



Report Highlights

Department of Conservation and Energy (C&E) – Orphan Well Pilot Program

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Why We Conducted This Audit

We initiated this audit in response to a complaint from C&E.

What We Found

Office of Conservation (OC) Attorney Supervisor Assisted Three Personal Associates in Seeking Selection for the OC's Pilot Program to Plug Orphaned Wells

Then-OC Attorney Supervisor Johnny Adams provided information to and assisted in planning the business organization of Louisiana Oilfield Restoration Association Inc. (LORA) prior to Commissioner Richard Ieyoub's execution of a Cooperative Endeavor Agreement (CEA) with LORA in late 2019. Mr. Adams' extensive involvement appears to have contributed to the selection of Mr. Van Mayhall III for this role and to the establishment of LORA as the entity that contracted with the OC, particularly in light of his pre-existing personal relationships with the individuals who became LORA's leadership.

Administrative Fee Increase Exceeded Contractual Cap

LORA contracted with Arkus Management Services, LLC (Arkus), owned by the same five owners of LORA, to provide day-to-day management, administration, and servicing of LORA in November 2019. The CEA between LORA and the OC authorized LORA to use a maximum of 20% of the financial security fees collected for administrative and day-to-day operating expenses. Since LORA contracted with Arkus to perform these services, LORA began paying 20% of financial security fees to Arkus in November 2019. In July 2022, LORA increased administrative fees paid to Arkus from 20% to 36%, resulting in approximately \$1.85 million of administrative fees in excess of the contractual limit. These additional funds resulted in salary and distribution increases to Arkus' owners.

Improper Loans to OC Assistant Commissioner, Two of His Family Members, and Three of LORA's Owners

LORA loaned approximately \$2,386,246 to two related entities, Arkus and Chromos Wealth Solutions LLC (Chromos), between January 2021 and April 2023. Arkus and Chromos used those funds to make below-market-rate loans to OC Assistant Commissioner Secretary Johnny Adams, two of his family members, and three owners of LORA. Because Mr. Adams and his daughter received a personal benefit from the below-market-rate loans, Mr. Adams may have violated state law.

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What We Found (Cont.)

LORA Contracted with a Related Party for Investment Services that Resulted in Little Financial Return to LORA

LORA contracted with a related party, Chromos, to provide administrative and consulting services in connection with LORA's investments. The contract required LORA to pay Chromos the total sum of its investment earnings, less any fees, costs, penalties, or other expenses incurred if such would otherwise be deducted from the principal amount invested. LORA paid \$602,148 for "investment fees" or "investment income" to Chromos or Arkus, even though Arkus was not mentioned in the contract. LORA's records show investment earnings and interest from loans to related parties totaled \$647,061, which means LORA paid 93% of its investment earnings and interest received while bearing all of the associated investment risk. Since LORA paid its related parties 93% of its investment earnings, LORA realized little financial return from its investment earnings.

Employment of Johnny Adams' Children by CEA-Funded Entities

While serving as Assistant Commissioner of the Office of Conservation, Mr. Adams' two adult children were employed by Arkus and Willow Lake Well Services, LLC. Arkus shares common ownership with LORA, and Willow Lake is owned by Arkus. Since Mr. Adams' job duties included representing the OC in matters related to the LORA CEA, his involvement in matters affecting entities that employed his immediate family members may have violated state law.

OC Released Site-Specific Trust Account Funds to LORA, Which Replaced Cash Security with a Letter of Credit

The OC released \$2.4 million in site-specific trust account (SSTA) funds to LORA in exchange for a letter of credit issued by LORA. This arrangement replaced cash-based financial security with a different form of financial assurance and transferred control of the SSTA funds to LORA. This transaction reduced the amount of funds available to plug and abandon the secured wells, replaced cash-based financial security with a letter of credit, and transferred control of the SSTA funds to LORA. OC personnel identified the transaction as unusual, and five wells covered under the SSTA remain unplugged and are now classified as orphaned.