

Energy Insights

Industry Savings and Efficiency



Take account of cost savings and greater efficiency options now

AMID FALLING INTERNATIONAL PRICES for oil and natural gas, energy companies in the United States face difficult decisions regarding current operating expenses and planned capital expenditures. As oil and gas companies evaluate the impact of the current economic environment to the company's profitability, many oil and gas companies are looking at opportunities to become more efficient and at the cost benefit of certain procedures.

Joint Interest Billing (JIB) Audits

THE CAPITAL-INTENSIVE AND VOLATILE NATURE of the oil and gas industry requires companies to take on partners and investors in various joint ventures to share costs and risks. During recent periods of high prices and increasing production, companies and non-operator investors may have lacked the time to audit JIB transactions. A JIB audit, though, helps all parties identify any questionable expenses or items not properly recognized in past documents or statements.

A JIB audit encompasses authority for expenditure (AFE) requests, bids, contracts, drilling reports, purchase orders, well and lease inventories, and other items deemed relevant. Data entry errors may be detected, as well as possible overcharges. Instances where costs exceeded initial AFEs can be evaluated to determine whether or not those cost overruns were appropriate and accounted for in a supplemental AFE. All parties gain information needed to correct any errors and to thoughtfully assess the business relationship.

Reverse Sales Tax Audits

Energy-producing states may offer various sales tax exemptions for products and services purchased by oil and gas companies. Depending on the state and industry sector, such exemptions may be included in tax codes pertaining to mineral extraction or manufacturing activities.

Vendors face non-compliance risk if they fail to collect sufficient sales tax amounts. To avoid that risk, vendors may assess sales tax on tax-exempt items. The complexity involved in determining whether a product or service is exempt also leads to instances where sales tax is incorrectly collected.

Texas, for example, is one of the country's leading energy-producing states and offers sales tax exemptions on products or services used to start or stimulate production. Services related to repair or maintenance, however, are subject to sales tax. That means roustabout services used for building a new location would be exempt from sales tax, while many clean-up functions performed by roustabout services are taxable.

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Awareness of state sales tax provisions enables a company to determine whether it was incorrectly assessed sales tax on past invoices. Once such a determination is made, the company may be able to request a sales tax refund. Vendors can also be informed of tax-exempt status for various products and services, thereby enhancing a company's current cash flow and reducing future tax obligations.

Land Brokerage Audits

LAND BROKERAGE SERVICES ADDRESS surface and land title issues, as well as lease concerns associated with ongoing production. Numerous tracts and landowners may be involved in securing production rights. Lease contracts can be rather complicated. Monthly payment totals may fluctuate considerably.

Auditing land brokerage agreements enables companies to determine whether or not contractual terms are being followed and sub-contracted landmen are being adequately supervised. It also provides an evaluation of the production and leases obtained for hours billed, and whether sufficient detail or transparency is present for invoices or other documentation.

Escheatment Analysis

ESCHEATED PROPERTY IS tangible and intangible property whose rightful owners cannot be found. Such property must be remitted to the state. Some escheatment concerns, such as benefits owed to a deceased employee, are common across all industries. Other concerns, such as unclaimed royalties for well production, are specific to the oil and gas industry.

Companies are required to make reasonable efforts to locate the rightful property owners and to remit unclaimed property to the state if those efforts are unsuccessful. An escheatment analysis ensures that a company does not face any exposures for non compliance.

System Integration Analysis

OIL AND GAS COMPANIES RELY upon enterprise systems for managing a range of financial and operational concerns. Applications that support specific company functions or processes may export or import data to such enterprise programs.

A system integration analysis determines how well an enterprise system and other applications work in promoting greater efficiencies and reporting accuracy. Such an analysis can identify previously undetected errors and opportunities for improvement.

Vendor/Employee Master File Review

WHAT PROCESSES AND CONTROLS EXIST FOR ensuring vendor and employee master data files are up to date? Effective practices not only keep records current and accurate, but also detect unauthorized or fraudulent activity. Duplicate payroll disbursements may have been made. Records for fictitious employees may have been entered for payroll purposes. Similar circumstances may surround vendor files.

A review of vendor and employee master files for incomplete and duplicate data, as well as payroll and accounts payable disbursements, can identify potentially unauthorized activity. Establishing a process to monitor such activity helps the company deter such actions in the future.

Use This Downtime for Improvement

SO MANY OIL AND GAS COMPANY DECISIONS HINGE UPON international commodity prices that fluctuate due to events beyond an individual company's control. While a company cannot alter those price cycles, it can use the slower production times that follow price declines to review established practices and act upon options that deliver current and future benefits.

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Weaver's oil and gas services group is deeply familiar with the issues oil and gas companies around the world face, including uncertain credit markets, increasing industry legislation and tax reform, regulatory and environmental oversight, data security and other areas of potential risk. We work closely with our clients to customize services that fit their existing staff structure and operations. Some of the services we provide include:

- Full cost/successful efforts conversion
- IFRS assessment and conversion
- Internal audit
- IT audit
- Joint interest audit
- Litigation support
- Multi-state tax planning
- Research and development tax credit
- Reverse sales tax audit
- Risk assessment
- Sales and use tax review
- Sarbanes-Oxley compliance
- Structuring buy/sell agreements
- Texas margin tax planning
- Valuation and due diligence

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