

## About Me

- Hein Royalty Audit Service Line Leader
- COPAS National Board Member
- >15 Years Oil & Gas Industry Experience
  - Upstream
    - Non-operator
    - Operator
  - Midstream
  - Downstream





## **About Hein**

# About Us

- Full service firm
  - Audit
  - Tax
  - Advisory
- Expertise and knowledge
- Personalized attention
- Recognized industry leaders



# About Us

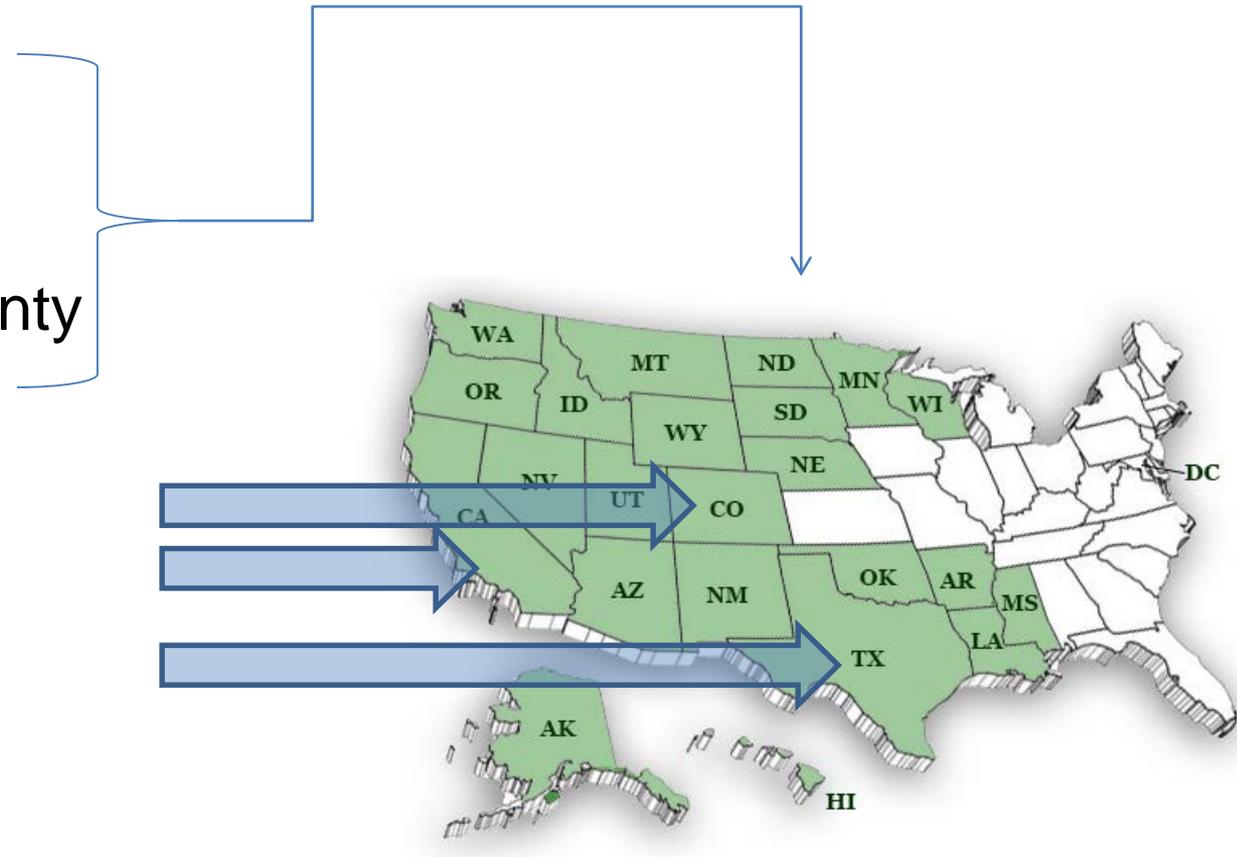
- Customized solutions
- Top 20 firm - SEC clients
- “Best of the Best” by *Inside Public Accounting*



# About Us

- Offices in:

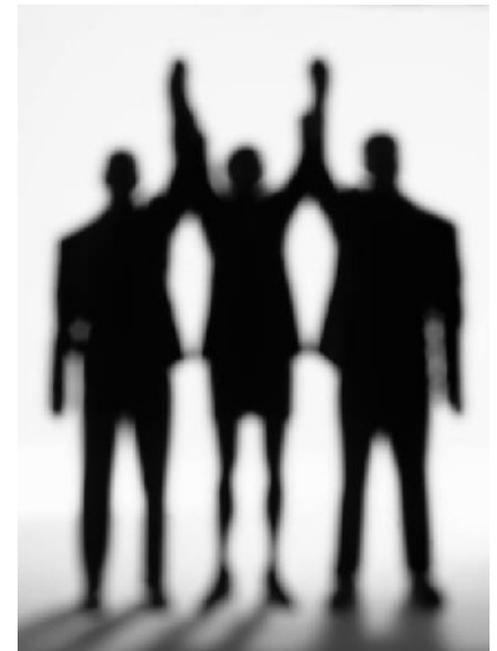
- Denver
- Dallas
- Houston
- Orange County



# Hein's Current Partnership

HEIN provides ATLAS solution to Colorado

- Hein was NetSuite's original systems integrator partner
  - 5-Star Partner
  - Exclusive
- Recognized the cloud migration movement early and positioned the firm to capitalize by partnering with the best solution providers for our clients



**ATLAS**  
Colorado State Land Board

# The Hein Advantage

- We are well positioned to help:
  - Accounting expertise
  - Best practices
  - Ongoing support
  - Operational industry knowledge
  - Process reengineering
  - Technology
  - Thought leadership



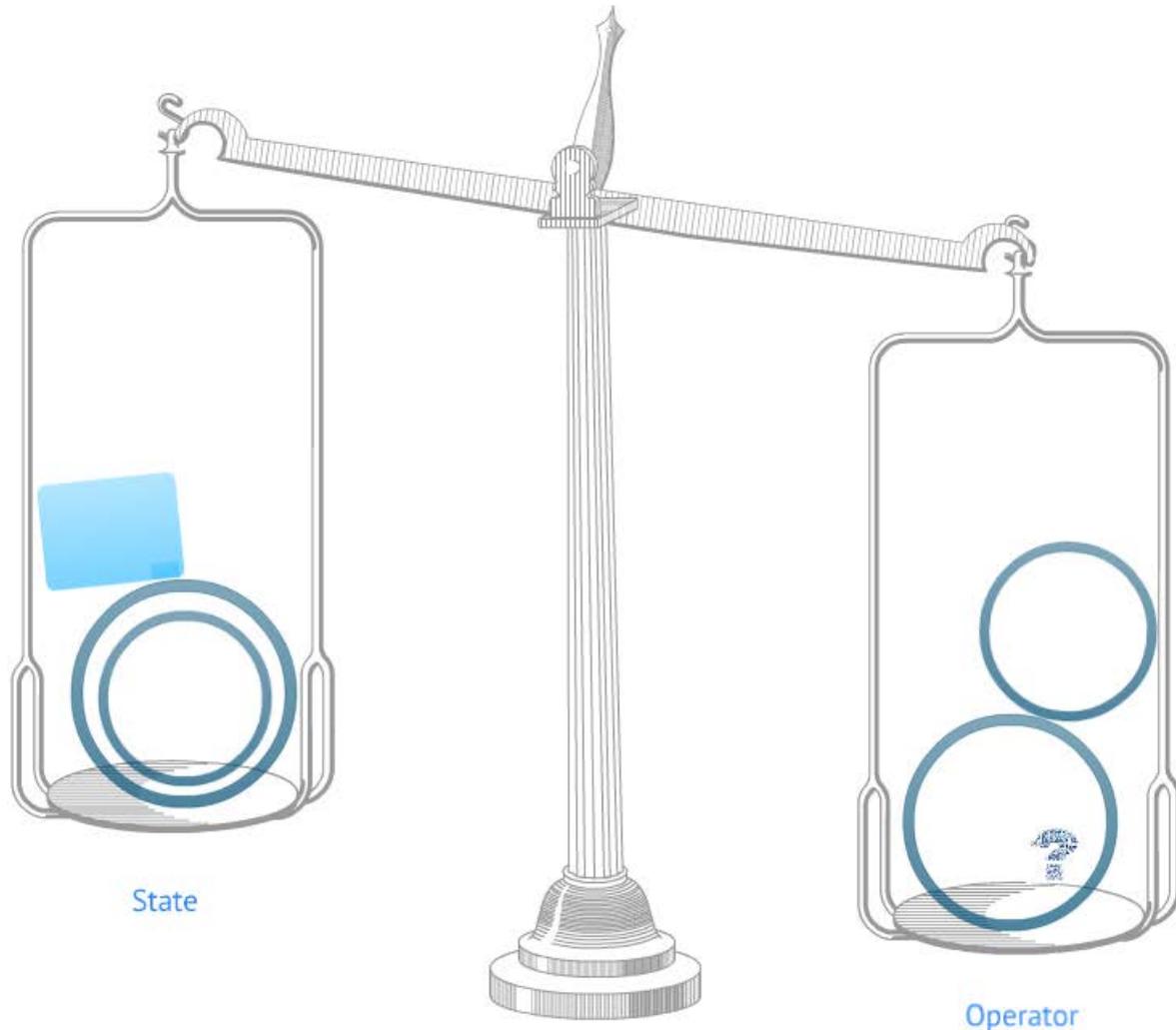
**ATLAS**  
Colorado State Land Board

# Pig Stuck in a Pipe



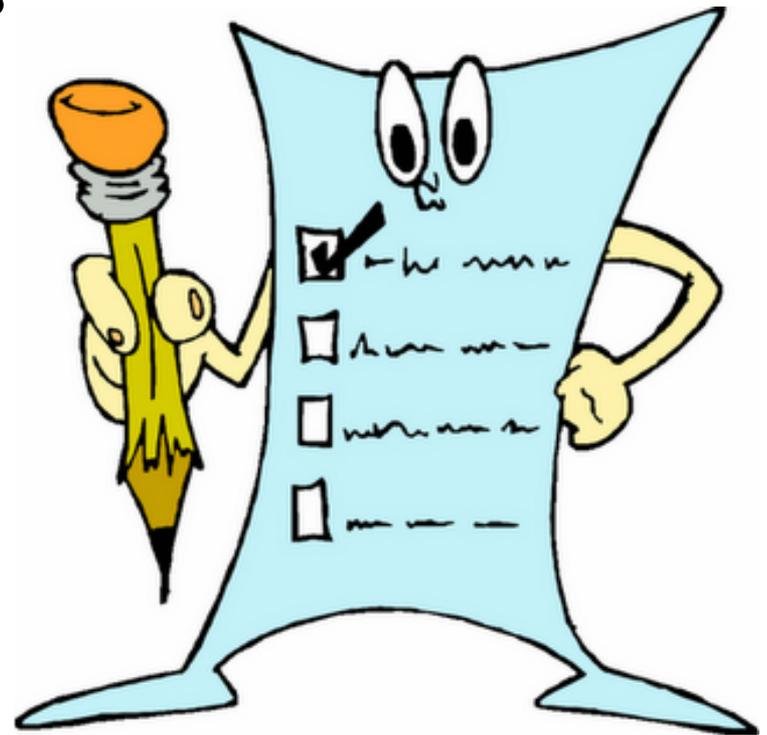
[http://www.starpig.com/Piggy\\_Primer.html](http://www.starpig.com/Piggy_Primer.html)

# Tackling State Oil & Gas Royalty Reporting Challenges



# What we plan to cover today

- Roles & responsibilities – state royalties
- COPAS as a resource
- WSLCA member highlights



# What we plan to cover today

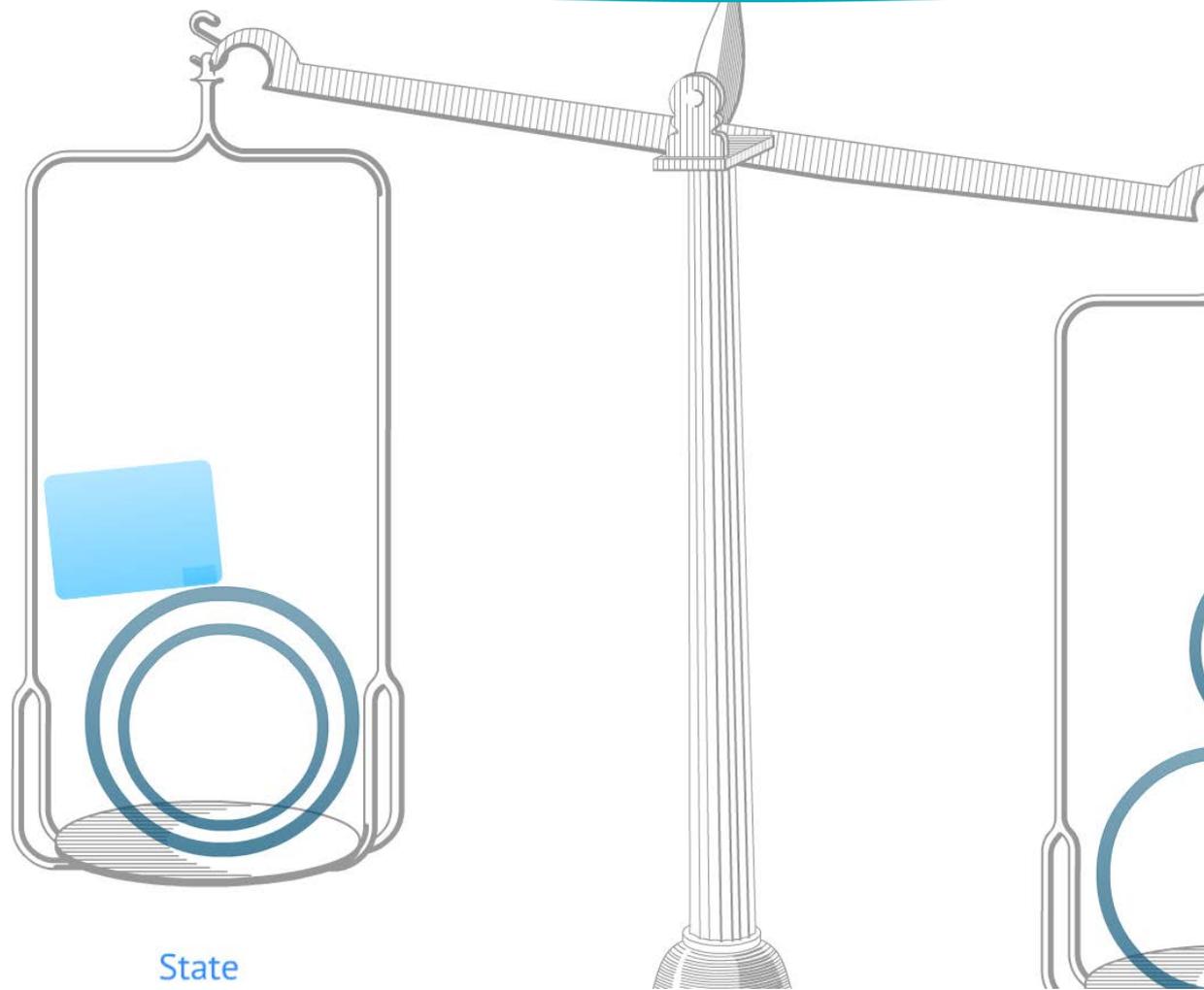
- Recommendations
  - Best practices
  - Proposed solutions
  - Moving forward
- Thought leadership
- The solution
- Conclusion



# Roles & Responsibilities

**Roles & Responsibilities**  
**State & Operator**

# Roles & Responsibilities



State

# Roles & Responsibilities

## State Land Board Concerns

- Royalty proceeds
- Institutional funding
- "One of the great responsibilities that I have is to manage my assets wisely, so that they create value."  
*Alice Walton*

# Roles & Responsibilities

## Elements of Royalty Reporting to the State

- 1.) Revenue - the most essential element of royalty
  - state leases with operators
  - oil and gas production
  - oil and gas markets



# Roles & Responsibilities

2.) Compliance - reliability of information reported to the state in compliance with the lease arrangement.

- operator's ability to provide reports on a timely basis in compliance with the state leasehold requirements.



JANE FIELDER  
CONSULTING  
0433 293913



# Roles & Responsibilities



State



Operator

# Roles & Responsibilities

## Operator

- The company responsible for reporting to the state on royalties for state leased operations - the lessee.

-Concerned with

- \* State lease holdings

- \* Oil & Gas reserves

- \* Shareholder value

-"Unless someone like you cares a whole awful lot, nothing is going to get better. It's not"

*Dr. Seuss*

# Roles & Responsibilities

## Elements of Compliance by the Operator

- Interpret state leasehold requirements based on available information.

\* Report as dictated by lease with state,

\* Accumulate data

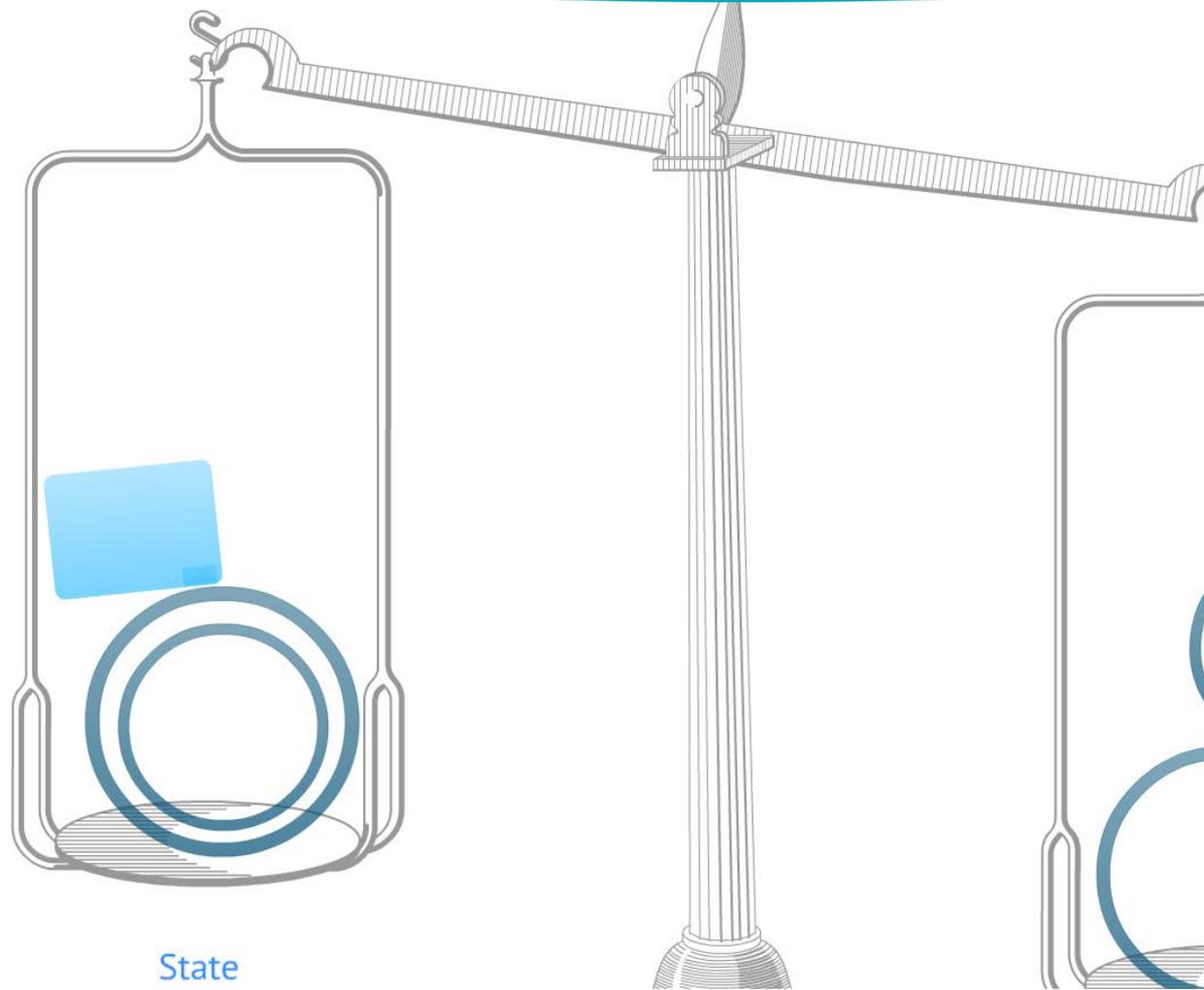
\* Interpret data

\* Report data

\* Issue royalty payment

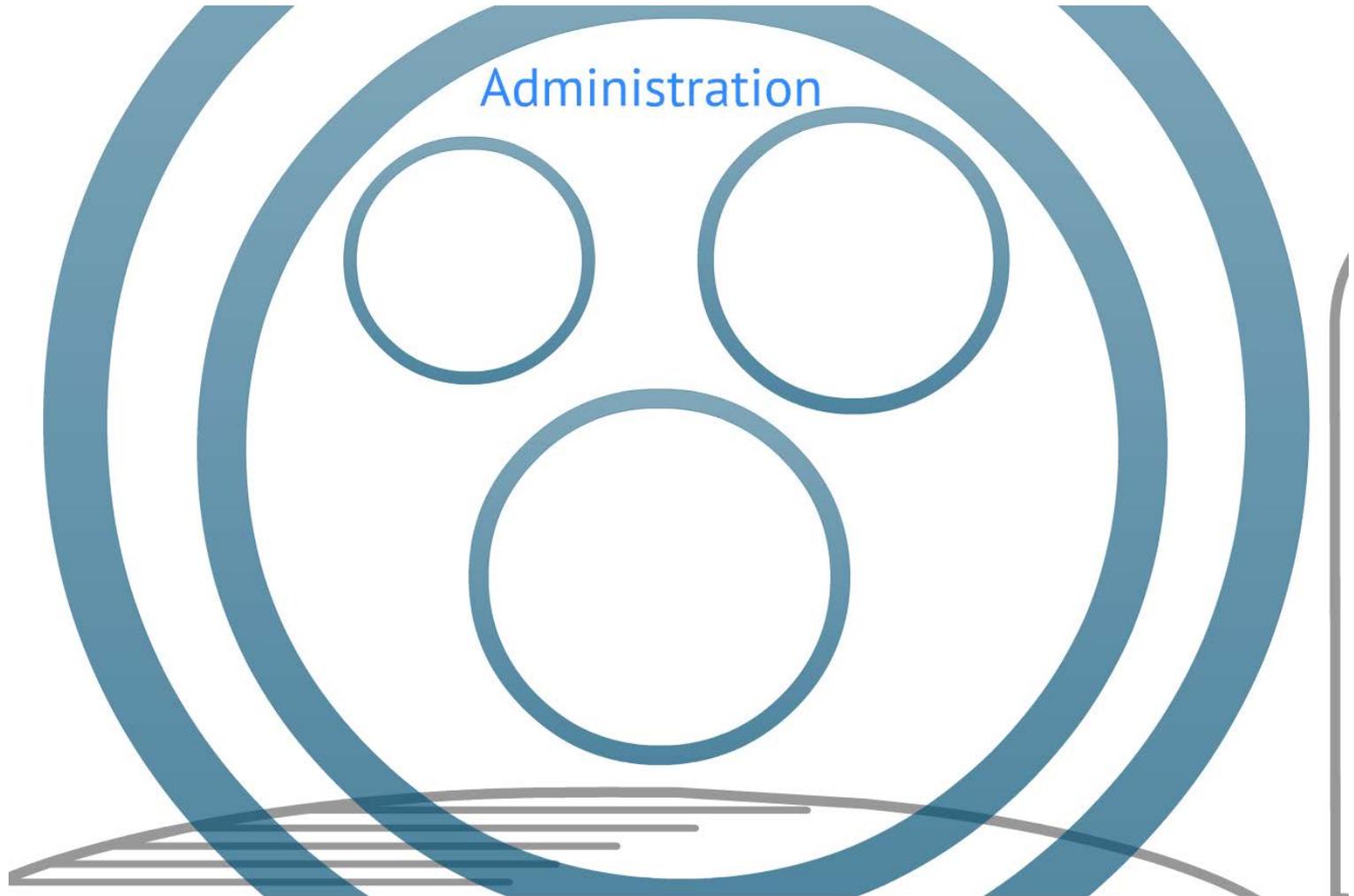


# Roles & Responsibilities

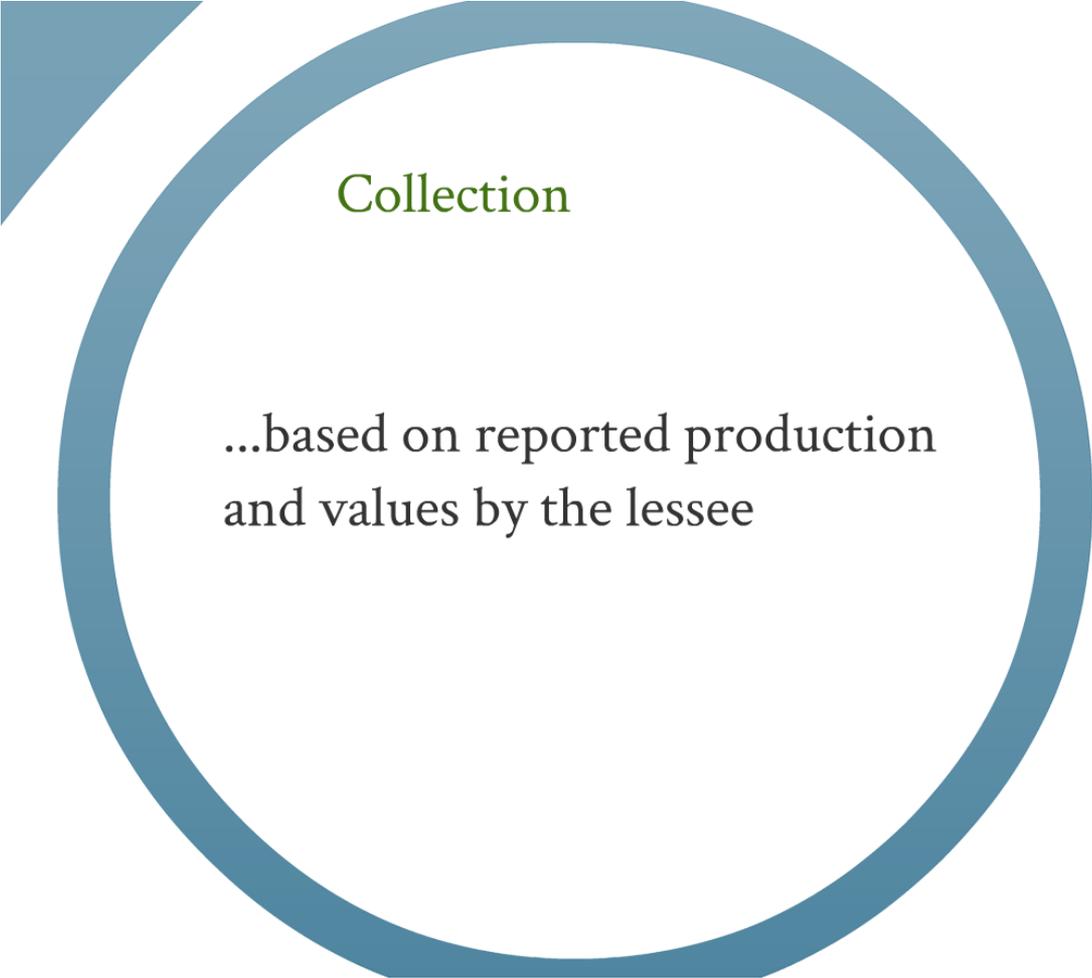


State

# Roles & Responsibilities



# Roles & Responsibilities



## Collection

...based on reported production  
and values by the lessee

# Roles & Responsibilities

## Monitor

...timeliness of royalty reporting and receipts, accuracy of compliance, effectiveness of collections.

# Roles & Responsibilities

## Enforce

...through desk audits,  
royalty audits, issue letters,  
education, express notices

# COPAS as a resource

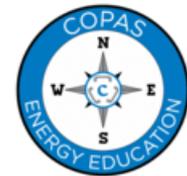
THE source of business and accounting solutions for the energy industry.



## COPAS as a resource

[www.copas.org](http://www.copas.org)

COPAS Energy Education



[2016 Class Calendar](#)

# COPAS as a resource

- Recent courses developed with educational focus
  - Intro to Oil & Gas Exploration, Production, Upstream Operations
  - Principles of Joint Interest Accounting: Boot Camp
  - Principles of Revenue Accounting: Boot Camp

COPAS Energy Education



# COPAS as a resource

- Recent courses developed with educational focus
  - Petroleum Geology & Geosciences: The Basics
  - Understanding Oil and Gas Royalties
  - Understanding the Landman

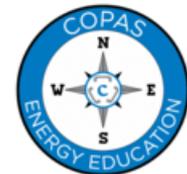
COPAS Energy Education



# COPAS as a resource

- Recent courses developed with educational focus
  - Revenue Oil and Gas Marketing & Sales
  - Ethics for the Petroleum Industry
  - Joint Interest Audits

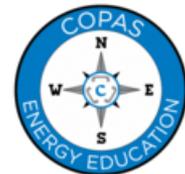
COPAS Energy Education



# COPAS as a resource

- Recent courses developed with educational focus
  - Gas Balancing
  - Gas Plant Accounting
  - Oil and Gas Federal Tax

COPAS Energy Education



# COPAS as a resource

- Recent courses developed with educational focus
  - Audit Fundamentals
  - Midstream
  - [Angie.Knipe@COPAS.org](mailto:Angie.Knipe@COPAS.org)

COPAS Energy Education



# WSLCA Member Highlights

**Land Board – Royalty Collection**

*research on links to WSLCA Member sites*



# WSLCA Member Highlights

- Texas GLO provides
  - Resources
  - Explanations
  - Technology









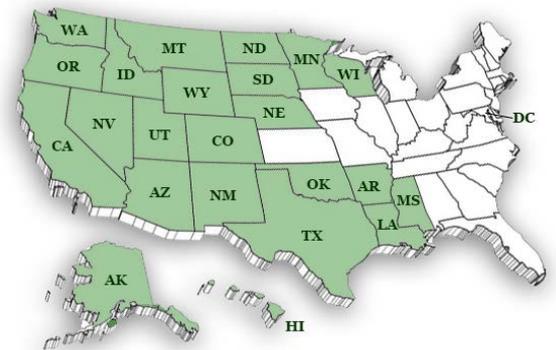
# Recommendations

## Recommendations to state land boards



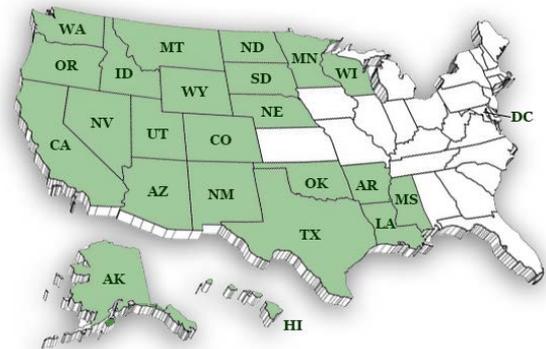
# Recommendations

- Where are the following?
  - Training materials
  - Audit protocol
  - Schedules
  - WSLCA reference



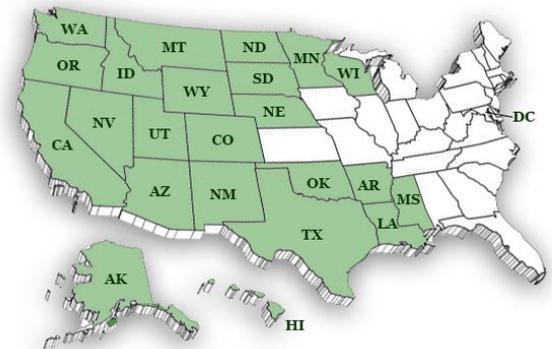
# Recommendations

- Non-compliance issues highlighted
  - Pricing/valuation
  - Non-Sale dispositions
  - Deduction allowances



# Recommendations

- Non-compliance issues highlighted
  - Comingling
  - Use Technology
    - Tracking of lessee reporter
    - Training and download – resources
    - Information flow



# Recommendations

- Suggestions to improve State royalty compliance
  - Webinars
  - One reporting tool
  - Share common issues on WSLCA web-site



# Recommendations

## **Hein's Royalty Thought Leadership**



# Hein's Royalty Thought Leadership

- Compliance Concerns with Royalty Valuation
  - Dry vs. wet gas
  - Comingling of products
  - Post production cost deducts
  - Lack of intuitive system integration



# Hein's Royalty Thought Leadership

- What Hein is Seeing
  - Affiliate issues
  - Price deviations
  - Reduced royalty payments



# Hein's Royalty Thought Leadership

- What Hein is Seeing
  - Personnel competency concerns
  - Accounting policy problems
  - Production inaccuracies



# Best Practices for Land Boards

## Best Practices for Land Boards



# Best Practices for Land Boards

- Employ lean processes
- Leverage appropriate technology
- Eliminate manual entry



# State Land Board's Needs

- Educate for compliance
- Increase revenue
- Decrease expense



# Best Practices for State Land Boards

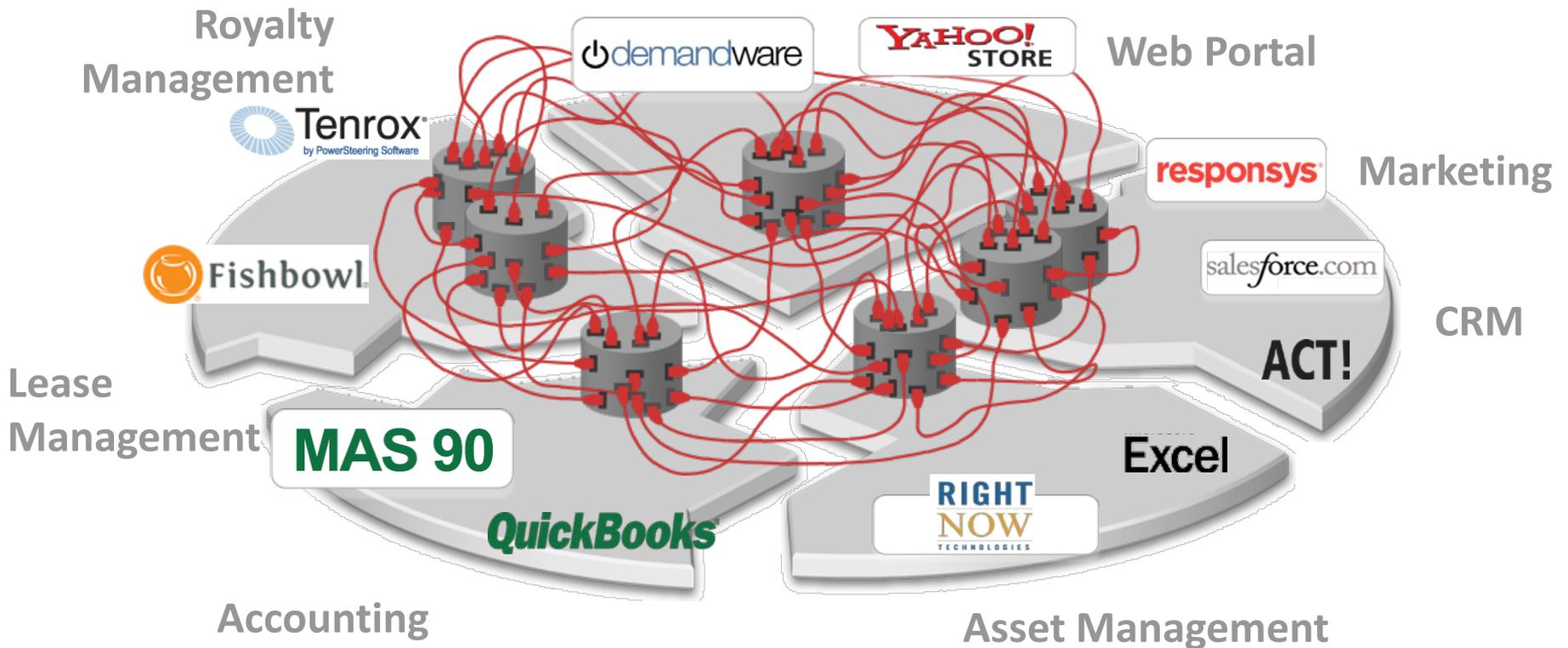
- Interface existing systems
- Automate with controls
- Employ workflows



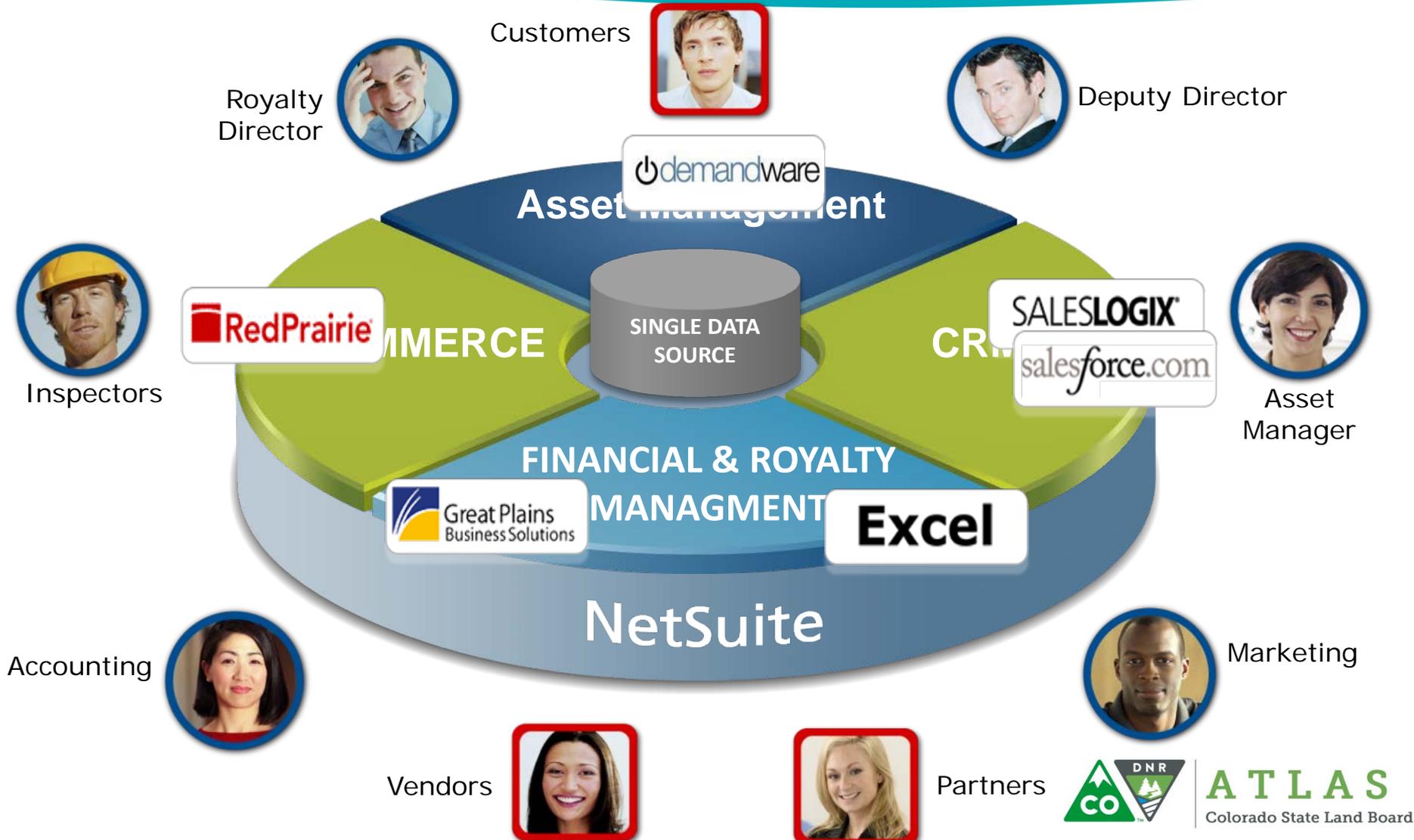
# Hein provided the Solution to Colorado



# What Most Land Boards Look Like

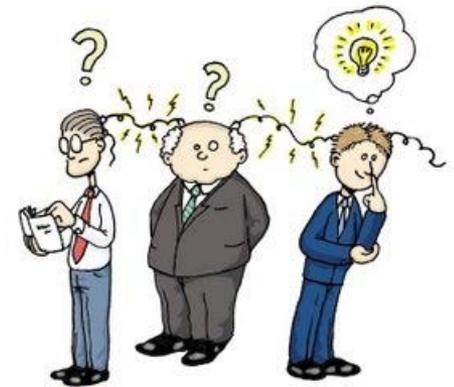


# One System for Running the Agency



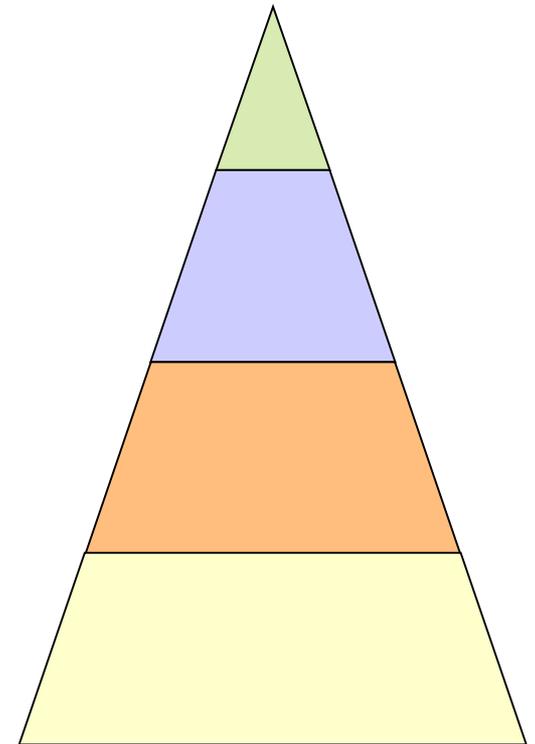
# The Solution

- Public Access
- Application Management
- Lease Management



# The Solution

- Royalty Management
- Asset Management
- Accounting Management



# The Solution



**Reminders**

69	Production Lines Flagged for Audit
1	Pending Audits
3	Audit Recovery Pending Receipt

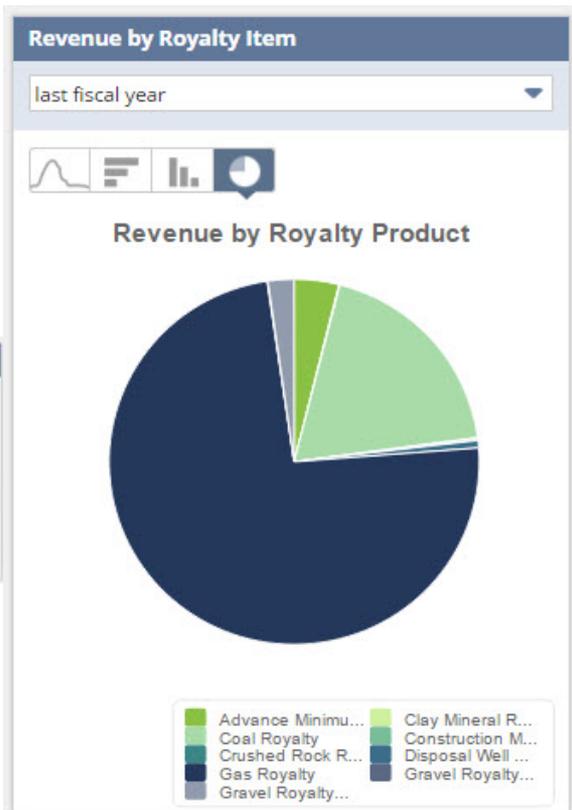
**Key Performance Indicators**

Audit Recovery Amount

↑ 188.0%

INDICATOR	PERIOD	CURRENT	PREVIOUS	CHANGE
Audit Recovery Amount	Previous Months This FYYear vs. Three Months Ago	\$ [redacted]	\$ [redacted]	↑ 188.0%
Total Royalty \$ Variance	Last Fiscal Quarter vs. Previous FQtrs This FYYear	\$ [redacted]	\$ [redacted]	↓ 99.7%

\$'s redacted



# The Solution

- Reporting
- GIS Integration
- Document Management Integration
- State Accounting System Integration
- EnergyNet Integration





# **Conclusion**

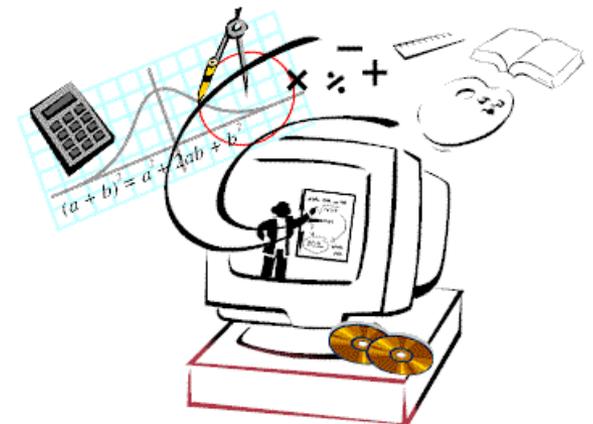
# Conclusion

- Utilize state of the art technology to:
  - Drive lean processes
  - Automate manual tasks
  - Maximize revenue through marketing available inventory



# Conclusion

- Utilize state of the art technology to:
  - Collect all amounts due
  - Enhance analytic capabilities
  - Reduce expenses



# Conclusion

- Utilize state of the art technology to:
  - Improve cash flow
  - Push processes to customers
  - Create self-service infrastructure



# Moving Forward

- Questions?
- Comments?



# Contact Information



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