



Oil and Gas Vendor Roundtable

Vendor Audit Program Template

Water Haulers

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Introduction and Purpose

This document is specific to water haulers and is designed to be used as a supplement to the General Vendor Audit program, published by the Oil and Gas Vendor Roundtable Content Develop Committee. Vendor selection, audit process, reports, and resolution guidance are included in the general audit program.

The program was developed collectively by the Content Development Committee and is intended to be utilized as a high-level resource to assist members, provide considerations, and act as a guide through vendor audits of water haulers. This document does not serve as a complete audit program, but rather supplements the general audit program and includes specific risk factors, objectives, fieldwork, and audit testing specific to water haulers. It is not intended as an all-inclusive guide and does not cover all scenarios or aspects of water hauler reviews.

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Water Haulers

Water haulers do just that; they haul water. Water haulers can be involved in all areas of operations: drilling, completions, and production. These service providers transport fluids, such as brine and fresh water to operator locations, drilling mud, as well as flowback and produced water from an operator’s location. The dynamics of each operation are different and are ordered and approved by the respective operational groups (drilling, completions, and production). While specified in a Master Service Agreement (MSA) or rate sheet, the primary methods of billing for these services are hourly, by the barrel, or the load. Unique risk factors are present for each type of rate, and different controls must be put into place for each method to prevent overbilling and fraud.

Risk Factors

Numerous risks exist, some of which are outlined below, for this vendor type. These risks can be categorized into somewhat discrete categories: financial and operational. The table below attempts to capture some of those risks, as well as questions you may ask when performing your water hauler audit.

Note: The selection of a particular water hauler is covered in the OGVR Audit Program - General guide on the OGVR website.

Risk Category	Area of Focus	Questions to Consider
Financial	Contract/Agreement	Does the organization lack a contract between the parties? Does the contract stipulate the right to audit, or is it based on a verbal agreement? What rights are outlined? Is the contract “boiler plate” in nature, lacking specific stipulations? Has the audit period been stipulated?
	Rates	How does the hauler bill their services? Is it billed out on an hourly, per barrel, or by load? Does that hauler bill via multiple methods depending on the situation?



Risk Category	Area of Focus	Questions to Consider
	Invoicing & Spend	Does spend fluctuate with ups and downs of the organization’s growth and recession? Or does spend remain constant? Is there a delay in billing? Does the hauler provide a ticket to reflect the job or project? Do the invoices include backup?
	Quantities	Are the invoiced quantities of hour, loads, and barrels reflective of actual operations? Do quantities fluctuate, or are they always listing a particular quantity?
	Third Parties Subcontractor	Does the hauler omit third-party support required by your organization? Does the hauler subcontract any of the services provided? Does the organization know who these parties are? Does the hauler maintain any due diligence on their subcontractors? Does the MSA allow for markups for third-party charges?
Operational	FMCSA ¹	Does the hauler retain the required documentation required by FMCSA? Is the hauler in compliance with Hours of Service requirements?
	Relationships	Are the relationships appropriate between the hauler and third parties or subcontractors? Does the organization have a competitive bidding process, or does the organization request work to “preferred” haulers? Do any relationships between the hauler and your organization’s employees exist? Have tips ever been called on a particular hauler?
	Technology	Does the organization lack technology to monitor water volumes and amounts of water pulled?

Objectives

The objectives developed for your audit depends on your scope, the amount of time planned for the audit, the information or data available, and the areas in which you want to obtain assurance.

¹ Federal Motor Carrier Safety Administration



The following objectives, although not an exhaustive list, can be incorporated into your water hauler audit plan.

1. Compare invoiced rates with the pricing provisions of the MSA or pricing agreements.
2. Verify hours, barrels, or loads billed. Ensure volumes or quantities are reflective of actual operations and charged at the appropriate rates.
3. Reconcile water hauling charges with GPS logs and disposal records.
4. Review barrels hauled for unreasonable trends. (For example: Are the barrels hauled consistently the same?)
5. Reconcile field ticket support with invoiced volumes or hours charged.
6. Reconcile labor hours with payroll records, such as payroll reports and paystubs.
7. Determine if taxes were assessed correctly and invoiced at the proper rates.
8. Evaluate the adequacy of hauler's back-office / accounting controls.
9. Determine if duplicate billings occurred or duplicate payments of invoices occurred.
10. Analyze vendor's method for processing adjustments (are adjustments based on operational data, invoice edits, and is approval required?).
11. Review the FMCSA's Safety Measure System website for the hauler status on "Unsafe Driving", "Crash Indicators", "Driver Fitness", etc.
12. Determine if hauler complies with FMCSA's guidelines.
13. Determine if trucks and equipment are owned by the vendor or third parties and evaluate relationships of third-party owners.
14. Establish rapport and enhance relationship between vendor and operator and open lines of communications for future audits.
15. Determine if hauler's insurance meets the requirements set forth in your organization's MSA.
16. Evaluate gifts, entertainment, and other tangible and intangible items of material value given to employees to ensure compliance with conflict-of-interest policies.
17. If the program has been implemented, determine if vendor is aware of integrity/compliance hotline.
18. Evaluate the adequacy of your organization's internal controls and approval process.



Fieldwork and Audit Testing

The fieldwork phase includes testing and analysis, invoice review, specific questions submitted to the vendor, potential interviews, and other testing required to complete your established objectives.

Typically, fieldwork is coordinated with the vendor's availability to answer questions and provide additional documentation as established in the notification letter and preparation phase. The objectives and sample selection determined in the preparation phase will guide the audit testing during fieldwork.

The following includes various analyses and testing, some or all of which may be used for the review based on the particular vendor and selected objectives. They are separated by type: hourly billings, per load/volume, and general testing. The result of the audit testing will be findings related to overbillings or other issues, or additional questions for either the vendor or internal personnel.

1. FMCSA Records

- Review DOT logbooks and reports filed with DOT and compare with daily hours billed.
- Review DOT reports filed for days with more than 12 hours worked and compared with timesheet or invoiced hours.
- Review DOT violations (FMCSA). If violations are present, this may be an indication that pre and post inspections are not performed regularly or not done properly.

2. GPS Reconciliation

- Compare GPS start/stop times with ticket start/stop times.
- Compare GPS daily hours to billed hours.
- Evaluate Routes. Are routes direct or include unnecessary stops and extra time?
- Calculate total miles driven per day by each driver to identify anomalies.
- Identify total number of loads per driver to identify anomalies.
- Review loading times. Are loading times sufficient to pull a full load?
- Review unloading time at disposal sites. Are times sufficient to fully unload?



3. Payroll

- Compare hours billed to payroll hours.
- If travel time is charged, compare with contract/pricing provisions. Typically, employees are paid for travel to/from the sites or field. Payroll should exceed hours billed if travel time is not chargeable.
- Compare timesheets to payroll hours.

4. Operations

- Identify time spent on pre and post inspections. Is a specific allowance stipulated in pricing agreements?
- Review standby and non-productive time (NPT) and determine if they are charged at the proper standby rate or allowable charges per the pricing agreements. Are all standby and NPT hours identified on the tickets and classified correctly?
- Compare barrels hauled (charged) to barrels on disposal tickets.

5. Per Load / Volumes - General

- Evaluate the disposal ticket and determine if third-party signatures are present, if sites are manned or unmanned, and evaluate the overall reliability of the disposal tickets.
- Compare GPS data with invoice and field ticket support to verify if number of loads agree with loads invoiced.
- Compute average load times and compare number of loads charged vs payroll hours.
- Does load size (barrels) reflect actual barrels hauled or is a full load always billed? Are loads metered?
- Compute maximum number of loads per day, compare to loads billed per day.
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- Compute maximum number of loads per day, compare to loads billed per day.
- Compare metered well volumes with hauled volumes and disposed volumes.
- Load size: Pricing basis analysis. Typically, a per load/barrel rate is based on three components: hours, mileage, and water cost.
- Load size: Know the breakdown of per barrel pricing, then can compare on audit to evaluate the fee structure.

General Testing

1. Rates

- Compare rates charged with agreement provisions.
- Are ancillary services provided at rates established in the pricing agreements? If not, is written rate approval obtained prior to service?
- Duplicate tickets
 - Same ticket billed on multiple invoices.
 - Same hours billed on multiple tickets.
- Duplicate invoices
 - Are duplicate invoices submitted and paid with slightly different invoice numbers?

2. Sales or gross receipts tax. Is tax applied properly?

3. Field approvals

- Are invoices and tickets approved in the field?
- Fleet Comparison
 - Compare trucks and equipment charged to the vendor's fleet.
- Other services
 - If other services are provided, are they covered in the established scope of work?
- Additional tests may be appropriate based on the materiality of services provided.

4. Third parties and subcontractors

- Evaluate if relationships are appropriate between third party owners and vendor. Are conflicts of interest present?
- Determine if third party is on a do-not-use list or if they are truly working under vendor.



- Compare the cost to the vendor with the cost invoiced to verify services are invoiced in accordance with the MSA.

5. Reasonableness Testing

- Trend volumes for producing wells. Compare monthly billings and the average produced water per month.