



Case Study: Internal Audit Services for Equiva Services, LLC

CHALLENGE

Equiva Services LLC, part of a complex alliance which combined major elements of Shell Oil Company, Texaco Inc., and Saudi ARAMCO's U.S. marketing and refining operations, was in need of professionals with *greater experience* to augment their existing internal auditing staff.

SOLUTION

MJLM's team comprising three senior consultants and other team members assisted Equiva's auditing staff from 1999 through 2002 until Equiva Services' dissolution caused by the Chevron/Texaco merger. Our team reviewed and evaluated business risks, internal controls and business processes; interviewed key management and other employees; collected and analyzed data; tested for compliance with company policy, contracts and regulations; and documented and discussed audit exceptions and recommendations with management.

Numerous financial, operational and contract audits and special investigations were performed by our staff. Major audit areas are listed below:

LIMITED LIABILITY CONTRACT (JOINT VENTURE) AUDITS

- Ensured compliance with the contractual terms of the Joint Venture agreements.
- Performed testing procedures to ensure that accounting systems were in place to properly account for the operations of the Joint Venture.
- Tested to ensure that management fees and expenses reimbursed to the operators were properly supported.

PRODUCT DISTRIBUTION TERMINAL AUDITS

- Performed testing of quality assurance processes by terminal operators to ensure that product shipped from the terminal is in compliance with company guidelines.
- Performed testing procedures to ascertain terminal personnel's compliance with plant safety and environmental requirements and management reporting requirements.
- Reviewed procedures to ensure compliance with Department of Transportation requirements for both company trucks and company carriers.

INVENTORY AND VENDOR CONTRACT AUDITS

- Performed audit procedures to verify that product inventory valuation procedures were being properly performed and that all products produced by the refinery was being properly accounted for.
- Performed testing procedures to ensure that quality assurance procedures **as** required by the company were being properly performed.
- Performed testing procedures to verify that physical security procedures for the plant were in place and being properly followed.

- Participated in contract vendor audits performed to ensure that use of contractors by the refinery complies with established company procedures and that vendor invoices were properly supported by documentation maintained at the individual vendor's locations.

MARKETING AND REGIONAL RETAIL AUDITS

- Performed audit procedures to ensure that the various retail locations were in compliance with brand standards established by the company and the management reporting required by the locations were being properly prepared and submitted timely.
- Performed regional retail audits to ensure that the regions were operating in accordance with guidelines established by the applicable business unit.

TRADING ACTIVITY AND EXPENSE REPORT AUDITS

- Performed review of reconciliations between the front office and back office trade books.
- Reviewed trade deals from time of inception to the booking of the transactions into the Accounting system (SAP).
- Reviewed and analyzed trading positions to calculate market to market entries.
- Reviewed accounts receivable and collection efforts, including analysis of exchange customers as well as reviewing inter-company transactions.
- Performed compliance audit of expense reports, the Procard program and Fleet Services.

SUCCESS

Our consultants were requested by the client for over three years as they added value to Equiva's audit process. Specific achievements include:

- Detecting or precluding financial losses to the company by assisting in confidential special investigations which recommended improvements to strengthen internal controls including documenting policy and procedures.
- Identifying overcharges by vendors and under-billed revenues resulting in their recovery to the company.
- Supplying Equiva's staff with technical expertise and knowledge in areas unfamiliar to them.