. Rev. Stat. § 57-904 (Cum. Supp. 2018) states the following regarding the Commission members' per diem:

> *The members of the commission shall receive as compensation for their services not more than four hundred dollars per day for each day actually devoted to the business of the commission, except that they shall not receive a sum in any one year in excess of four thousand dollars each. In addition, each member of the commission shall be reimbursed for his or her actual and necessary traveling and other expenses incurred in connection with the carrying out of his or her duties as provided in sections 81-1174 to 81-1177.*

(Emphasis added.) The first bill responsible for this current statutory language was LB 713 (2018), which was eventually amended into LB 1008 (2018). The original LB 713 provided for a flat fee of $500 per day, up to $6,000 each, per year. It also contained this provision:

> *Beginning in December 2020 and once every five years thereafter during the month of December, the director of the commission may recommend to the voting members of the commission an increase or decrease in compensation for days devoted in service to the business of the commission.*

Although not retained in the final version of LB 1008, which was voted into law, this language indicates an original legislative intent that, though the Director could "recommend" a change in pay, the "voting members of the Commission" would make the final decision regarding the actual per diem amount.

With the adoption of the current language in § 57-904, through passage of LB 1008, the Legislature provided for compensation of "not more than four hundred dollars per day." This language clearly authorizes the Commission to determine the amount of the per diem, as long as it does not exceed the maximum compensation allowed; however, the Commission appears not to have formally exercised that statutory decision-making authority. Instead, without any documented determination by the Commission, its members have been receiving automatically the full $400 maximum permitted – despite the statute providing for "not more than" that amount.

Good internal controls require procedures to ensure that the Commission exercises its statutory authority to determine the specific per diem amount received by members.

Without such procedures, there is an increased risk for loss or misuse of funds.

> We recommend the Commission implement procedures to ensure proper approval of a specific per diem amount for its members, as provided by statute.

Commission Response: The Commissioners $400 per diem/meeting is on the agenda for discussion on the August 25th Commission meeting.

Other Internal Control Issues Over Payroll
The APA also found the following internal control issues related to payroll:

- Due to the small size of the agency, there is a lack of segregation of duties over payroll processing. Three employees – one of whom is the Director – have access to process payroll transactions in the accounting system. There is no review by the Commission to ensure the Director's rate of pay, hours worked, etc., are correct.

- One employee logs into the accounting system with her ID and password but allows another employee to process transactions. Each individual requiring access to the system should be assigned his or her own user ID.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Other Payroll Processing Issues</u> (Continued)

- One employee used 48 hours of consecutive sick leave in February 2020; however, the Commission failed to obtain the substantiating evidence authorized by its own policy.

- The additional .3% pay increase for an employee covered by the Nebraska Association of Public Employees (NAPE) contract was not supported by a satisfactory performance score for the past year, as required by that agreement.

The following is the Commission's sick leave policy:

> **NEBRASKA OIL AND GAS CONSERVATION COMMISSION**
> **Sick Leave Policy**
> March 21, 2005
> 1st Revision, December 11, 2007
>
> This Policy shall supersede, in part, Section 14.12 of the 2007-2009 NAPE/AFSCME Labor Contract.
>
> Section 14.12 states in part: "Substantiating evidence may be required if the sick leave absence exceeds three consecutive workdays."
>
> Substantiating evidence of sick leave use may be required if the sick leave absence exceeds five (5) consecutive workdays. Substantiating evidence shall be a signed note from the employee's doctor. This note shall be given to the agency Director for approval.
>
> William H. Sydow, Director

Article 11.2 of the 2019-2021 NAPE Contract for Local 61 of the American Federation of State, County and Municipal Employees provides the following:

> *On July 1, 2019, all employees, excluding those specified in Section 11.2.1, shall receive a two percent (2%) salary increase to their annual full-time equivalent salary base. An additional salary increase of three tenths of a percent (0.3%) <u>shall be available to those whose performance has been scored at least satisfactory by their agency for the past calendar year</u>. These increases, where applicable, shall be calculated simultaneously for a total of two and three tenths (2.3%) salary increase to their annual full-time equivalent salary base.*

(Emphasis added.) Good internal controls requires procedures to ensure the following: 1) there is a proper segregation of duties over the Commission's payroll processing, including a review of the Director's rate of pay, hours worked, etc.; 2) all employees requiring access to the accounting system have their own user ID and password; 3) substantiating evidence of lengthy employee sick leave is obtained, as authorized by the Commission's own policy; and 4) the additional .3% pay increase for any employee covered by the NAPE contract is supported by a satisfactory performance score for the past year, as required by that agreement.

Without such procedures, there is an increased risk for the loss or misuse of funds.

We recommend the Commission implement procedures to ensure the following:

- There is a proper segregation of duties over the Commission's payroll processing, including a review of the Director's rate of pay, hours worked, etc.

COMMENTS AND RECOMMENDATIONS
(Continued)

3. <u>Other Payroll Processing Issues</u> (Concluded)

- All Commission staff requiring accounting system access have a unique user ID and password.
- Substantiating evidence is obtained, as authorized by the Commission's policy, for sick leave in excess of five days.
- The additional .3% pay increase for any employee covered by the NAPE contract is supported by a satisfactory performance score for the past year, as required by that agreement.

4. <u>Revenue Internal Control Issues</u>

The APA found a number of other internal control issues related to the processing of revenue transactions, as follows:

Untimely Deposits
For 2 of 10 receipts tested, the Commission failed to deposit monies received in accordance with the seven-day requirement in State statute, as follows:

Receipt #	Date Received	Date Receipt Written	Date of Deposit	# of Days from Date Received to Deposit Date	Type of Receipt	Amount
20102	5/22/2019	5/31/2019	6/6/2019	15	Shut-In-Well Fee	$ 200.00
20356	1/16/2019	1/23/2019	1/25/2019	9	Hearing Fee	$ 250.00

Additionally, one check for plugging fees, totaling $100, was observed in the Commission office during the APA's site visit on June 23, 2020. The APA determined that the check was not deposited until July 2, 2020, some nine days later.

Neb. Rev. Stat. § 84-710 (Reissue 2014) states the following:

> *<u>It shall be unlawful for any executive department</u>, state institution, board, or officer acting under or by virtue of any statute or authority of the state, including the State Racing Commission, <u>to receive any fees, proceeds from the sale of any public property, or any money belonging to the state or due for any service rendered by virtue of state authority without paying the same into the state treasury within three business days of the receipt thereof when the aggregate amount is five hundred dollars or more and within seven days of the receipt thereof when the aggregate amount is less than five hundred dollars</u>. The State Treasurer may, upon a written request from an executive department, state institution, board, or officer stating that the applicable time period cannot be met, grant additional time to remit the funds to the state treasury. Funds received by an executive department, state institution, board, or officer for a good or service which may or may not be delivered contingent upon a selection process shall not be subject to this section until the selection period is over.*

According to the Commission, funds received are held until the accompanying application is approved by the Director or Deputy Director, at which time the receipt is written.

Good internal controls requires procedures to ensure that Commission receipts are deposited timely with the State Treasurer, in accordance with statute.

Without such procedures, there is an increased risk for both noncompliance with State statute and loss of funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

4. Revenue Internal Control Issues (Continued)

We recommend the Commission implement procedures to ensure all funds received are deposited in accordance with the requirements of State statute. If the application is later determined to be incomplete, the Commission can issue a refund of the amount collected.

Lack of Documentation for Receipt Amounts
The Commission failed to provide adequate documentation to support a number of revenue amounts tested during the period, as follows:

Date	Revenue Type	Amount	Description
7/6/2018	Unclaimed Property for Old CD	$ 50,621	The Commission received unclaimed property of an old, uncashed CD from the State of Texas. Upon inquiry into the operator or well related to the CD, the Commission was unable to provide the documentation requested. Commission staff indicated the former Director handled the paperwork for the transaction.
7/20/2018	Affidavit	$ 20	The APA tested one receipt that included an email requesting an affidavit on three properties. However, the fee was collected for only two properties, and an adequate explanation for the difference was not provided.
11/25/2019	Cashing of CD	$ 27,296	This receipt represents a CD that was cashed upon the death of the operator. Under normal circumstances, the Commission first conducts a "show cause" hearing prior to cashing the CD. In this case, the "show cause" hearing was not conducted. This same CD is addressed in Comment and Recommendation Number 1 ("Operator Certificates of Deposit") herein, as the Commission should have reported and remitted the CD to the State Treasurer as unclaimed property.
	Total	**$ 77,937**	

Good internal controls require procedures and records to support adequately all amounts received.

Without such procedures and records, there is an increased risk for the loss or misuse of funds.

We recommend the Commission implement procedures to ensure amounts received are supported adequately.

Lack of Segregation of Duties and Other Internal Control Issues
The Commission lacks a segregation of duties over its receipt process. First, an initial control log of monies received is not prepared by the individual opening the mail. As a result, no control is established over any of the monies that come into the office. Next, the checks and accompanying applications go to the Director for approval. Upon approval, the Commission allows any of its staff members to prepare receipts for the payments. Therefore, a number of individuals are handling the funds received before a record of those monies is ever prepared.

Furthermore, three individuals can process receipts in the accounting system; however, the Director approves the deposit document. There is not an adequate comparison of the receipts written to the general ledger detail report to ensure that all monies received were deposited. This is evidenced by the fact that a $1,000 deposit processed in December 2018 was not properly posted to the Commission's funds until the APA raised the issue in late June 2020.

4. Revenue Internal Control Issues (Concluded)

Good internal controls require procedures and records to ensure that control is established and maintained over any funds received. Those same procedures should ensure also that all monies received are properly deposited.

Without such procedures, there is an increased risk for fraud, misuse, or loss of funds.

> We recommend the Commission implement procedures to compensate for the lack of segregation of duties and to provide better controls over cash received in its offices. Specifically, an initial control record should be created each day upon opening the mail containing funds. That control record should be reconciled to the receipts written and the general ledger detail report to ensure all funds received have been deposited.

Commission Response: NOGCC's small staff strives to be timely on all the duties we perform. Vacation, sick leave, excused absences, and lately COVID-19 disruptions have impacted our internal control.

5. Fixed Asset Procedures

The APA found a number of issues related to the Commission's controls over its fixed assets, as follows:

- There is a lack of segregation of duties over the fixed asset process, as one individual is responsible for processing fixed asset transactions in the system from beginning to end. That same individual is the only one who reviews the fixed asset exception reports and the surplus property notification forms, as well as performs the Commission's annual inventory.

- The Commission does not follow its own capitalization policy. The current policy requires assets with a cost over $1,500 to be capitalized. However, sometime during 2019, the Commission began capitalizing assets with a cost of $5,000 or more.

- The Commission purchased a new truck in April 2020 for $36,482 and did not add it to the fixed asset listing until June 2020, shortly before the end of the fiscal year.

Good internal controls require procedures to ensure the following: 1) a proper segregation of duties over the fixed asset process, so no individual is in a position both to perpetrate and to conceal errors or irregularities; 2) adherence to – or a revision of – the Commission's own fixed asset capitalization policy; and 3) the timely addition of assets from the fixed asset listings.

Without such procedures, there is an increased risk for the loss or misappropriation of Commission assets.

> We recommend the Commission implement procedures to ensure the following:
>
> - If an adequate segregation of duties is not possible, the Director should perform additional procedures to compensate for that shortcoming. Such procedures could include the review and documented approval of the surplus property notification forms, the annual inventory reports, the Asset Master List, the Additions and Retirements Report, and the various exception reports on a quarterly basis.
> - The Commission should adhere to its fixed asset capitalization policy or revise that policy accordingly.

5. <u>Fixed Asset Procedures</u> (Concluded)

- The Commission should implement procedures to ensure additions to the fixed asset listings are made timely.

Commission Response: NOGCC staff continually evolve their job duties to incorporate changes in the agency workplace. We will look at reassigning some job responsibilities as appropriate to implement APA recommendations.

6. <u>Expenditure Internal Control Issues</u>

The APA found a number of issues with the Commission's controls over its processing of expenditures, as follows:

Lack of Documentation
The Commission paid $1,083 for expense reimbursements to the Director; however, it failed to provide any supporting documentation for those expenses, which are detailed in the table below.

Date	Object Acct.	Object Account Description	Explanation	Amount
3/7/2019	571100	Board and Lodging	UIC Conference Expenses	$ 627
3/7/2019	572100	Commercial Transportation Expense	UIC Conference Expenses	$ 393
3/7/2019	575100	Miscellaneous Travel Expense	UIC Conference Expenses	$ 63
			Total	**$ 1,083**

The APA requested the supporting documentation on June 3, 2020, but it could not be provided during our site visit on June 23, 2020. According to Commission staff, those documents were misplaced.

Good internal controls requires procedures to ensure that adequate documentation is available to support all Commission expenditures, and those records are organized and stored properly.

Without such procedures, there is an increased risk for the loss or misuse of funds.

> We recommend the Commission implement procedures to ensure all Commission expenditures are supported by adequate documentation, which is organized and stored properly.

Commission Response: When the Director's missing expense reimbursement document is found it will be forwarded to the APA office.

Other Internal Controls
The APA noted also the following issues related to the Commission's internal controls over expenditure processing:

- The Commission failed to obtain written agreements with vendors to formalize the responsibilities of each party. The following table shows the vendor payments tested that lacked adequate documentation:

6. Expenditure Internal Control Issues (Continued)

GL Date	Vendor	Amount	Total Paid to Vendor during FY19 and FY20	Description
10/14/2019	Brooks Construction LLC	$ 5,500	$ 15,643	There was no written agreement between the parties for the services provided.
10/4/2019	Coordinate Solutions Inc	$ 10,747	$ 61,346	There was no written agreement between the parties for the services provided. The Commission claimed this was a sole source contract, but the proper forms for a sole source contract were not on file.
6/18/2019	Pioneer Wireline Services LLC	$ 5,100	$ 12,050	There was no written agreement between the parties for the services provided.
6/18/2019	Rig Neb IV LLC	$ 9,174	$ 31,234	There was no written agreement between the parties for the services provided.
	Totals	**$ 30,521**	**$ 120,273**	

- The pre-audit function is completed by the same individual who prepares the accounts payable documents.
- The Commission does not approve monthly financial reports during its meetings.
- The telephone policy is outdated and does not specifically address cell phones, texts, or gaming.
- The Commission failed to utilize the State-wide contracts with Office Depot and Apple. During the period tested, the Commission incurred in excess of $13,000 in office supplies, purchasing only $1,200 of that amount from Office Depot, the State's vendor. Additionally, the Commission did not use the State contract with Apple, instead purchasing two iPads, totaling $1,498, and an iMac, totaling $1,899, using the State's purchasing card, directly from an Apple store.
- The Commission failed to obtain adequate documentation to support a $9,250 payment to the Interstate Oil and Gas Compact Commission (IOGCC). The invoice received stated that the bill was for Nebraska's proportionate share of the maintenance and operation of the IOGCC, but no further details were provided.

The Department of Administrative Services (DAS) State Accounting has prepared a set of Pre-Audit Guidelines for agencies. Available on the DAS website, those guidelines state the following:

> *Pre-audit is a three-step process – three different people need to review each document that is required to be pre-audited. This three-step process usually consists of a person collecting the necessary support and entering the document into EnterpriseOne (E1), a second person who reviews and approves the document on-line and a third person (usually called the pre-auditor) who ensures the document meets Statutory requirements, State Accounting Policies, Agency policies, and who then posts the document in E1.*

The guidelines provide this additional information:

> *We recommend that the person posting the document also be the pre-auditor, i.e., the last person to verify that the on-line document and original supporting documentation is correct. If the person posting the document is not the pre-auditor, the poster should verify the payee and the total dollar amount from the invoice agrees to what is shown in E1. Each agency should have procedures identifying what each person in the pre-audit process is to review.*

(http://das.nebraska.gov/accounting/manual/preaudit_guidelines.html)

6. <u>Expenditure Internal Control Issues</u> (Concluded)

Good internal controls require procedures to ensure the following: 1) the Commission obtains written agreements with vendors to formalize the responsibilities of each party; 2) the pre-audit function is completed by someone other than the person who prepares the accounts payable documents; 3) monthly financial reports are approved during Commission meetings; 4).the telephone policy is updated to include cell phone usage, texts, and gaming; 5) the Commission utilizes the State-wide contracts with Office Depot and Apple to purchase supplies provided by those vendors; and 6) adequate supporting documentation is obtained for all purchases.

Without such procedures, there is an increased risk for loss or misuse of funds.

We recommend the Commission implement procedures to ensure the following:

- Written agreements are obtained for all services requested by the Commission to document the responsibilities of each party.
- Three separate individuals are involved in the processing of transactions, as recommended by the DAS Pre-Audit Guidelines.
- A review and approval of monthly financial reports is performed at each Commission meeting, being included as an agenda item and the meeting minutes.
- All policies are updated and reviewed regularly to be kept current.
- State-wide contracts are utilized for purchasing office supplies and other items.
- Documentation is adequate to support all payments.

Commission Response: Due to unforeseen issues, written agreements with venders is problematic, as the nature and variances of these services are unique situations that require professional judgment to make timely decisions. NOGCC has professional staff on location and in position to make these decisions as the services are being rendered. Attending staff compare invoices summited by the venders to our field reports to ensure the times, quantities and services provided were necessary, appropriate and accurate and are then approved by the attending staff before submission to the accounting staff for payment (or returned to the vendor for necessary corrections).

Large expenditures are approved by three to four staff members. One or two staff members approve high-dollar invoices before they are entered into the state accounting system by accounting staff. But, because either the Director or Deputy Director perform both the "approve" and the "post" functions for a transaction for the sake of efficiency (both options are contained in the same computer screen only after entering many keystrokes), only two digital approvals are shown in the system. When fully staffed, NOGCC will look at adding a third individual approval of transactions.

We will update the telephone policy.

7. <u>Commission-Owned Vehicles</u>

The Commission owns four vehicles for staff usage but lacks a written vehicle-use policy, which is required by statute.

The Commission is exempt from the statutes governing other State agencies' vehicle usage by Neb. Rev. Stat. § 81-1011(3)(b) (Reissue 2014), which says the following:

> *State-owned vehicle does not include <u>special-use vehicles</u>, such as buses, laundry trucks, mail trucks, airport security vehicles, or military trucks and cars; vehicles which are considered a duty station, <u>such as vehicles used by</u> the Nebraska State Patrol, <u>the Nebraska Oil and Gas Conservation Commission</u> . . . .*

COMMENTS AND RECOMMENDATIONS
(Continued)

7. **Commission-Owned Vehicles** (Continued)

(Emphasis added.) Being designated as "special-use vehicles," automobiles utilized by the Commission are subject to the requirements of Neb. Rev. Stat. § 81-1025(2)(a), as follows:

> *Each operator of a special-use vehicle as prescribed in section 81-1011 or a motor vehicle in which a state agency other than the bureau holds the title shall follow the policy and use the travel report form which shall be established by the director or designated head of the state agency owning such vehicle. The form shall include, but not be limited to, the name of the operator, the license number of the vehicle, the total daily mileage or total hours of daily operation, and any other information the director or designated head deems relevant.*

(Emphasis added.) The APA also found the following issues related to the use of the Commission-owned vehicles:

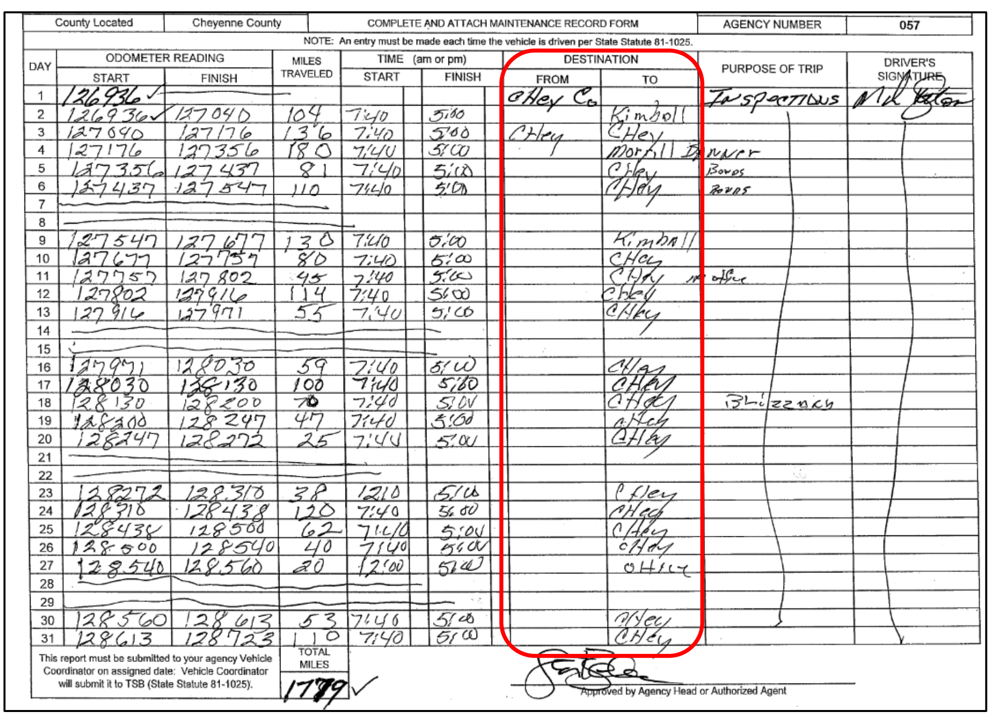
- The Commission's vehicle usage may not substantiate the need for four permanent vehicles. The vehicle usage for the 12-month period from June 2019 to May 2020 was as follows:

Title	Avg. Miles Per Month
Director	274
Deputy Director	328
Inspector I	2,122
Inspector II	1,631

  The DAS Transportation Services Bureau (TSB) policies, found at das.nebraska.gov/tsb/tsb_policies.html#lease, generally require a permanently assigned vehicle to be used more than 1,000 miles per month when averaged over the life of the lease. Though not applicable to the Commission, that standard may still serve as a reasonable guideline by which to measure an agency's need for permanently assigned vehicles.

- There is no approval of the Director's mileage log other than his own signature.

- The two inspectors failed to document adequately the actual travel location each day; rather, they recorded only a county for the location, as shown in the example below:



County Located: Cheyenne County | COMPLETE AND ATTACH MAINTENANCE RECORD FORM | AGENCY NUMBER: 057

NOTE: An entry must be made each time the vehicle is driven per State Statute 81-1025.

DAY	ODOMETER READING START	ODOMETER READING FINISH	MILES TRAVELED	TIME (am or pm) START	TIME (am or pm) FINISH	DESTINATION FROM	DESTINATION TO	PURPOSE OF TRIP	DRIVER'S SIGNATURE
1	126936 ✓					CHey Co		Inspections	[illegible]
2	126936 ✓	127040	104	7:40	5:00		Kimball		
3	127040	127176	136	7:40	5:00	CHey	CHey		
4	127176	127356	180	7:40	5:00		Morrill Banner		
5	127356	127437	81	7:40	5:00		CHey	Boxes	
6	127437	127547	110	7:40	5:00		CHey	Boxes	
7									
8									
9	127547	127677	130	7:40	5:00		Kimball		
10	127677	127757	80	7:40	5:00		CHey		
11	127757	127802	45	7:40	5:00		CHey in office		
12	127802	127916	114	7:40	5:00		CHey		
13	127916	127971	55	7:40	5:00		CHey		
14									
15									
16	127971	128030	59	7:40	5:00		CHey		
17	128030	128130	100	7:40	5:00		CHey		
18	128130	128200	70	7:40	5:00		CHey	Blizzard	
19	128200	128247	47	7:40	5:00		CHey		
20	128247	128272	25	7:40	5:00		CHey		
21									
22									
23	128272	128310	38	12:10	5:00		CHey		
24	128310	128438	120	7:40	5:00		CHey		
25	128438	128500	62	7:40	5:00		CHey		
26	128500	128540	40	7:40	5:00		CHey		
27	128540	128560	20	12:00	5:00		CHey		
28									
29									
30	128560	128613	53	7:40	5:00		CHey		
31	128613	128723	110	7:40	5:00		CHey		

This report must be submitted to your agency Vehicle Coordinator on assigned date: Vehicle Coordinator will submit it to TSB (State Statute 81-1025).

TOTAL MILES: 1779 ✓

Approved by Agency Head or Authorized Agent

COMMENTS AND RECOMMENDATIONS
(Continued)

7. Commission-Owned Vehicles (Concluded)

Neb. Rev. Stat. § 81-1025(1) (Reissue 2014) contains the following recording requirement for State-owned fleet vehicles – which, again, though not applicable to the Commission's automobiles, could serve as a reasonable standard nonetheless:

> *Each operator of a bureau fleet vehicle shall report the points between which the bureau fleet vehicle traveled each time used, the odometer readings at such points, the time of arrival and departure, the necessity and purpose for such travel, the license number of such vehicle, and the department to which such vehicle is assigned.*

Good internal controls requires a written usage policy for all Commission vehicles. In addition to helping to substantiate the Commission's vehicular needs, that policy should provide standards for, among other things, approving the Director's vehicle usage and recording mileage and travel locations.

Without such a policy, there is an increased risk for not only utilization of vehicles not actually needed by the Commission but also misuse of those automobiles.

> We recommend the Commission implement a written vehicle usage policy, relying upon guidance from DAS TSB. That policy should include procedures for reviewing vehicle usage to ensure that all automobiles are necessary. Additionally, the policy should require actual mileage and travel locations to be recorded and the Director's vehicle usage to be approved by a Commissioner.

Commission Response: NOGCC will generate a written vehicle usage policy.

COVID-19 has decreased the number of miles driven on all vehicles.

It is critical for our agency to have vehicles available to respond to urgent or emergency situations that occur in oil and gas fields anytime day or night.

We will review the cost of expanding the scope of our electronic-inspection system to track inspector's miles.

8. Fees and Fines

Although no collections were made in the period tested, the Commission has the authority to assess penalties. In previous examinations, the APA has questioned whether the Commission has remitted those punitive receipts to the appropriate funds.

Neb. Rev. Stat. § 57-919(1) (Cum. Supp. 2018) requires civil penalties collected by the Commission to be remitted to the State Treasurer for credit to the Oil & Gas Conservation Fund, which serves as the Commission's Cash Fund. However, that statutory directive appears to conflict with Article VII, Section 5, of the Nebraska Constitution, which requires such penalties to be appropriated for the use and support of the common schools in the respective subdivision where the penalties were levied.

Section 57-919(1) reads as follows:

> *All money collected by the Tax Commissioner or the commission or as civil penalties under sections 57-901 to 57-921 shall be remitted to the State Treasurer for credit to a special fund to be known as the Oil and Gas Conservation Fund. Expenses incident to the administration of such sections shall be paid out of the fund. Transfers may be made from the fund to the General Fund at the direction of the Legislature. Any money in the Oil and Gas Conservation Fund available for investment shall be invested by the state investment officer pursuant to the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act.*

COMMENTS AND RECOMMENDATIONS
(Continued)

8. Fees and Fines (Concluded)

(Emphasis added.) However, Article VII, Section 5(1), provides the following directive:

> *Except as provided in subsections (2) and (3) of this section, all fines, penalties, and license money arising under the general laws of the state, except fines and penalties for violation of laws prohibiting the overloading of vehicles used upon the public roads and highways of this state, shall belong and be paid over to the counties respectively where the same may be levied or imposed, and all fines, penalties, and license money arising under the rules, bylaws, or ordinances of cities, villages, precincts, or other municipal subdivision less than a county shall belong and be paid over to the same respectively. All such fines, penalties, and license money shall be appropriated exclusively to the use and support of the common schools in the respective subdivisions where the same may accrue, except that all fines and penalties for violation of laws prohibiting the overloading of vehicles used upon the public roads and highways shall be placed as follows: Seventy-five percent in a fund for state highways and twenty-five percent to the county general fund where the fine or penalty is paid.*

(Emphasis added.) Good internal controls require procedures for ensuring that fines collected by the Commission are remitted to the proper fund.

Without such procedures, there is an increased risk of continued confusion regarding the proper handling of the Commission's punitive receipts.

> We recommend the Commission consult with the Legislature, the State Treasurer, and the Attorney General, as appropriate, to resolve the apparent ongoing conflict between § 57-919(1) and Article VII, Section 5(1), regarding the proper remittance of fine monies collected.

Commission Response: We are aware this conflict between the statues and constitution exists.

9. Oil and Gas Severance and Conservation Tax Return Reconciliation Procedures

The Commission has implemented a process for reconciling the oil and gas sales reported directly to it by the producers to the information contained in the Oil and Gas Severance and Conservation Tax Returns (Form 61), which are submitted monthly to the Nebraska Department of Revenue (Department). That process helps to ensure that producers are completing the tax returns properly. During the fiscal years 2019 and 2020, the Commission received $1,064,286 in conservation taxes.

There is also a process for comparing the conservation taxes recorded on Form 61 to the amounts that the Department reports quarterly to the Commission.

Despite the availability of the two reconciliation processes, the APA found that Commission staff failed to perform the needed reconciliations timely. When the present audit began in June 2020, for instance, the January to April 2020 reports had yet to be reconciled.

Worse yet, the Commission does not document any of the reconciliations performed, making it impossible to confirm which producers, tax amounts, or months were reviewed.

Good internal controls require procedures to ensure that the Commission's reconciliation processes are performed timely. The same procedures should ensure also that those reconciliations are documented adequately, specifying the producers, tax amounts, and months reviewed.

Without such procedures, there is an increased risk for improper tax filings and the attendant loss of State funds.

COMMENTS AND RECOMMENDATIONS
(Continued)

9. Oil and Gas Severance and Conservation Tax Return Reconciliation Procedures (Concluded)

> We recommend the Commission implement procedures to ensure the timely reconciliation of both producer oil sales to the corresponding Form 61 and the conservation taxes recorded on Form 61 to the amounts that the Department reports quarterly to the Commission. All such reconciliations should be adequately documented.

Commission Response Covid-19 caused people to work remotely and many of the routine reports that were normally generated were delinquent.

10. Oil and Gas Severance and Conservation Taxes

The Commission lacks procedures for ensuring that the Oil and Gas Severance and Conservation tax amounts are accurate.

The following table shows the amount of severance taxes collected by the Nebraska Department of Revenue (Department) for the period July 1, 2018, through June 30, 2020, as well as the portion remitted to the Commission for the conservation tax:

Severance Tax	Conservation Tax
$ 5,783,277	$ 1,064,286

Neb. Rev. Stat. § 57-718(4) (Reissue 2010) allows for examination of the books and records of any person liable for the severance tax, as follows:

> *The Tax Commissioner or any person authorized in writing by him or her may examine the books, papers, records, and equipment of any person liable for the severance tax and may investigate the character of the business of the person in order to verify the accuracy of any return made, or, if no return is made by the person, to ascertain and determine the amount required to be paid.*

According to Department staff, the Oil and Gas Severance and Conservation Tax Return (Form 61) has supporting schedules that are footed to ensure the mathematical accuracy of the reports. There is no verification, however, of the value of the oil and gas reported.

The APA also determined that the value of exemptions reported each month are not verified for accuracy or compliance with statutes. Neb. Rev. Stat. § 57-919 (Reissue 2010) defines the mill levy tax assessed on the value of all oil and gas produced, saved, and sold or transported in Nebraska. Specifically subsection (2) of that statute provides, in part, the following:

> *[T]here shall be exempted from the charge levied and assessed in this section the following: (a) The interest of the United States of America and the interest of the State of Nebraska and the political subdivisions thereof in any oil or gas or in the proceeds thereof; (b) the interest of any Indian or Indian tribe in any oil or gas or in the proceeds thereof produced from land subject to the supervision of the United States; and (c) oil and gas used in producing operations or for repressuring or recycling purposes.*

Producers remitting Form 61 are required to report the quantity and value exempt from taxes. The following image illustrates an exemption amount claimed on a Form 61:

COMMENTS AND RECOMMENDATIONS
(Concluded)

10. <u>Oil and Gas Severance and Conservation Taxes</u> (Concluded)

OGCC LEASE NUMBER	CCC LEASE: LEASE NAME # DESCRIPTION	STRIPPER OIL COLUMN A BARRELS	STRIPPER OIL COLUMN B VALUE $	NONSTRIPPER OIL COLUMN C BARRELS	NONSTRIPPER OIL COLUMN D VALUE $	NATURAL GAS COLUMN E MCF	NATURAL GAS COLUMN F VALUE $
1	Totals of colmns A through E ... 1	18,060.96	928,572.49	3,340.94	171,924.78	0.00	0.00
2	Quant. & val. exempt from taxes............2	59.32	3,052.52	0.00	0.00		
3	Quantities subject to taxes........................3	18,001.64		3,340.94		0.00	
4	Values subject to taxes: a. Stripper oil......................4a		$925,519.97				
	b. Nonstripper oil..................4b				$171,924.78		
	c. Natural gas...................4c						$0.00
5	Severance tax rate..5		.02		.03		.03
6	Severance tax due from other than school lands..........6		$18,510.40		$5,157.74		$0.00

Attach this schedule to Form 61 and mail to: NEBRASKA DEPARTMENT OF REVENUE, P. O. BOX 94818, LINCOLN, NE 68509-4818
Copy to Oil & Gas Conservation Commission, Copy for Purchaser Records
Prev Rev 11/07, 3/08

As pointed out already, there is no verification that the exempt amounts are accurate and in accordance with State statute.

Good internal controls require procedures to ensure that the value of the oil and gas severed or the exemptions claimed are correct and proper.

Without such procedures, there is an increased risk for improper tax filings and the attendant loss of State funds.

> We recommend the Department implement procedures to ensure the accuracy of the value of oil and gas severed and the exemptions reported by each producer. This recommendation has been forwarded to the Department.

Commission Response: Rectifying the value of oil and gas sold vs. the severance and conservation received would be a daunting task. A monthly report from the Department of Revenue coinciding with the monthly conservation tax transferred by that agency into our agency's cash fund would simplify this process; however, this is not a process over which we have any control.

Overall Commission Response: The Nebraska Oil and Gas Conservation Commission (NOGCC) endeavors to provide our duties to the State of Nebraska as cost-effectively and efficiently as possible. We understand this Auditor of Public Accounts (APA) report can help NOGCC improve our accounting and business processes.

The timing of this audit should be noted, as the audit began during our running reports and finalizing the current fiscal transactions and during the heart of necessary COVID-19 modifications. This audit was conducted when both NOGCC and the APA were just returning to their "normal operations" caused by these COVID-19 disruptions.

NEBRASKA AUDITOR OF PUBLIC ACCOUNTS

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State Auditor

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NEBRASKA OIL AND GAS CONSERVATION COMMISSION

INDEPENDENT ACCOUNTANT'S REPORT

Nebraska Oil and Gas Conservation Commission
Sidney, Nebraska

We have examined the accompanying Schedule of Revenues, Expenditures, and Changes in Fund Balances of the Nebraska Oil and Gas Conservation Commission (Commission) for the period July 1, 2018, through June 30, 2020. The Commission's management is responsible for the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on the accounting system and procedures set forth in Note 1. Our responsibility is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is based on the accounting system and procedures set forth in Note 1, in all material respects. An examination involves performing procedures to obtain evidence about the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

In our opinion, the Schedule of Revenues, Expenditures, and Changes in Fund Balances for the period July 1, 2018, through June 30, 2020, is based on the accounting system and procedures prescribed by the Department of Administrative Services, as set forth in Note 1, in all material respects.

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Schedule of Revenues, Expenditures, and Changes in Fund Balances; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter or an assertion about the subject matter of the examination engagement. We are also required to obtain and report the views of management concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Schedule of Revenues, Expenditures, and Changes in Fund Balances is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on the internal control over the Schedule of Revenues, Expenditures, and Changes in Fund Balances or on compliance and other matters; accordingly, we express no such opinions. Our examination disclosed certain findings that are required to be reported under *Government Auditing Standards*, and those findings, along with the views of management, are described in the Comments Section of the report.

The purpose of this report is to express an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances, as described in paragraph one above. Accordingly, this report is not suitable for any other purpose. This report is a matter of public record, and its distribution is not limited.

August 10, 2020

Charlie Janssen
Auditor of Public Accounts
Lincoln, Nebraska

NEBRASKA OIL AND GAS CONSERVATION COMMISSION

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period July 1, 2018, through June 30, 2020

	Oil and Gas Conservation Fund 25710	UIC Inventory Fund 45710	Oil and Gas Trust Fund 65710	Well Plugging and Abandonment Fund 65720	**Totals (Memorandum Only)**
REVENUES:					
Intergovernmental	$ -	$ 170,005	$ -	$ -	$ 170,005
Sales & Charges	37,265	-	1,974	88,900	128,139
Miscellaneous	36,684	-	78,864	42,260	157,808
TOTAL REVENUES	73,949	170,005	80,838	131,160	455,952
EXPENDITURES:					
Personal Services	1,187,857	129,129	-	-	1,316,986
Operating	305,489	3,334	37,464	-	346,287
Travel	24,953	-	-	-	24,953
Capital Outlay	11,909	36,482	-	-	48,391
TOTAL EXPENDITURES	1,530,208	168,945	37,464	-	1,736,617
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,456,259)	1,060	43,374	131,160	(1,280,665)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	8,370	-	-	-	8,370
Deposit to/from Common Fund	1,064,286	-	-	-	1,064,286
TOTAL OTHER FINANCING SOURCES (USES)	1,072,656	-	-	-	1,072,656
Net Change in Fund Balances	(383,603)	1,060	43,374	131,160	(208,009)
FUND BALANCES, JULY 1, 2018	888,457	(34,457)	36,904	270,908	1,161,812
FUND BALANCES, JUNE 30, 2020	$ 504,854	$ (33,397)	$ 80,278	$ 402,068	$ 953,803
FUND BALANCES CONSIST OF:					
General Cash	$ 467,284	$ 7,853	$ 80,278	$ 402,068	$ 957,483
Deposits with Vendors	59	-	-	-	59
Due From Other Funds	41,250	-	-	-	41,250
Short-Term Investments	-	-	3,105,284	-	3,105,284
Due to Vendors	(3,739)	-	-	-	(3,739)
Deposits	-	-	(3,105,284)	-	(3,105,284)
Due to Fund	-	(41,250)	-	-	(41,250)
TOTAL FUND BALANCES	$ 504,854	$ (33,397)	$ 80,278	$ 402,068	$ 953,803

The accompanying notes are an integral part of the schedule.

NOTES TO THE SCHEDULE

For the Period July 1, 2018, through June 30, 2020

1. Criteria

The accounting policies of the Nebraska Oil and Gas Conservation Commission (Commission) are on the basis of accounting, as prescribed by the Department of Administrative Services (DAS).

Per Neb. Rev. Stat. § 81-1107(2) (Reissue 2014), the duties of the State of Nebraska's Director of DAS include:

> *The keeping of general accounts and the adoption and promulgation of appropriate rules, regulations, and administrative orders designed to assure a uniform and effective system of accounts and accounting, the approval of all vouchers, and the preparation and issuance of warrants for all purposes[.]*

In accordance with Neb. Rev. Stat. § 81-1111(1) (Reissue 2014), the State Accounting Administrator has prescribed the system of accounts and accounting to be maintained by the State and its departments and agencies and has developed necessary accounting policies and procedures. The prescribed accounting system currently utilizes EnterpriseOne, an accounting resource software, to maintain the general ledger and all detailed accounting records. Policies and procedures are detailed in the Nebraska State Accounting Manual published by DAS State Accounting Division (State Accounting) and are available to the public.

The financial information used to prepare the Schedule of Revenues, Expenditures, and Changes in Fund Balances was obtained directly from the general ledger and fund balance information maintained on EnterpriseOne. EnterpriseOne is not an accrual accounting system; instead, accounts are maintained on a modified cash basis. As revenue transactions occur, the agencies record the accounts receivable and related revenues in the general ledger. As such, certain revenues are recorded when earned, regardless of the timing of related cash flows. State Accounting does not require the Commission to record all accounts receivable and related revenues in EnterpriseOne; as such, the Commission's schedule does not include all accounts receivable and related revenues. In a like manner, expenditures and related accounts payable are recorded in the general ledger as transactions occur. As such, the schedule includes those expenditures and related accounts payable posted in the general ledger as of June 30, 2020, and not yet paid as of that date. The amount recorded as expenditures on the schedule, as of June 30, 2020, **does not** include amounts for goods and services received before June 30, 2020, which had not been posted to the general ledger as of June 30, 2020.

Other liabilities are recorded in accounts entitled Deposits and Due to Other Funds for the Commission. The assets in these funds are being held by the State as an agent and will be used to pay those liabilities to individuals, private organizations, other governments, and/or other funds. The recording of those liabilities reduces the fund balance/equity. For further information of the activity of those accounts for the period July 1, 2018, through June 30, 2020, see Notes 6 and 7. The Commission had no accounts receivable not included in the Schedule at June 30, 2020. Liabilities for accrued payroll and compensated absences are not recorded in the general ledger.

The following fund types are established by the State and used by the Commission:

> **20000 – Cash Funds** – account for revenues generated by specific activities from sources outside of State government and the expenditures directly related to the generation of the revenues. Cash funds are established by State statutes and must be used in accordance with those statutes.
>
> **40000 – Federal Funds** – account for the financial activities related to the receipt and disbursement of funds generated from the Federal government as a result of grants and contracts. Expenditures must be made in accordance with applicable Federal requirements.
>
> **60000 – Trust Funds** – account for assets held by the State in a trustee capacity. Expenditures are made in accordance with the terms of the trust.

NOTES TO THE SCHEDULE
(Continued)

1. Criteria (Concluded)

The following major revenue account classifications are established by State Accounting and used by the Commission:

Intergovernmental – Revenue from other governments in the form of grants, entitlements, shared revenues, payments in lieu of taxes, or reimbursements.

Sales & Charges – Income derived from sales of merchandise and commodities, compensation for services rendered, and charges for various licenses, permits, and fees.

Miscellaneous – Revenue from sources not covered by other major categories, such as investment income, fines, forfeitures, penalties, and cashed certificates.

The following major expenditure account classifications are established by State Accounting and used by the Commission:

Personal Services – Salaries, wages, and related employee benefits provided for all persons employed by the Commission.

Operating – Expenditures directly related to a program's primary service activities.

Travel – All travel expenses for any State officer, employee, or member of any commission, council, committee, or board of the State.

Capital Outlay – Expenditures that result in the acquisition of or an addition to capital assets. Capital assets are resources of a long-term character, owned or held by the government.

Other significant accounting classifications and procedures established by State Accounting and used by the Commission include the following:

Assets – Resources owned or held by a government that have monetary value. Assets include cash accounts, deposits with vendors, due from other funds and short-term investments (operator certificates of deposits.) Accounts receivable are recorded as an increase to revenues resulting in an increase to fund balance on the schedule. Cash accounts, deposits with vendors, and short-term investments (operator certificates of deposit) are also included in fund balance and are reported as recorded in the general ledger. The activity processed through the short-term investment account is summarized in Note 6.

Liabilities – Legal obligations arising out of transactions in the past that must be liquidated, renewed, or refunded at some future date. Accounts payable transactions are recorded as expenditures, resulting in a decrease to fund balance. Other liabilities recorded in the general ledger for the Commission's funds at June 30, 2020, included amounts recorded in deposits and due to fund. The activity of these accounts are not recorded through revenue and expenditure accounts on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. The activity processed on the general ledger through the deposit account is summarized in Note 6.

Other Financing Sources – Proceeds of fixed asset dispositions and business and franchise taxes collected on behalf of the Commission by the Nebraska Department of Revenue.

NOTES TO THE SCHEDULE
(Continued)

2. Reporting Entity

The Commission is a State agency established under and governed by the laws of the State of Nebraska. As such, the Commission is exempt from State and Federal income taxes. The schedule includes all funds of the Commission included in the general ledger.

The Commission is part of the primary government for the State of Nebraska.

3. Totals

The Totals "Memorandum Only" column represents an aggregation of individual account balances. The column is presented for overview informational purposes and does not present consolidated financial information because interfund balances and transactions have not been eliminated.

4. General Cash

General cash accounts are under the control of the State Treasurer or other administrative bodies, as determined by law. All cash deposited with the State Treasurer is initially maintained in a pooled cash account. On a daily basis, the State Treasurer invests cash not needed for current operations with the State's Investment Council, which maintains an operating investment pool for such investments. Interest earned on those investments is allocated to funds based on their percentage of the investment pool.

5. Capital Assets

Capital assets include land, buildings, equipment, improvements to buildings, construction in progress, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Under State Accounting policies, expenditures for such capital assets are not capitalized as an asset in the funds used to acquire or construct them. Rather, costs of obtaining the capital assets are reflected as expenditures in the general ledger and are reported as such on the Schedule.

However, State Accounting does adjust such expenditures and reports the capital assets as assets for the State of Nebraska in the Comprehensive Annual Financial Report (CAFR). In addition, the Commission takes an annual inventory, recording in the State Accounting System all equipment that has a cost of $5,000 or more at the date of acquisition.

For the CAFR, the State requires the Commission to value all capital assets at cost where historical records are available and at estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received. Generally, equipment that has a cost of $5,000 or more at the date of acquisition and has an expected useful life of more than one year is capitalized. Depreciation expenses are reported in the CAFR in the funds used to acquire or construct them for the State of Nebraska. The cost of normal maintenance and repairs that does not add to the value of the asset or extend the asset's life is not capitalized.

Equipment is depreciated in the CAFR using the straight-line method with estimated useful lives of 2 years.

Capital asset activity of the Commission recorded in the State Accounting System for the July 1, 2018, through June 30, 2020, was as follows:

NOTES TO THE SCHEDULE
(Concluded)

5. Capital Assets (Concluded)

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets				
Equipment	$ 250,850	$ 46,611	$ 28,295	$ 269,166
Less accumulated depreciation for:				
Equipment				$ 226,424
Total capital assets, net of depreciation				$ 42,742

See Comment and Recommendation Number 5 for more information on capital assets.

6. Short-Term Investments and Deposits

Operators are required to furnish either bonds or certificates of deposit (CD) to indemnify the State against loss should the operator not comply with drilling requirements. The CDs are held by the Commission and are accompanied by a letter of agreement from the issuing banks recognizing that the CDs are payable or assignable by the Commission only. The activity is recorded as both a short-term investment and a deposit in the fund balance breakdown of Fund 65710, the Oil and Gas Trust Fund.

The Short-Term Investment and Deposit Activity of the Commission for the period July 1, 2018, through June 30, 2020, was as follows:

Fund	Balance July 1, 2018	In	Out	Balance June 30, 2020
Operator Certificates of Deposit	$ 3,415,984	$ 468,264	$ 778,964	$ 3,105,284

7. Changes in Due to/from Fund

Early in each Federal fiscal year, the Commission "loans" funds from the Oil and Gas Conservation Fund, 25710, to the Federal Underground Injection Control Inventory Fund, 45710, while it waits for final award documents and release of funding from the U.S. Environmental Protection Agency (EPA) for its UIC grant.

Fund	Balance July 1, 2018	Transfer In	Transfer Out	Balance June 30, 2020
Oil and Gas Conservation Fund 25710	$ 34,750	$ -	$ 6,500	$ 41,250
UIC Inventory Fund 45710	$ (34,750)	$ (6,500)	$ -	$ (41,250)

8. Deposits to/from Common Funds

Neb. Rev. Stat. § 57-919(2) (Reissue 2018) levies a charge, not to exceed 15 mills on the dollar, for the value at the well of all oil and gas produced, saved, and sold or transported from the premises in Nebraska. The Commission is charged with setting the amount of such charge, which is collected by the Tax Commissioner (Nebraska Department of Revenue.) As of March 24, 2020, the Commission set the levy at 12 mills per dollar, up from 5 mills per dollar. All funds collected are remitted to the State Treasurer for credit to the Oil and Gas Conservation Fund. For the period of July 1, 2018, through June 30, 2020, the Department of Revenue deposited $1,064,286 to the Oil and Gas Conservation Fund from conservation taxes received.

SUPPLEMENTARY INFORMATION

Our examination was conducted for the purpose of forming an opinion on the Schedule of Revenues, Expenditures, and Changes in Fund Balances. Supplementary information is presented for purposes of additional analysis. Such information has not been subjected to the procedures applied in the examination of the Schedule of Revenues, Expenditures, and Changes in Fund Balances, and, accordingly, we express no opinion on it.

NEBRASKA OIL AND GAS CONSERVATION COMMISSION

Exhibit A

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

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

	Oil and Gas Conservation Fund 25710	UIC Inventory Fund 45710	Oil and Gas Trust Fund 65710	Well Plugging and Abandonment Fund 65720	**Totals (Memorandum Only)**
REVENUES:					
Intergovernmental	$ -	$ 110,641	$ -	$ -	$ 110,641
Sales & Charges	23,270	-	1,667	36,600	61,537
Miscellaneous	21,571	-	51,440	6,916	79,927
TOTAL REVENUES	44,841	110,641	53,107	43,516	252,105
EXPENDITURES:					
Personal Services	617,640	76,979	-	-	694,619
Operating	144,909	-	26,661	-	171,570
Travel	16,207	-	-	-	16,207
Capital Outlay	8,349	-	-	-	8,349
TOTAL EXPENDITURES	787,105	76,979	26,661	-	890,745
Excess (Deficiency) of Revenues Over (Under) Expenditures	(742,264)	33,662	26,446	43,516	(638,640)
OTHER FINANCING SOURCES (USES):					
Deposit to/from Common Fund	655,924	-	-	-	655,924
TOTAL OTHER FINANCING SOURCES (USES)	655,924	-	-	-	655,924
Net Change in Fund Balances	(86,340)	33,662	26,446	43,516	17,284
FUND BALANCES, JULY 1, 2018	888,457	(34,457)	36,904	270,908	1,161,812
FUND BALANCES, JUNE 30, 2019	$ 802,117	$ (795)	$ 63,350	$ 314,424	$ 1,179,096
FUND BALANCES CONSIST OF:					
General Cash	$ 771,308	$ 37,955	$ 63,350	$ 314,424	$ 1,187,037
Deposits with Vendors	59	-	-	-	59
Due From Other Funds	38,750	-	-	-	38,750
Short-Term Investments	-	-	3,304,249	-	3,304,249
Due to Vendors	(8,000)	-	-	-	(8,000)
Deposits	-	-	(3,304,249)	-	(3,304,249)
Due to Fund	-	(38,750)	-	-	(38,750)
TOTAL FUND BALANCES	$ 802,117	$ (795)	$ 63,350	$ 314,424	$ 1,179,096

NEBRASKA OIL AND GAS CONSERVATION COMMISSION

Exhibit B

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Period July 1, 2019, through June 30, 2020

	Oil and Gas Conservation Fund 25710	UIC Inventory Fund 45710	Oil and Gas Trust Fund 65710	Well Plugging and Abandonment Fund 65720	**Totals (Memorandum Only)**
REVENUES:					
Intergovernmental	$ -	$ 59,364	$ -	$ -	$ 59,364
Sales & Charges	13,995	-	307	52,300	66,602
Miscellaneous	15,113	-	27,424	35,344	77,881
TOTAL REVENUES	29,108	59,364	27,731	87,644	203,847
EXPENDITURES:					
Personal Services	570,217	52,150	-	-	622,367
Operating	160,580	3,334	10,803	-	174,717
Travel	8,746	-	-	-	8,746
Capital Outlay	3,560	36,482	-	-	40,042
TOTAL EXPENDITURES	743,103	91,966	10,803	-	845,872
Excess (Deficiency) of Revenues Over (Under) Expenditures	(713,995)	(32,602)	16,928	87,644	(642,025)
OTHER FINANCING SOURCES (USES):					
Sales of Assets	8,370	-	-	-	8,370
Deposit to/from Common Fund	408,362	-	-	-	408,362
TOTAL OTHER FINANCING SOURCES (USES)	416,732	-	-	-	416,732
Net Change in Fund Balances	(297,263)	(32,602)	16,928	87,644	(225,293)
FUND BALANCES, JULY 1, 2019	802,117	(795)	63,350	314,424	1,179,096
FUND BALANCES, JUNE 30, 2020	$ 504,854	$ (33,397)	$ 80,278	$ 402,068	$ 953,803
FUND BALANCES CONSIST OF:					
General Cash	$ 467,284	$ 7,853	$ 80,278	$ 402,068	$ 957,483
Deposits with Vendors	59	-		-	59
Due From Other Funds	41,250	-		-	41,250
Short-Term Investments		-	3,105,284	-	3,105,284
Due to Vendors	(3,739)	-		-	(3,739)
Deposits	-	-	(3,105,284)	-	(3,105,284)
Due to Fund	-	(41,250)	-	-	(41,250)
TOTAL FUND BALANCES	$ 504,854	$ (33,397)	$ 80,278	$ 402,068	$ 953,803