

driven, like you.



Weaver is one of the largest independent certified public accounting firms in the nation, ranked the largest regional independent accounting firm in the Southwest by Practical Accountant magazine and is also ranked among the Top 100 Accounting Firms in the nation by Public Accounting Report. With locations throughout Texas, we are focused on meeting the needs of our clients, and providing real solutions that add value and quality to our services.

Statement of Qualifications
Internal Audit Services for
the Energy Industry



Advisory Services



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Energy is one of the world's most competitive industries. Companies in this market face a variety of risks from external and internal sources, and are constantly striving to achieve their desired position in an established sector. Issues such as economic and political change, increased mergers and acquisitions, volatile commodity pricing and increased financial scrutiny propel companies to improve their risk management and corporate governance, challenging the organization, its customers and the industry.

In this dynamic environment, our Advisory Services group can help. Our extensive experience in the development and delivery of services in the energy industry provides your company with both business and technology solutions.

Familiarity with challenges facing the oil and gas industry

As a consequence of the rapid expansion of this industry and its requirements, we have the capability to address the most complex challenges from our collective resources.

- Sustainability issues
- Compliance with regulatory and reporting requirements
- Industry transactions and consolidation
- Managing financial, geopolitical and supply risks

Broad oil and gas industry performance improvement experience

- Standardization and Simplification
- Performance Management
- Consolidation and Management Information
- People and Organization
- Treasury and Capital Optimization
- Controls Optimization

Ability to provide solutions to compliance challenges

- Create sustainable approach to compliance
- Reduce overall cost by implementation of standard practices
- Establish control practices that are a part of normal operations
- Align compliance with shareholder value
- Set realistic compliance goals



Overview of Approach

As a part of our advisory services, we assist clients in achieving their risk management objectives by providing an independent, objective and disciplined approach to evaluating and improving the effectiveness of risk management, internal audit and IT practices.

- As a first step, we will perform a risk assessment or, if one is already available, review. We will also evaluate the current internal audit plan.
- We will provide an integrated, objective and disciplined approach to evaluating and improving the effectiveness of the risk management model and internal audit practices.
- Our internal audit approach is comprehensive and collaborative. As part of our audits, we will focus on improving compliance, strengthening internal controls and building a procedural system that is scalable as you change.
- The results of our approach are to identify operating, compliance and financial risks impacting you and adding value by recommending process enhancements, cost containment initiatives and controls to effectively mitigate and manage risk.
- Our audit planning and risk model is designed to develop a frequency or cycle of internal audit requirements for each of the business processes of your company.
- We will work closely with management to develop the internal audit strategy to address specific issues and related internal controls in each audit area. Our consultative approach will focus on your goals and objectives for each audit area.

The key steps in our internal audit methodology include:

- Review the risk model
- Evaluate the internal control universe
- Review the risk assessment for each audit area
- Determine timing of selected audits
- Perform audit procedures

An internal audit plan can be developed and approached in phases with the first phase addressing internal audit areas that have been identified as high risk and/or significant. Internal audit activities focus on asset protection, loss prevention, compliance, internal controls, and /or fraud.

Our specialized experience in oil and gas internal audit provides a strategic approach that is specific to your company. We can tailor the audit to include areas such as:

Revenue Procedures

- Revenue and Accounts Receivable
- (includes transportation & gathering)
- Revenue Distribution (includes netting)
- Revenue Recognition - Recording Oil and Gas
- Revenues
- Credit worthiness of customers- AR
- Estimate Allowance for Doubtful Accounts (Includes JIB Receivables)
- IPF Receivables
- Record and Monitor Suspended Revenue

Oil & Gas Production and Property Activities

- Joint Interest Billing (JIB)
- Land Administration / Joint Interest Accounting (Division of Interest)
- Well Status Determination (Includes Well Insurance)
- Marketing Oil and Gas (establishing and compliance with contracts)
- Oil and Gas Production / Measurement
- Oil and Gas Properties including Production Risk
- Production Imbalance Monitoring and Recording
- Production Taxes

Property Assets Processes

- Reserve Estimation
- Inventory Valuation (Product) includes measurement
- Purchase Assets and Pay for Expenses
- Depletion Calculation
- Amortization, Depreciation and Depletion
- Property Plant & Equipment -FAS 144 Assessment
- Property Divestitures
- Asset Impairments
- Asset Retirement Obligation (FAS 143)

Treasury Management Processes

- Cash Balances and Treasury Management
- Cash Flow and Capital Expenditure Forecasting
- Cash Receipts
- Cash Disbursements

Procurement and Payable Processes

- Accounts Payable
- AFE Documentation, Approval and Reporting
- AFE Process (Exploration and Drilling)
- Accrued Liabilities

HR and Payroll Activities

- HR Administration
- Payroll Process
- Employee Benefits
- Employee Expense Reports

Hedging Activities

- Derivative and Hedging Process
- Hedging Activities (FAS 133) and Ineffectiveness
- Calculation

Acquisition Procedures

- Pursuing Acquisition Transactions (Capitalization of Costs)
- Acquisitions and Divestitures of Companies and Properties

Debt and Related Activities

- Record and Monitor Debt
- Identification, Recording and Disclosure of Commitments and Contingencies
- Debt and Related Interest Expense
- Debt Covenant Compliance
- Deferred Debt Issuance Costs

Equity Activities

- Equity Issuances and Repurchases
- Dividend Transactions
- Restricted Stock Plans
- Stock Option and Other Benefit Plans

Financial Reporting Activities

- Financial and Compliance Reporting Risk
- General Ledger Maintenance (including set up of new companies)
- Disclosures and Notes to Financial Statements
- Budgeting, Planning, and Forecasting

Tax Processes

- Tax Accrual, including FAS 109 and Fin 48
- Tax Preparation and Compliance

Information Technology Processes

- Application controls, including SAP
- General Computer Controls
- Network Security
- Security Change Control
- Vendor Master File Maintenance (includes MSA)
- Disaster Recovery/Business Continuity

Other Operational Areas

- Safety/ Environmental Regulation
- Related Party Transactions

In performing an internal audit, we work closely with management to develop an internal audit plan designed specifically for the stated objective. After assessing the internal audit procedures and findings, we compile the results of the audit and report preliminary issues to management as either:

- A significant reportable issue
- Other reportable issues
- Discussion issue

The formal report then includes recommendations for each reportable issue and contains an internal control environment rating for each of the areas audited.

Risk Assessment Process for Internal Audit

The first step in performing internal audit services is to understand the audit universe at the macro-level, including the assessment of both internal and external risk factors. Our risk model is designed to develop a risk rated internal universe to specify the frequency or cycle of internal audit requirements for each of the identified audit areas of a company. This is the basis of the annual internal audit plan.

We recommend a risk assessment be performed annually to measure the financial, compliance and operational risks associated with each department and/or activity. Our approach focuses on loss prevention, asset protection and compliance. All areas identified for audit coverage are evaluated against the criteria presented below:

- Materiality to the financial statements
- Errors identified in accuracy or completeness of the process
- Seriousness of deficiencies indicated in previous internal, external, or management audit reports
- Risk of diversion or loss of assets
- Complexity of the activity or complexity of the transactions processed
- Need for an audit presence based on the time elapsed since the previous audit
- Change in service, technology, or objectives
- Change in regulations or regulatory emphasis
- Change in management or key personnel positions
- Any other change or unusual situation

After compiling this information, the audit areas are prioritized into three categories: high risk, moderate risk, and low risk. Our ultimate goal is that all high-risk areas will be audited within 18 months of the previous audit report date, moderate-risk areas will be audited within 30 months of the previous audit date, and low-risk areas will be audited within 36 months of the prior audit report date. The risk assessment should be performed on an annual basis, and it is likely that some category reassignments will occur each year.

We will work closely with management to deploy the internal audit strategy to address specific audit areas and related internal controls. The first step is to understand the audit universe at the macro-level, including the assessment of both internal and external risk factors. We recommend the internal audit plan be approached in phases with the first phase addressing internal audit areas that have been identified as high risk and/or significant.

Our risk model is designed to develop a frequency or cycle of internal audit requirements for each of the business processes. The model can be further refined to assess components of the processes as the internal audit plan is developed to address individual components as considered necessary.

Development of the Audit Plan

The audit plan will be based on information gathered through broad consultation across THC and a formal assessment of existing and emerging risk. As part of the planning process, meetings will be coordinated throughout the process to solicit input on areas of concern and obtain feedback on the appropriateness of the proposed audit plan. We will also use these meeting as an opportunity to obtain feedback on the quality of audit services we will provide.

While the annual internal audit plan will contain a balance of assurance services, consulting services and other work, we will also ensure that there will be sufficient and timely assurance services provided for risk management, control frameworks as well as information to support decision-making and reporting for each audit area.

Audit Plan Vision

The effectiveness of internal auditing is based on the overall organizational vision, and is implemented through a strategic plan designed by both the internal auditor and the Commission, and will include these attributes:

Proactivity

The internal audit function establishes itself as a change throughout the Commission. It identifies new initiatives to add value to the organization while retaining a clear focus on traditional audit areas such as internal control exposure and potential ethical issues. The internal audit will identify commission-wide improvement efforts and to provide timely management information to support management decisions.

Innovation

Innovative internal auditing maximizes the use of its resources, questions the value of routine audits, and creates opportunities to increase the value of the function. The internal audit function will partner with the Commission and enhance the value of services.

Motivation

A motivated internal auditing function has a sense of mission, teamwork, and organizational pride open to constructive suggestions and seeking continuous improvement.

Integration

Internal auditing recognizes that reasonable investments have been made in technology that will assist in monitoring transactions, performance measures, and potential fraudulent transactions.



We recommend that companies undertake a fraud risk assessment as part of the overall internal audit plan.

Fraud risk assessment expands upon traditional risk assessment. It is scheme and scenario based rather than control risk or inherent risk based. The assessment considers the various ways that fraud and misconduct can occur by and against an organization.

Some risks are inherent in every control environment of the entity, and most can be addressed with an appropriate system of internal control and as internal audits are performed. Once fraud risk assessment has taken place, the entity can identify the processes, controls, and other procedures that are needed to mitigate the identified risks. Effective internal control consists of a well-developed control environment, including an effective and secure information system and appropriate monitoring activities.

A typical scope of work in the fraud area includes:

- Identify existing anti-fraud policies and procedures
- Evaluate and test how existing software is used to flag instances that require follow up and determine the effectiveness of the process
- Understand the role of the existing fraud oversight group so as not to duplicate effort
- Design programs and execute test plans in agreed upon areas

Management has primary responsibility for establishing and monitoring all aspects of the entity's fraud risk-assessment and prevention activities, and should evaluate whether appropriate internal controls have been implemented in any areas management has identified as posing a higher risk of fraudulent activity, as well as controls over the entity's financial reporting process. Because fraudulent financial reporting may begin in an interim period, management also should evaluate the appropriateness of internal controls over interim financial reporting.

The nature and extent of management's risk assessment activities should be commensurate with the size of the entity and complexity of its operations. For example, the risk assessment process is likely to be less formal and less structured in smaller entities. However, management should recognize fraud can occur in organizations of any size or type, and that almost any employee may be capable of committing fraud given the right set of circumstances. Accordingly, management should develop a heightened "fraud awareness" and an appropriate fraud risk management program, with oversight from the board of directors or audit committee.

Our approach to internal audit outsource projects is to logically organize the audits into categories based on the characteristics of the audit area. We will perform financial and compliance audits, as well as integrated audits where there is a combined effort between financial compliance and IT. We understand the risks and vulnerabilities of each audit area and will tailor an audit plan around these. In addition, Weaver can provide staff augmentation to perform financial, IT or operational compliance audits.



The key steps in our engagement for internal audit include:

- Meet with representatives from internal audit and evaluate past audit plans and results, if available
- Meet with management and process owners to identify risks, concerns and known control deficiencies
- Develop a tailored audit program using IIA guidelines and internal audit best practices
- Combine certain audit areas if it is determined time efficiencies will result
- Prepare a time and expense budget based on procedures, individual schedules and the process cycle
- Meet with management and obtain approval of the audit programs and budget prior to execution
- Execute the program according to the approved plan
- Perform data analysis utilizing Audit Control Language software where appropriate
- Identify exceptions and clear with process owners and management
- Compile results and report preliminary findings to management, internal audit representatives as appropriate

We will review the financial, operational, and IT controls to evaluate reliability and adequacy to advise as to whether the systems of internal control effected by the Commission, management and other personnel, provide reasonable assurance regarding the achievement of objectives in the following categories:

- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Established plans, policies, and procedures
- Assurance that assets are accounted for and safeguarded from loss

An internal audit is an in-depth evaluation of the controls within the specified area. In preparing the internal audit program based on the objective agreed upon with management, we will include the following:

- Quality of internal controls
- Dependence on IT systems
- Adequacy of written procedures
- Complexity of operations
- Changes in operations
- Time since the last review over the area
- Impact of area functions on other areas or users
- Interest of management

As part of the internal audit, we will consider general computer controls, IT application security and data management areas. We will provide recommendations to improve operating efficiency an internal controls, consult on current and proposed operating policies and procedures and changes in the system of internal controls.

Encore Acquisition

Fort Worth, Texas

Organized in 1998, Encore is a growing independent energy company engaged in acquisition, development and exploitation of North American oil and natural gas reserves.



Clayton Williams Energy, Inc.

Midland, Texas

An independent exploration and production company that develops and produces oil and natural gas



Sabine Royalty Trust

Dallas, Texas

An express trust formed to receive Sabine Corporation's royalty and mineral interests.



Complete Production

Houston, Texas

A provider of specialized oil and gas services and equipment in North America, developing hydrocarbon reserves for its customers and enhancing oil and gas production.



Petroleum Geo-Services

Houston, Texas

A leading worldwide geophysical company that provides an extensive range of seismic services and products for the petroleum industry including data acquisition, processing, reservoir analysis and interpretation.



The Shaw Group

Houston, Texas

A provider of piping systems, engineering procurement and construction services, serving infrastructure, power generation and process industries.



Range Resources

Fort Worth, Texas

An independent oil and gas company that operates in the East Texas, West Texas, Midcontinent, Gulf Coast and Appalachian regions of the United States.



Cano Petroleum, Inc.

Fort Worth, Texas

An oil recovery company that focuses on secondary and enhanced oil recovery techniques to extract additional oil from mature onshore U.S. fields.



Dallas Production

Dallas, Texas

A subsidiary of Pitts Energy, providing oil field and water transportation throughout the southern region.



HKN, Inc.

Southlake, Texas

An independent energy company focusing on oil and gas exploration, exploitation, development and production activities, as well as active management of investments in energy industry securities and futures.





At Weaver, we understand the importance of focus, strategy and communication in performing internal audits that are well planned, based on strategy, executable and measurable. We work closely with our clients to model services to fit their existing structure, process and staffing. We understand the importance of communication and integrate it throughout every step of the process.

Our advisory services include:

- Enterprise Risk Management**
 - Entity level risk assessment
 - Control self assessment
 - Business risk assessment
 - Fraud detection services
 - Executive training
 - Acquisition controls integration

- Strategic Risk Services**
 - Corporate governance
 - Strategic alignment and gap analysis
 - Regulatory compliance
 - IT long-term planning
 - Acquisition compatibility assessment
 - Internal Audit planning and development

- Operational Risk Services**
 - Internal Audit
 - Internal controls assessment
 - General controls assessment
 - Sarbanes-Oxley consulting
 - Policy and procedure development and review
 - IT audits
 - Fraud prevention assessments
 - Process performance management
 - Evaluation of automated systems
 - Operational performance studies
 - Financial reporting advisory
 - Data mining and analysis



About Weaver

Weaver is among the top 100 certified public accounting firms in the nation according to the 2008 Public Accounting Report Top 100 Firms list, and is ranked the largest regional independent accounting firm in the Southwest by Practical Accountant magazine. Weaver is consistently ranked one of the fastest growing firms in the country by Accounting Today's Top 100 Firms Survey. The Firm operates offices in Austin, Dallas, Fort Worth, Houston, Midland, Odessa and San Antonio with approximately 460 team members, including more than 280 accountants and consultants and four licensed attorneys. Affiliations through Baker Tilly International allow for service delivery nationally and worldwide. The Firm's client base includes private and publicly held business enterprises, local governments, municipalities, nonprofits and individuals.

Mission

Weaver and its affiliates are committed to excellence. Our mission is to provide our clients the highest quality, client-oriented, professional services with an extra measure of personal attention through an organization where our people succeed.

Services

Weaver provides clients in all industries with assistance in accounting and consulting services including:

- Risk Assessment
- Internal Audit
- IT Audit
- SOX Consulting
- Assurance
- Accounting
- Transaction Services
- Tax
- Estate Planning/Wealth Transfer
- Business Valuation Services
- Consulting Services
- Profit Enhancement
- Information Technology Services
- Litigation Support
- Property Tax Consulting
- Cost Segregation
- International, State and Local Tax

Industries Served:

- Oil and Gas
- Manufacturing and Wholesale
- Distribution
- Technology
- Health Care
- Financial Institutions
- Retail
- Real Estate
- Construction
- Hospitality/Restaurant
- Professional Services
- Arts and Entertainment
- Education
- Local Government
- Nonprofit
- Private Foundations



Our services are designed to ensure that your organization is functioning in the most efficient manner, and that controls are adequate and effective. With our in-depth assessments, we uncover important information to assist you in forming a realistic view of your internal controls.

Offering the resources of a national or international firm without the excessive fees

Our seven Texas locations, combined with strategic national and international affiliations, allows us to offer you the resources of a large firm without the fees required to support national or international overhead.

Committed to your complete satisfaction

The only goal you can't accomplish is the one you don't go after! Our mission is to help you identify and achieve your financial goals. As such, we promise to deliver professional services that add "measurable" value.

Providing "awesome" client service

Members of your engagement team, including senior management, will communicate with you in a timely and courteous manner all year long, not just during your engagement. As a Firm and as individuals, we place great value on building long-term relationships, and providing outstanding service is one way we accomplish this.

Understanding your needs

As your professional services provider, we have a responsibility to learn your business and understand your needs. To accomplish this, we utilize comprehensive, industry-specific research tools to identify and address the issues facing you.

Recognizing knowledge is power

Each member of our client-serving staff participates in a rigorous program of continuing professional education so that we can assist you with the process of translating complex information into knowledge, and knowledge into decisions. We also have several specializations represented within the Firm including accredited business valuers, accredited estate planners, certified financial planners, certified fraud examiners, certified profit enhancement consultants, licensed attorneys and personal financial specialists.

Taking a proactive stance on your behalf

We strive to help you reach your financial goals by informing you of relevant law changes or additional services we can provide to help you seize the opportunities and conquer the challenges along the way. In addition to accounting, audit and tax services, we offer numerous specialized services including some focused on specific industries. Let Weaver be your "one stop shop" for professional services.



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INSIDE PUBLIC ACCOUNTING
THE 2010 TOP 100 FIRMS
THE LARGEST ACCOUNTING FIRMS IN THE U.S.
RANKED BY U.S. NET REVENUE

RANK '10 '09	FIRM / HEADQUARTERS	MP / CEO	NO. OF OFFICES	YEAR END	NET REVENUE
26	Wipfli LLP / Milwaukee	Rick Dreher	14	6/10	\$114,400,000
27	Amper, Poltznier & Mattia LLP / Edison, N.J.	Howard Cohen	7	3/10	\$114,222,000
28	Cherry, Bekaert & Holland LLP / Richmond, Va.	Howard Kies	14	4/10	\$98,377,046
29	Anchin, Block & Anchin LLP / New York	Frank A. Schettino	1	3/09	\$96,000,000
30	LECG-SMART [®] / Devon, Pa.	Steve Samek	11	12/09	\$93,573,539
31	Otrin Cooperman & Company LLP / New York	Joel A. Coopeman	5	12/09	\$90,000,000
32	Berdon LLP / New York	Stanley H. Freundlich	2	12/09	\$88,000,000
33	Goodman & Company LLP / Virginia Beach, Va.	Thomas Wilson	10	6/10	\$87,650,000
34	Marks Paneth & Shron LLP / New York	Arthur E. Cannata Mark Leventus	4	12/09	\$86,223,000
35	Carr, Riggs & Ingram LLC / Enterprise, Ala.	William H. Carr	14	3/09	\$83,527,232
36	Rehmann / Saginaw, Mich.	Steven D. Kelly	11	12/09	\$72,916,222
37	Withum Smith+Brown PC / Princeton, N.J.	William R. Hagaman Jr.	13	6/10	\$72,320,000
38	Kearney & Company / Alexandria, Va.	Ed Kearney	2	12/09	\$66,137,311
39	Amarino McKenna LLP / San Ramon, Calif.	Andy Amarino	3	12/09	\$65,378,495
40	Weaver[®] / Fort Worth, Texas	Tommy D. Lawler	6	6/10	\$8 5,310,892
41	Burr Pilger Mayer Inc. / San Francisco	Stephen D. Mayer	6	12/09	\$64,840,251
42	Morrison, Brown, Argiz & Farra LLP / Miami	Antonio L. Argiz	6	12/09	\$64,200,000
43	Schenck SC [®] / Appleton, Wis.	William D. Goodman	8	9/09	\$63,667,343
44	Novogradac & Company LLP / San Francisco	Michael J. Novogradac	12	12/09	\$59,423,387
45	SS&G Financial Services Inc. / Cleveland	Gary Shamis	8	12/09	\$59,421,462
46	Habit, Arogeti & Wynne LLP / Atlanta	Joseph D. Simms	2	12/09	\$59,005,000
47	Friedman LLP / New York	Bruce A. Madrick	3	12/09	\$58,037,567
48	Holthouse Carlin & Van Trigt LLP / Santa Monica, Calif.	Philip J. Holthouse	7	12/09	\$56,770,433
49	Horne LLP / Ridgeland, Miss.	Hugh J. Parker	13	12/09	\$56,368,838
50	Lattimore Black Morgan & Cain PC / Brentwood, Tenn.	David Morgan R. Michael Cain	3	6/10	\$55,510,786

Editor's Note: [®] Changed name from SMART Business Advisory and Consulting.
^{*} Changed name from Weaver and Tidwell.
[®] Changed name from Schenck Business Solutions.
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Weaver is the largest Texas-based independent accounting firm on Public Accounting Report's America's 100 Largest Public Accounting Firms list.

Additionally, Weaver is consistently listed among the top accounting firms in DFW in both the Fort Worth Business Press and Dallas Business Journal Book of Lists and recently listed among the top firms in the Houston-Area in the Houston Business Journal.

Weaver is ranked the largest independent accounting firm in the Southwest and consistently ranked as one of the fastest growing firm in the country by *Accounting Today*.

Weaver was recognized as one of 15 Best Places to Work in DFW by the Dallas Business Journal in the mid-sized company category in 2006.

Our Firm's success is a direct reflection of the dedicated individuals who work here.



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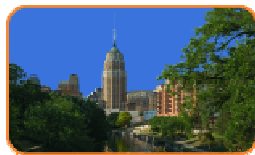
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