

**COPAS National 2022 in Las Colinas, TX  
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**24 Month adjustment period Case 1**

Non-operator completed fieldwork of an audit of 2020 drilling costs on July 15, 2022. During the audit, they identified two errors in drilling overhead on Well 1. In February of 2020, Operator overcharged the joint account by 17 days due to charging through a suspension of activity. The well was drilling during all of March 2020, but no overhead was charged. During the audit, no IRs or preliminary exceptions related to these overhead errors were submitted. The well is governed by the 2005 COPAS Accounting Procedure.

**Scenario 1**

Non-operator submits the audit report by email on November 10, 2022, taking exception to the overcharge, but not identifying the undercharge. Operator reviews overhead and adjusts both errors on the November JIB, which is issued in December 2022.

- 1 – Is Nonoperator’s report considered a valid timely written exception?
- 2 – Is Operator required to issue the credit for the over-charge attributable to February?
- 3 - Is Operator authorized to charge the joint account for the missing overhead attributable to March?
- 4 – Are there other alternatives for Operator?

**Scenario 2**

Non-operator submits the audit report by email on December 10, 2022, taking exception to the overcharge, but not identifying the undercharge. Operator reviews overhead and adjusts both errors in December 2022. The December JIB which contains the adjustments is issued in January 2023.

- 1 – Is Nonoperator’s report considered a valid timely written exception?
- 2 – Is Operator required to issue the credit for the over-charge attributable to February?
- 3 - Is Operator authorized to charge the joint account for the missing overhead attributable to March?
- 4 – Are there other alternatives for Operator?

**Scenario 3**

Non-operator submits the audit report by email on December 28, 2022, taking exception to the overcharge but not identifying the undercharge. Operator reviews overhead and adjusts both errors on the January JIB, which is issued in February 2023.

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- 1 – Is Nonoperator’s report considered a valid timely written exception?
- 2 – Is Operator required to issue the credit for the over-charge attributable to February?
- 3 - Is Operator authorized to charge the joint account for the missing overhead attributable to March?
- 4 – Are there other alternatives for Operator?

**Scenario 4**

Non-operator submits the audit report on January 1, 2023, taking exception to the overcharge but not identifying the undercharge. The parties did not make prior arrangements for submitting a report after the 24-month cut-off. Operator makes no adjustments due to the timing of the exception.

- 1 – Is Non-operator’s report considered a valid timely written exception?
- 2 – Is Operator required to issue the credit for the over-charge attributable to February?
- 3 - Is Operator authorized to charge the joint account for the missing overhead attributable to March?
- 4 – Are there other alternatives for Operator?

**Additional Questions**

- 1 - Would any of the scenarios be different under the 1984 AP?
- 2 - Would any of the scenarios be different under the 2022 AP?
- 3 – Does the fact that Non-operator submitted the report more than 90 days after the end of field work have any impact on the scenarios under the 1984? The 2005? The 2022?

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**24 Month adjustment period Case 2**

An accountant working for Operator attended the Fall 2022 COPAS EI Subcommittee meeting in Irving, Texas. During that meeting they discovered that it is appropriate to issue separate producing overhead charges for each completion in dually completed wells if they are considered separate wells by the governing regulatory authority. A review of the records shows 50 dually completed wells were undercharged for producing overhead since being drilled in 2018-2019. Allowing for the 24-month adjustment period, the accountant adjusted the overhead charges for the periods beginning with January 2020. The wells are governed by the 2005 COPAS Accounting Procedure.

**Scenario 1**

The accountant reviews overhead and adjusts the errors on the November JIB, which is issued in December 2022.

- 1 - Is Operator authorized to charge the joint account for the missing overhead for 2020?
- 2 – Is Operator authorized to charge the joint account for the missing overhead for 2021-2022?
- 3 – Are there other alternatives for Operator?

**Scenario 2**

The accountant reviews overhead and makes the adjustment in December 2022. The adjustments are on the December JIB, which is issued in January 2023.

- 1 - Is Operator authorized to charge the joint account for the missing overhead for 2020?
- 2 – Is Operator authorized to charge the joint account for the missing overhead for 2021-2022?
- 3 – Are there other alternatives for Operator?

**Scenario 3**

The accountant reviews overhead and adjusts the errors on the January JIB, which is issued in Feb 2023.

- 1 - Is Operator authorized to charge the joint account for the missing overhead for 2020?
- 2 – Is Operator authorized to charge the joint account for the missing overhead for 2021-2022?
- 3 – Are there other alternatives for Operator?

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**Additional Questions**

- 1 - Would any of the scenarios be different under the 1984 AP?
- 2 - Would any of the scenarios be different under the 2022 AP?

**24 Month Adjustment Period - Supporting Language (*Emphasis* and highlighting added)**

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**2005 COPAS Accounting Procedure**

**4. ADJUSTMENTS**

- A. Payment of any such bills shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, **rendered during any calendar year shall conclusively be presumed to be true and correct, with respect only to expenditures, after twenty-four (24) months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment.** The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).
- B. All adjustments **initiated** by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge appeared or should have **appeared** on the Operator's Joint Account statement or payout statement. Adjustments that may be **made** beyond the twenty-four (24) month period are limited to adjustments resulting from the following:...

*Joint Account transactions are conclusively presumed to be true and correct twenty-four (24) months after the end of the calendar year in which the transaction was recorded or should have been recorded to the Joint Account. This presumption applies as much to the Operator under this provision as to the Non-Operator under Paragraph A above...*

**5. EXPENDITURE AUDITS**

- A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to the Joint Account within the twenty-four (24) month period following the end of such calendar year in which such bill was rendered; however, **conducting an audit shall not extend the time for the taking of written exception to and the adjustment of accounts as provided for in Section I.4 (Adjustments)...**

... The Non-Operator leading the audit (hereinafter "lead audit company") **shall issue the audit report within ninety (90) days after completion of the audit testing and analysis; however, the ninety (90) day time period shall not extend the twenty-four (24) month requirement** for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above.

**1984 COPAS Accounting Procedure**

**4. Adjustments**

Payment of any such bills shall not prejudice the right of any Non-Operator to protest or question the correctness thereof; provided, however, **all bills and statements rendered to Non-Operators by Operator during any calendar year shall conclusively be presumed to be true and correct after twenty-four (24) months following the end of any such calendar year, unless within the said twenty-**

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four (24) month period a Non-Operator takes written exception thereto and makes claim on Operator for adjustment. No adjustment favorable to Operator shall be **made** unless it is made within the same prescribed period. The provisions of this paragraph shall not prevent adjustments resulting from a physical inventory of Controllable Material as provided for in Section V.

*The Operator should answer such request promptly; and if an adjustment is in order, he should issue a credit (or debit) memorandum or advise the Non-Operator of the corrections on the next monthly billing. A request for adjustment or explanation shall not change the normal two-year formal audit limitation unless agreed to by the Operator.*

#### **5. Audits**

A. A Non-Operator, upon notice in writing to Operator and all other Non-Operators, shall have the right to audit Operator's accounts and records relating to the Joint Account for any calendar year within the twenty-four (24) month period following the end of such calendar year; provided, however, the making of an audit shall not extend the time for the taking of written exception to **and the adjustments of accounts as** provided for in Paragraph 4 of this Section I...

### **2022 Draft COPAS Accounting Procedure (For Council Vote)**

#### **4. ADJUSTMENTS**

- A. Payment of a bill shall not prejudice the right of any Party to protest or question the correctness thereof; however, all bills and statements, including payout statements, **rendered during any calendar** year shall conclusively be presumed to be true and correct, with respect only to expenditures, after 24 months following the end of any such calendar year, unless within said period a Party takes specific detailed written exception thereto making a claim for adjustment. The Operator shall provide a response to all written exceptions, whether or not contained in an audit report, within the time periods prescribed in Section I.5 (*Expenditure Audits*).
- B. All adjustments **initiated** by the Operator, except those described in items (1) through (4) of this Section I.4.B, are limited to the twenty-four (24) month period following the end of the calendar year in which the original charge **appeared** or should have **appeared** on the Operator's Joint Account statement or payout statement. Adjustments that may be **made** beyond the twenty-four (24) month period are limited to adjustments resulting from the following: ...

*The phrase "initiated by the Operator" includes a review of accounts or records that is not the result of a detailed written exception as described in Paragraph A above or government audit. An adjustment to a specific cost that is allowed outside the 24-month adjustment period does not allow either Party to review and adjust similar charges...*

#### **5. EXPENDITURE AUDITS**

- A. A Non-Operator, upon written notice to the Operator and all other Non-Operators, shall have the right to audit the Operator's accounts and records relating to any bills rendered, unless otherwise provided in the Agreement. The audit must be conducted no later than 24 months following the

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end of such calendar year in which such bill was rendered. Conducting an audit shall not extend the time for the taking of written exception to *and the adjustment of accounts* as provided for in Section I.4 (*Adjustments*)...

... The Non-Operator leading the audit (hereinafter “lead audit company”) shall make good faith efforts to issue the audit report within ninety 90 days after completion of the audit testing and analysis; however, the 90-day period shall not extend or shorten the 24 month requirement for taking specific detailed written exception as required in Section I.4.A (*Adjustments*) above...

*If a Non-Operator submits a written exception after the 24-month period expires, the Operator may deny the exception. Claims submitted more than 90 days after completion of testing and analysis are still valid if there is still time remaining under the 24-month adjustment period.*

### **Definition of “render”**

<https://www.merriam-webster.com/dictionary/render>

#### **transitive verb**

1a: to melt down “render suet”

also : to extract by melting “render lard”

b: to treat so as to convert into industrial fats and oils or fertilizer

2a: to transmit to another : DELIVER

b: GIVE UP, YIELD

c: to furnish for consideration, approval, or information: such as

(1): to hand down (a legal judgment)

(2): to agree on and report (a verdict)

3a: to give in return or retribution

b (1): GIVE BACK, RESTORE

(2): REFLECT, ECHO

c: to give in acknowledgment of dependence or obligation : PAY

d: to do (a service) for another

4a(1): to cause to be or become : MAKE “to render irrigation unnecessary” “rendered him helpless”

(2): IMPART

b(1): to reproduce or represent by artistic or verbal means : DEPICT

(2): to give a performance of

(3): to produce a copy or version of “the documents are rendered in the original French”

(4): to execute the motions of  
render a salute

c: TRANSLATE

5: to direct the execution of : ADMINISTER “render justice”

6: to apply a coat of plaster or cement directly to

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**Intransitive verb** : to give recompense



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**Responsibly Sourced Gas (“RSG”)**

**Scenario 1**

Jones Operating employs consultants, obtains services, and purchases equipment to gain certification for Responsibly Sourced Gas. The certification process includes costs of ongoing monitoring and compliance.

The RSG certification covers an entire area of wells operated by Jones Operating. All gas produced from that area would get the benefit of the certification. The gas sells at a market premium and is also targeted by purchasers with advanced environmental requirements or goals. In addition, there may be carbon credits resulting from the certification.

The RSG certification measures emissions and safety at the well sites, but it also includes ESG (corporate responsibility) measures. Operator’s wells are generally governed by a 2005 Accounting Procedure, though there are wells that may be subject to other agreements.

**Scenario 2**

Same situation as Scenario 1, however only the gas marketed by Jones Operating is certified.

**Scenario 3**

Jones Operating is certified on its operated wells, but to meet ESG goals and receive a better pricing on TIK volumes, Jones would like Smith Operating to be certified as well.

**Questions for discussion**

1. Should we as an industry encourage (or require) third party RSG certification companies to develop a way to share the benefit of RSG certified production with non-operators who market their own gas (TIK)?
2. Should non-operators who TIK share in the cost of certification?
  - a. Onsite equipment
  - b. Monthly monitoring services
  - c. Consulting and engineering review/mitigation activities
  - d. Annual third-party fees for well-level audits/assessments required to maintain certification
3. Should non-operators encourage operators to seek certification for marketed volumes? For TIK volumes?
4. For billing purposes, do these activities closely resemble any the following?
  - a. Allocated or Individual well costs – Could Operator invoice non-operated wells (similar to isolation costs)?

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- b. Operator owned equipment charged through a fee – what would establish “Market” rates?
  - c. Separate jointly owned facility (separate AFE/approval/agreement) – Could a party receiving benefit opt out?
  - d. Operator’s sole cost – such as Lobbying or Community Relations (PR)
  - e. Covered by overhead – Preparation and monitoring of permits and certifications
  - f. Marketing or GP&T – How would this impact TIK owners? Royalty owners?
5. Would anything change under the 1984 or 2022 AP?

**Audit Etiquette 101 (may be presented as an interactive activity)**

Different scenarios describing various points in the audit process are presented. The group will review the scenarios and discuss the possible reactions from all parties involved in the scenarios.

**An operator is hosting an audit and the audit host plans to be on vacation for week two and three of a six week virtual audit. The audit host should...**

A – find an interim host to handle the IRs while you are gone.

B – let the IRs stack up and tell the auditors that you will be fresh and focused and be able to catch up when you get back.

C – ask the auditors to reschedule the audit.

D – don't tell the auditors and try to respond to IRs while you are on vacation. At least you can give an "I'm working on this" response and get back to it after you return.

**A non-operator is auditing a group of drilling wells and finds themselves short on field work time. They know the operator performs an internal cost review, and as part of that performs a tubular reconciliation. The lead auditor should...**

A – request the reconciliation and write up an exception for all tubulars if the operator fails to provide the reconciliations as support.

B – request the reconciliation, and if received, review it, or test it for accuracy. The auditor should write up exceptions based on the operator's reconciliation.

C – perform sample reconciliations for a few wells and extrapolate over the population. The auditor should write up exceptions based on the extrapolated variances.

D – perform reconciliations for the most material costs and write up exceptions based only on the reconciled costs.

E – do a quick, high-level review and write the exceptions based on the review. The operator will perform a full reconciliation as part of their response, saving the auditors the time.

**An operator is hosting a virtual audit, and the auditors have requested an on-site meeting with payroll to review paystubs and salary information. The audit host should...**

A – deny the request. The operator uses automatic deposit, and there aren't paystubs. The auditor should be satisfied with whatever you decide to provide. It's a virtual audit; who meets with payroll these days, anyway?

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B – request a meeting with payroll and drop the auditor off. It is up to the auditor to organize and conduct the meeting.

C – request a meeting with payroll. Call payroll in advance to discuss what the auditor is likely to request and attend the meeting to facilitate.

D – request payroll give the audit host the paystubs and payroll reports, so they can add it to the audit FTP site.

**Throughout the course of an audit, an auditor submits three IRs identifying possible overcharges. In addition, at the closing meeting the auditor presents two preliminary exceptions not related to the IRs. Both the IRs and the preliminary exceptions appropriately identify and support specific overcharges and were submitted within the 24-month adjustment period. The auditor never submits an official audit report and does not follow up on the open IRs or preliminary exceptions. Which of the below are true?**

A – The operator is required to respond to and/or issue credits for overcharges identified in the IRs.

B – The operator is required to respond to and/or issue credits for overcharges identified in the preliminary exceptions.

C – The operator is not required to respond to and/or issue credits for any overcharges identified in preliminary exceptions because the documentation provided specifically indicated the claims were preliminary in nature.

D – The operator is not required to respond to and/or issue credits for any overcharges. IRs and preliminary exceptions are not claims. The audit was never completed because a formal audit report was never submitted.

**An operator is hosting a virtual audit, and the auditors have requested daily check ins and status updates. The audit host is hosting three other audits simultaneously and would prefer weekly check ins and specific communications only when needed. The audit host should...**

A – set up recurring weekly meetings and offer to keep 30 minutes available at the same time each day in case the auditor would reach out and discuss a topic.

B – set up daily meetings as requested.

C – set up daily meetings as requested and require all members of the audit team to attend. If the audit host is willing to commit that time, other parties should as well.

D – set up recurring weekly meetings and ask the lead auditor to follow up by email or phone for more urgent issues.

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**As a result of a variety of situations, there will be a delay in the availability of documentation for fieldwork for a six-week audit. For each of the following situations, the audit host should...**

- 1 – notify the lead auditor in advance but do not reschedule.**
- 2 – offer to reschedule the audit, offering an extension of audit rights if needed; or**
- 3 – allow the audit to proceed, notifying the auditor at the start of fieldwork.**

A – Due to a change in software, the JADE will not be available until the second week of fieldwork.

B – The audit host has resigned, and at the time of the start of fieldwork, no prep has been performed for the audit. The operator anticipates it will take the replacement host one week to pull the majority of the support, and up to two weeks to pull all of the support.

C – All required documentation has been provided, except for three of the six drilling contracts. The audit host has contacted the appropriate personnel for the contracts but has not received a response.

D – On day one of field work, the FTP site has gone down. The operator's IT group anticipates it will be four to six hours before it is available.

E – On day one of field work, the FTP site has gone down. The operator's IT group anticipates it will be two to three days before it is available.

F – Two weeks prior to the audit, the operator tendered an offer for purchase of the non-operator's interest in the subject wells. The operator hopes to close the deal during the audit, and they would like to delay the start of fieldwork pending the close of the deal, at which time the audit would be cancelled.

**During the course of an audit, an auditor submits IRs identifying possible overcharges, which remain open at the end of fieldwork. In addition, at the closing meeting the auditor presents two preliminary exceptions not related to the IRs. After the end of fieldwork, but prior to receiving an audit report, the audit host obtains information that will resolve the open IR and the two preliminary exceptions. The audit host should...**

A – submit the information to the auditor. If the auditor chooses to address it, it might prevent an unnecessary audit exception.

B – retain the information for use in the response to the initial audit report. Fieldwork has ended and the auditors have moved on.

C – send the response as long as it is within two weeks of the end of fieldwork, otherwise, retain the information for the audit response.

D – at the closing meeting, discuss the auditor's preference regarding responses to open IRs and preliminary exceptions.

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**Throughout the course of an audit, an auditor submits three IRs identifying possible overcharges. In addition, at the closing meeting the auditor presents two preliminary exceptions not related to the IRs. Both the IRs and the preliminary exceptions appropriately identify and support specific overcharges and were submitted within the 24-month adjustment period. The auditor never submits an official audit report and does not follow up on the open IRs or preliminary exceptions. Which of the below are true?**

A – The operator is required to respond to and/or issue credits for overcharges identified in the IRs.

B – The operator is required to respond to and/or issue credits for overcharges identified in the preliminary exceptions.

C – The operator is not required to respond to and/or issue credits for any overcharges identified in preliminary exceptions because the documentation provided specifically indicated the claims were preliminary in nature.

D – The operator is not required to respond to and/or issue credits for any overcharges. IRs and preliminary exceptions are not claims. The audit was never completed because a formal audit report was never submitted.

**An Operator is hosting an audit and management has notified the audit host that documentation the host believes should be provided cannot be shared due to proprietary technology issues. The audit host should...**

A – tell the audit lead that their management team is unreasonable and won't let them provide the support.

B – tell the auditor that management has determined the support is proprietary and cannot be shared.

C – discuss the proprietary nature of the support with the auditor and try to identify alternative support for the charge.

D – leave the IR open and let the auditor write it up.

**During an on-site audit, the operator issues an auditor a card key to access the facilities. There are several unlabeled rooms with card readers on the same floor as the audit room. The auditor should...**

A – try to open them. If they allow access, it is okay to see what's inside.

B – ask the audit host for detailed information on which areas are on and off limits.

C – go to the audit room they have been assigned to and quit exploring.

D – wait until someone else is going in, and try to look inside or tailgate their way in.

E – request a tour. The offices are covered by overhead, and as a result of overhead being billed, they are joint property.

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F – try to open them. It might be an exit and the auditors have a right to know about all of the exits in case of a fire.

**During the last week of fieldwork of a six-week audit ending on December 18, an auditor submits seven IRs requesting additional support for allocations. The response to the requests is extensive and could take more than a week to pull. The audit host is scheduled to go on vacation for the holidays after the end of fieldwork. The audit host should...**

A – decline to provide the support. This represents an extension to fieldwork beyond the 24-month adjustment period.

B – suggest the auditor include the open IRs as an audit exception.

C – work the extra hours required to pull the documentation prior to the end of fieldwork, including hiring temporary help if needed.

D – cancel his vacation and provide the support prior to the end of the year, but then reject any audit exceptions based on the documentation that do not appear on the December 31 audit report. If the host has to work through the holidays, so should the auditor.

E – Does your answer change if the fieldwork ends in June instead of December.

F – Should the parties establish a deadline or other standards for submitting IRs during fieldwork?

**Is it appropriate for an audit host to request documentation of balloting in the following situations?  
Are other actions appropriate?**

A - An operator has received requests for audits from non-operators under *the same* JOA on the same properties. The audit host suspects the parties are not communicating their intent to audit to each other and would like to avoid duplicative audits.

B - An operator has received requests for audits from non-operators under *different* JOAs on the same properties. The audit host suspects the parties are not communicating their intent to audit to each other and would like to avoid duplicative audits.

C – An operator would like to see who participated in the audit to verify consistency in response language between audits of the participants.

C – An operator would like to see who participated in the audit to identify who is entitled to credits for overcharges identified in the audit.

D – An operator would like to see who participated in the audit to identify who should be included in an audit resolution meeting or planned settlement negotiations.

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**A non-operator is attempting to schedule an audit of 2020 costs in 2022. In the situations described below, is it appropriate for the operator to deny audit rights under the “at all reasonable times” language that defines the non-operators’ rights to review the books and records under the JOA?**

A – The non-operator contacts the operator on October 15, 2022, asking for a two-week audit in October or November 2022. The operator is already scheduled to host an audit during those time frames.

B – The non-operator contacts the operator on October 15, 2022, asking for a two-week audit in October or November 2022. The operator is not already scheduled to host an audit during those time frames

C – The non-operator contacts the operator on October 15, 2022, asking for a six-week audit in November and December 2022.

D – The non-operator contacts the operator on March 15, 2022, asking for a six-week audit in November and December 2022.

E – The non-operator contacts the operator on March 15, 2022, asking for a six-week audit in April and May 2022.

F – The non-operator contacts the operator on October 15 of 2021, asking for a twenty-week audit anytime in 2022.

G – The non-operator contacts the operator on February 15 of 2022, asking for a ten-week audit including six audit staff anytime in 2022. The auditor has already completely filled its audit calendar for 2022 and will have difficulty hosting an additional audit of this size.

**During an on-site audit, the lead auditor’s colleague mentions that there are maps of the five-year plan of the Operator’s future exploratory areas on the walls of the hallway. There also appear to be leasehold heat maps in a conference room, and casing plans in offices on the floor above the audit room. He asks that the lead auditor go with him to take “selfies” with some of the displays as a background. The lead auditor should...**

A – take a bunch of pictures. If they weren’t public information, the operator wouldn’t have posted them out on a wall for everyone to see.

B – only take pictures of maps in the hallway. It is inappropriate to enter someone’s office or conference room.

C – tell the colleague they don’t feel comfortable with it, but he can go ahead if he wants.

D – discourage the colleague from the plan, and if needed, report the colleague to the audit host.

E – request a tour. If an employee is with the auditors, and they take pictures, it is okay.



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**A non-operator has audited an operator several times and found a recurring error or issue on all of the wells audited. Despite granting the exceptions, the operator has made no changes to ongoing processes. The non-operator should...**

A – demand the operator take action to fix the issue going forward.

B – extrapolate the exception over all of the wells not audited.

C – continue to audit and write up the exception.

D – notify other non-operators and let them know what the operator is doing. Maybe a class action lawsuit?

E – escalate the issue; request parties with decision making authority meet to discuss go-forward resolution as part of an audit resolution meeting.