

AUDIT PROGRAM



VENDOR AUDIT PROGRAM TEMPLATE

BY: HAP
April 7, 1992

Audit Step	Auditor	Date	W/P Reference
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AUDIT OBJECTIVES

Audit procedures should be sufficient to enable the Auditor to determine that:

- A. Transactions with vendors are conducted at arm's length obtaining value received in approximate relation to monies paid. _____
- B. Selection of vendors chosen to provide goods and services were competitively bid in accordance with company policy and procedures. _____
- C. All prices charged by vendors are in accordance with applicable contracts, purchase agreements or other price lists. _____
- D. There are no conflicts of interests between EOG employees and third-party individuals as defined in the EOG Conflicts of Interest Policy. _____

AUDIT PREPARATION

A. Vendors Selected for Audit:

1. Prepare a data base from which to select vendors for audit. _____
2. Compare to industry watch list. _____
3. Interview Headquarters and Division senior management for their input. _____
4. Prepare a detailed printout of transactions between EOG and the vendor selected. Develop a valid statistical sample. _____
5. Perform a background review of each vendor and prepare a Vendor Audit Check List Report which outlines the significant facts developed during the review (See B. below). _____

AUDIT PROGRAM



VENDOR AUDIT PROGRAM TEMPLATE

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Audit Step	Auditor	Date	W/P Reference
------------	---------	------	------------------

B. Vendor Audit Check List Report

- 1. Vendor Name _____
- 2. Street Address _____
- 3. City/State/Zip _____
- 4. Phone _____
- 5. Principal Contact Name _____
- 6. Nature of Business _____
- 7. Audit Period _____
- 8. Locations where business is conducted (cities/counties/states)

- 9. Amount of business during period \$ _____
- 10. Audit Performed by _____
- 11. Notes for Follow-up

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Audit Step	Auditor	Date	W/P Reference
------------	---------	------	------------------

C. EOG Records Search

1. Obtain fully executed copies of Vendor Profiles, Master Service Agreements including subsequent revisions and or amendments. Be sure to obtain copies of referenced schedules, attachments, price lists, etc. Prepare standard contract briefs on all agreements. Refer to EOG Purchasing Policy and Procedure Manual, section VII-B. _____

2. Obtain copy of fully executed Certificate of Insurance that should be on file with the Master Service Agreement. Verify that levels of coverage are as agreed in the Master Service Agreement. Obtain written confirmation from the insurance carrier that coverages are in force for the prescribed time period, and that EO&G is named as a party of interest. _____

3. Obtain and review copies of paid vendor invoices and supporting documentation (as per audit sample in A-4 above). Determine principal EOG employees dealing with the vendor. Prepare a watch list of individuals requesting materials or services, approving invoices for payment, etc. _____

4. Obtain a current listing of EOG employees and consultants in the Division, and determine which EOG employees and consultants deal with the vendor. Input to individual watch list. _____

D. External Public Information Records Search

1. Obtain a Dun and Bradstreet Report (Complete Articles of Incorporation) on vendor company and all affiliated companies. Review the officers/owners listed and compare to and update industry and individual watch list. _____

2. Review Secretary of State Records fish files - PROFF AND PIRCORP, and add new information to the individual watch list. _____

3. Review county records for filings (suits, etc). See VP EOG Audit for instructions. _____

AUDIT PROGRAM

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April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

E. Initial Interview Process

1. Review findings with Senior Management from Headquarters and Divisions, and seek their input. Working through Division Senior Management schedule interviews with each vendor selected for audit. _____

2. The purposes of the initial interview with the vendor are: _____

a. To explain the purpose of the audit: _____

1. EOG has a policy to perform regular financial audits of vendor records to ensure compliance with contract terms, and that value is received in appropriate relationship to monies paid. _____

2. EOG has a written ethics policy which should be given to the vendor. This audit is an effort to ensure there are no conflicts of interests between EOG employees and third-party individuals, as defined in the EOG conflicts of interest policies. These would include gifts and excessive entertainment and other business ventures between EOG representatives and vendors. _____

b. Seek input from vendor: _____

1. Operational problems. _____

2. Problem EOG employees. _____

3. Problem competitors. _____

4. Schedule time to perform the audit. _____

5. Determine from the vendor if there is a personal or company ownership in any other business. _____

6. Determine officers and owners of vendor's business. _____

7. Determine if there are any undisclosed owners of vendor's business. _____

AUDIT PROGRAM



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------------	---------	------	------------------

8. Advise vendor of records required to do the audit. Note any unwillingness of vendor to provide records. _____
- F. Prepare a estimated time budget to perform this vendor audit, broken down by staff member and specific assignments. _____
- G. Prepare an engagement letter to the vendor referencing the preliminary audit discussion, detailing the audit scope, the records required to perform the audit, and the date field work is to begin. _____
- H. Prepare an audit program and obtain approval of the Vice President Audit. _____
- I. Prepare a list of management concerns to be addressed during the audit. _____

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April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

FIELD WORK PROCEDURES

A. Division Vendor Contract Administration

1. Determine compliance with company policy concerning the competitive purchase of goods and/or services as evidenced by:
 - a. Invitation to bid list to vendors that appear on the pre-approved vendor listing. _____
 - b. Procedures for handling of returned invitations to bid. _____
 - c. Documentation of bid openings. _____
 - d. Bid analysis and basis for selecting bid is adequately documented. _____
 - e. Award and acceptance of bid. _____
 - f. For goods and services where competitive bids were not solicited, determine each of the following:
 1. Why bids were not obtained _____
 2. Vendors contacted and their response _____
 3. Justification for selecting a sole supplier. _____
 - g. Determine if vendor bidding and contract administration is handled on a timely basis by evaluating the time between the approval of AFE and the awarding of contract. _____
 - h. Determine that written executed contracts were obtained from vendors selected to provide goods and/or services and that contract approval was by management having sufficient financial authority. _____
 - i. Verify that the contractor has complied with any non-financial terms of the contract such as:
 1. Proof of insurance _____
 2. Providing progress reports if required _____

AUDIT PROGRAM

VENDOR AUDIT PROGRAM TEMPLATE

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April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	------------------

3. Other terms of contract. _____
- j. If a written executed contract was not required, has a price list been obtained for the purpose of monitoring vendor costs? _____

B. Division Monitoring Vendor Activity

1. From the sample selected (in Audit Preparation A-4) determine:
 - a. Whether an Enron employee or consultant monitored the operations and/or vendor activity _____
 - b. What inspections were made by division employees of the goods/services performed by the vendor _____
 - c. Who monitors the daily tour reports, consultant reports, or vendor reports concerning drilling/lease activities. _____

C. Division Control Of Vendor Costs

1. Determine the adequacy of division procedures for monitoring vendor costs by evaluating each of the following:
 - a. Commitment level for ordering goods/services _____
 - b. Verification that the goods and/or services were received in the ordered quantities _____
 - c. Supervision of vendors _____
 - d. From the sample selected in (Audit Preparation Section A-4), review the expenditures charged and determine:
 1. Payment was made from an original invoice, not a copy or statement _____
 2. Invoice extensions and footings were verified by division personnel _____
 3. Prices for goods and/or services agreed to contract terms or price lists _____

AUDIT PROGRAM

VENDOR AUDIT PROGRAM TEMPLATE

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 April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

- 4. Receiving report was received prior to _____ payment _____
- 5. Purchase of material was made with a _____ purchase order, if required _____
- 6. All applicable discounts were taken _____
- 7. A comparison of other invoices was made _____ to prevent duplicate payments _____
- 8. Approval of invoice was in accordance _____ with delegated authority limits, and was approved after a careful review of _____ invoice terms. _____

D. Audit of Vendor's General Business Records

- 1. Obtain and review the following business documents. Compare company and individual names to watch list:
 - a. Articles of Incorporation _____
 - b. Officers of Record (Annual report to the Secretary of State). _____
 - c. Annual Board Meeting Records. _____
 - d. Secretary of State - Agent Registration (pay particular attention to the agent of record). _____
 - e. Stock Ownership Record Book (Common and Preferred). _____
 - 1. Certificates by number and endorsements. _____
 - 2. Certificate transfer log. _____
 - f. Examine employee records. _____
 - 1. W-4 forms. Prepare a schedule as necessary. Review for potential conflicts of interests (i. e. company employees and relatives). _____

AUDIT PROGRAM

VENDOR AUDIT PROGRAM TEMPLATE

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April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	------------------

g. Accounts Receivable and Chart of Accounts. _____

1. Review "no charge" or highly discounted transactions for sales or services (i. e. to employees or relatives). _____

2. Calculate the amount of income from EOG and compare it to total income from all other customers. _____

h. Check Register and Bank Statements

1. Review chart of accounts and trial balance to ensure that all bank statements and check registers have been furnished by the Vendor. _____

2. Review accounts listed below for withdrawals of initial payments to self, family members, cash, businesses or individuals. Trace all suspicious payments to source documents. Pay particular attention to names on the watch list. _____

3. Review deposit slips provided by bank with monthly statements to determine if any deposits had "less cash withdrawals". _____

4. Review the cancelled checks for suspicious, illegible or second endorsements. _____

5. Review and prepare a schedule of payments for legal, payroll and benefits payments for the accounts listed below: _____

a. Main and Subsidiary Operating Accounts. _____

b. Payroll Accounts. _____

c. Special Accounts. _____

i. Cash Disbursements Journal

1. Examine the chart of accounts and the names of the vendor's suppliers. _____

a. Schedule companies receiving suspicious payments. _____

AUDIT PROGRAM



VENDOR AUDIT PROGRAM TEMPLATE

BY: HAP
April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

- b. Examine cancelled payment checks for payee and endorsements (including bank account deposited into). _____
- c. Determine ownership of company and principal officers for companies receiving suspicious payments (using PIRT micro fish techniques). _____
- 2. Prepare and review a schedule for items listed below. Verify actual payment. Examine the cancelled check for payee and endorsement (including bank account number deposited into). _____
 - a. Promotions.
 - b. Advertising.
 - c. Donations.
 - d. Commissions.
 - e. Consulting Fees.
 - f. Brokerage fees.
 - g. Rebates, refunds and/or discounts.
 - h. Gifts.
 - i. Travel.
 - j. Entertainment.
 - k. Petty cash accounts.
 - l. Any other expenditures that appear to be unusual to the business/industry.
- j. Paid Invoice Files
 - 1. Review paid invoice files looking for names on the watch list, and other suspicious files/payments. _____
 - 2. Review all miscellaneous files "A through Z". _____

AUDIT PROGRAM

VENDOR AUDIT PROGRAM TEMPLATE

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April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	------------------

k. Review the documentation supporting all petty cash reimbursements.

1. Pay attention to any payments to/from any subsidiary company and individuals and companies on the watch list, and other suspicious payments. Look for payments to "ethics oriented companies/clubs", and payments to clubs/companies/individuals who operate under assumed names. Examine all such transactions by examining the cancelled check or other proof of payment. Review the endorsement including the bank account number deposited into. Look for patterns in the transactions. Prepare a schedule of such payments. Examples might include:

- a. Liquor stores
- b. Strip Joints
- c. Significant recurring food and liquor purchases
- d. Clothing stores
- e. Jewelers
- f. Travel agencies
- g. Sporting goods stores
- h. Auto rentals, dealerships, and accessory outlets
- i. Country clubs, lodges, camps, etc.

1. Review documentation supporting revolving charge cards and other credit cards. _____

1. Determine the types of items purchased.

2. Who has authority to sign for purchases, and who actually signs for purchases. Why is there a difference?

3. Determine where the purchases are actually delivered.



AUDIT PROGRAM

VENDOR AUDIT PROGRAM TEMPLATE

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Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

4. Are descriptive invoices rendered with the monthly statements in agreement with customer copies of receipts. If not, why is there a difference?

m. Income Tax Returns and Statutory Filings.

1. Where possible, review:

- a. Company income tax returns. _____
- b. Principals personal income tax returns. _____
- c. SEC filings (10K/10Q). _____

2. Review financial statements prepared for credit reporting companies or external distribution to customers, etc. _____

n. Gift & Entertainment Expenses

1. Expense Accounts

- a. Examine for principals who own business. _____
- b. Examine for employees/representatives dealing with EOG. _____
- c. Examine for EOG employees dealing with vendor. _____

d. Are all expenses documented? _____

Name of individual and company.
Description of items and costs.
Business Purpose.

2. Does contractor/vendor own (rent, etc): _____

- a. Hunting camp
- b. Fishing camp
- c. Recreation retreat
- d. Golf course membership
- e. Tennis club membership

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Audit Step	Auditor	Date	W/P Reference
------------	---------	------	------------------

- f. Pleasure boat
- g. Airplane
- h. Motorhome

3. Does contractor/vendor sponsor any events, such as fishing trips, picnic, Christmas parties, etc.? _____

4. If yes to (2) (3) above: _____

- a. Location
- b. Review guest list/log
- c. What amenities does contractor/vendor provide guests

5. Does contractor/vendor provide gifts (annual, Christmas, etc.)? _____

- a. Schedule company and employees receiving gifts with frequency, item, amount and value.

o. Invoice Verification

1. Labor Charges

a. Using the schedules prepared in Audit Preparation Steps A.4 and C.3, trace hours charged to EOG on the vendor's invoice to the vendor's time sheets. _____

b. Verify employees' work classification as billed on the invoice to EOG and agree rates charged to the current agreed upon rate schedule. _____

c. Trace labor billings by employee to the payroll register to verify that actual labor costs were incurred. Select a sample of employees and recalculate the gross pay (regular & overtime). _____

d. For labor burden charges, calculate that rates have been reasonably based on vendor's actual experience and that the rates have been applied to the correct base labor costs. _____



AUDIT PROGRAM

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April 7, 1992

Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

2. Equipment Charges

- a. Determine that equipment used is reasonable for the type of work being performed. _____
- b. Compare equipment time billed to labor hours worked. This procedure can lead to possible findings in excessive equipment time billed. Determine how down-time is handled (e.g. prorated, etc.). Industry average monthly equipment rental rate is based on 176 hours/month. _____
- c. Trace all equipment rates billed to current agreed upon rate schedules. _____
- d. Ensure that third party equipment rentals are properly supported by a detailed vendor's invoice. Trace all invoices to the corresponding cancelled check. _____
- e. Ensure material charges are descriptively listed and supported by a vendor's invoice if not supplied by vendor. Trace all invoices to the corresponding cancelled check. _____

3. Subcontractor's Charges

- a. Assure that all subcontractor work is approved by an authorized company representative, acting within his/her authority. _____
- b. Determine whether subcontractor billings are properly supported and are within agreed upon terms. _____
- c. Determine that lien waivers were obtained from all subcontractors prior to the release of final payment. Ensure that copies of all waivers were forwarded to the appropriate company personnel. _____

4. Material Charges

- a. Verify invoice prices to EOG purchase orders or to supplier/vendor published price list or other pricing _____

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VENDOR AUDIT PROGRAM TEMPLATE

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Audit Step	Auditor	Date	W/P Reference
------------	---------	------	---------------

records. Obtain competitive quotations when price lists are not available.

b. Determine by inquiry and observation if the supplier used the same price list for other customers of the same class or trade. Investigate all discounts and evaluate the basis for granting the discount.

CONCLUSION TO FIELD WORK

A. Complete a preliminary audit finding for each questionable item and give to the lead auditor.

B. Review the preliminary audit findings with the Senior Management before leaving the field and give a copy of each exception, with supporting documentation, to the ~~Operator~~ *Vendor Supervisor*.

REPORT PREPARATION

A. Prepare a preliminary report draft listing all significant findings and recommendations.

B. Vice President's review of work papers and draft audit report.

C. Appropriate auditee comments are included in the revised draft audit reports where appropriate. A final draft audit report is prepared and issued to draft distribution.

CONCLUSION TO AUDIT

A. Update the internal controls documentation and other appropriate information contained in the permanent file.

B. Obtain copies for each of the following for inclusion in the work papers:

1. final draft audit report.
2. formal auditee response to the audit report.
3. final audit report.