ENVERUS Business Automation

CONCHO PARTNERS WITH ENVERUS TO REDUCE INDUSTRY OVERBILLING AND FRAUD WITH AUDIT INTELLIGENCE

SUCCESS AT A GLANCE

CHALLENGES

- Overbilling is a serious problem during oilfield operations

- High volume of low-value field tickets and invoices is challenging to review thoroughly

- Operators do not have time or resources to investigate all issues

- Recovery processes are time consuming, inefficient, and rarely recover more than 35% of what has been overpaid

SOLUTIONS

- **Audit Intelligence** automatically detects documents that create overbilling risk and removes them from your workflow before they are approved and paid, eliminating the need for costly recovery efforts and empowering operators to strengthen cost controls.

- **OpenTicket** is a cloud-based field ticket management solution that empowers operators and suppliers to generate, review, and approve digital field tickets for faster invoice approvals and payment.

- **OpenInvoice** is an accounts payable software solution that helps operators, service companies, and midstream companies collaborate with their vendor network to automate compliance and reconciliation of invoice to purchase order, pricing contracts, and field tickets.

RESULTS

- Automated the manual review process, enabling Concho to expand its reach from less than 30 suppliers to 100 suppliers

- Increased the number of investigated tickets to 20,000 per month

- $1.4 million in savings over five months or 100% return on investment in six months

OVERBILLING AND FRAUD ARE PREVALENT IN THE INDUSTRY

Industry research shows overbilling can reach 25 to 30%, particularly in services such as fluid hauling. With hauling costs accounting for 5 to 8% of operational costs, E&P companies' exposure can reach into the tens of millions annually.

Overbilling has become such a challenge for North American operators that a group of them, initially based in the Permian, formed the Vendor Audit Roundtable. This group consists of auditors and security managers from roughly 70 operators and several audit consulting companies. The group meets twice a year to examine the latest trends in the area related to oilfield overbilling, theft, and fraud. Several members are former law enforcement with extensive experience in white-collar crime. The group maintains an active web presence between meetings and follows appropriate anti-trust conventions.

CONCHO TACKLES OVERBILLING

Concho is a large independent company operating exclusively in the Permian basin. It has ranked in the top five most active drillers in the basin for the past three years. Concho executed a $3 billion capital plan in 2019 and increased oil production by 25%.

Renewed activity levels in North American unconventional shale basins create an overwhelming volume of field tickets and invoices for operators to process. Activities like fluid hauling produce a high volume of low-value transactions, making it almost impossible to review each document properly. This can lead to overbilling, both unintentional and intentional.

Concho felt this pain and believed that by moving to a digital field ticket solution, it could analyze operations data to reduce fraud and eliminate overbilling. In the past, Concho used external auditors to validate supplier behavior, but found the results to be unsatisfactory. The operator was one of the original six pilot customers for OpenTicket, the digital field ticket solution by Enverus, licensing the application in 2017. Concho has been an OpenInvoice customer since 2010.

The ticket adoption program was run by the security organization, not the accounts payable or operations group as is typical. OpenTicket adoption was limited to water haulers for the two years. Concho manually extracted digital field ticket information from OpenTicket into Excel for analysis.

INITIAL ANALYSIS REVEALS CONSISTENT RESULTS

Concho employs between 90 and 100 water haulers in the Permian Basin. The operator invested time and effort to ensure suppliers were trained on correct use of the ticketing solution because consistent data entry was critical for analysis. Specialized training manuals were developed and revised as needed, based on supplier response.

Over the course of the first two years, Concho security and accounts payable staff exported digital ticket data to Excel spreadsheets. They looked for patterns related to overbilling. As these scenarios were identified, a set of rules was established to find other similar patterns as effectively as possible. Sophisticated macros were built in Excel to expedite the process.

Two years after the initial rollout, Concho saw consistent results from the analysis. Between 16 to 20% of invoices related to water hauling had anomalies that indicated intentional overbilling. Review of digital tickets led to a recovery of more than $500,000.

AUTOMATION EXPANDS ANALYSIS CAPABILITIES AND LEADS TO MORE DOLLARS RECOVERED

By the third year, all Concho water hauling suppliers were on the OpenTicket system and more than 20,000 tickets were being processed monthly. The macros in the Excel spreadsheets grew more sophisticated and the sheer volume of tickets was challenging. Concho engaged a third-party software consulting company to develop a cloud-based system to automatically process tickets and undertake the analysis review process done through the legacy Excel-based system.

The new application used rules-based analysis to automate the manual review process and added a case management component. Groups of suspect tickets from an individual supplier could be linked together and associated with a case. The case could be assigned to a Concho employee for analysis and resolution. In addition, the new application ranked suppliers against their peers in terms of likelihood of suspect tickets being generated. Thirteen different rules were evaluated, mostly on field tickets, though some were on invoices. They identified patterns of non-existent services being provided on tickets or duplicate invoices being submitted.

Concho launched the internal version of the application in Q4 2019. Through the ticket and invoice audit process, Concho recovered $1.4 million of overbilled services over five months. When Concho presented suppliers with evidence of overbilling, most settled directly with Concho, although there were a few instances where legal action was threatened or undertaken.

PREVENTION IS LESS EXPENSIVE THAN RECOVERY

Concho approached Enverus in 2019 to discuss taking the technology to the commercial market together. Concho recognized that overbilling was not unique to its operation and is an issue impacting the broader industry. By introducing the solution to a wider set of operators, the chance of identifying and altering suspect behavior by a subset of suppliers would be much greater. This would benefit both Concho and the entire industry.

In addition, by incorporating the solution directly into the OpenTicket and OpenInvoice approval workflows, suspect tickets could be removed from the approval process before investigation. This would ensure overbilling instances would be dealt with before payment was made, not after the fact in the audit process employed by Concho.

LESSONS LEARNED

- Digital ticket analysis is an effective way to detect overbilling instances

- Supplier ticket entry processes need to be standardized to ensure data quality and reduce false positives

- Case management ensures appropriate level of attention is paid to the most egregious cases of overbilling

- Ranking suppliers ensures resource allocation is optimized