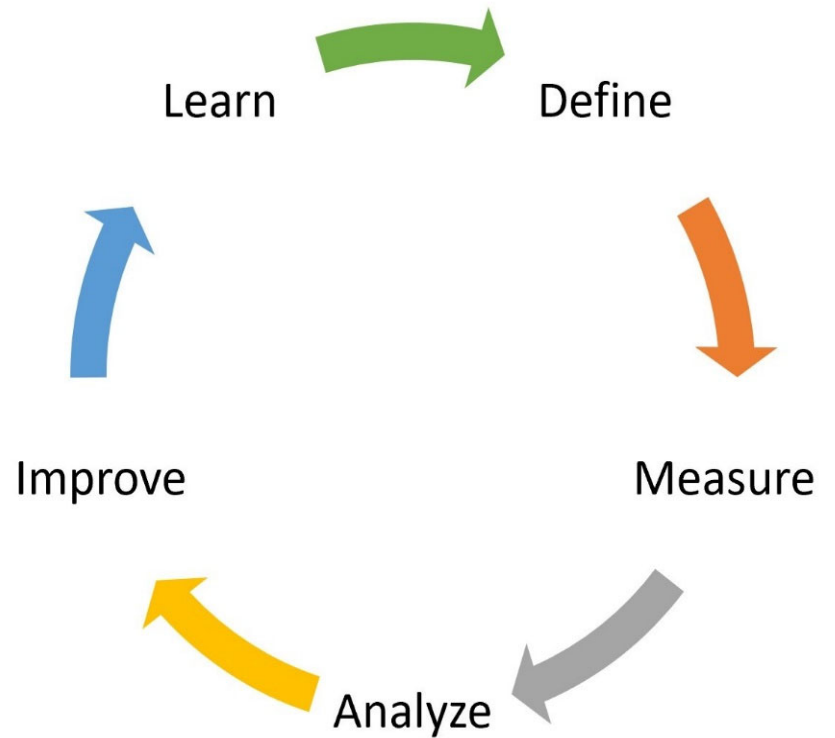
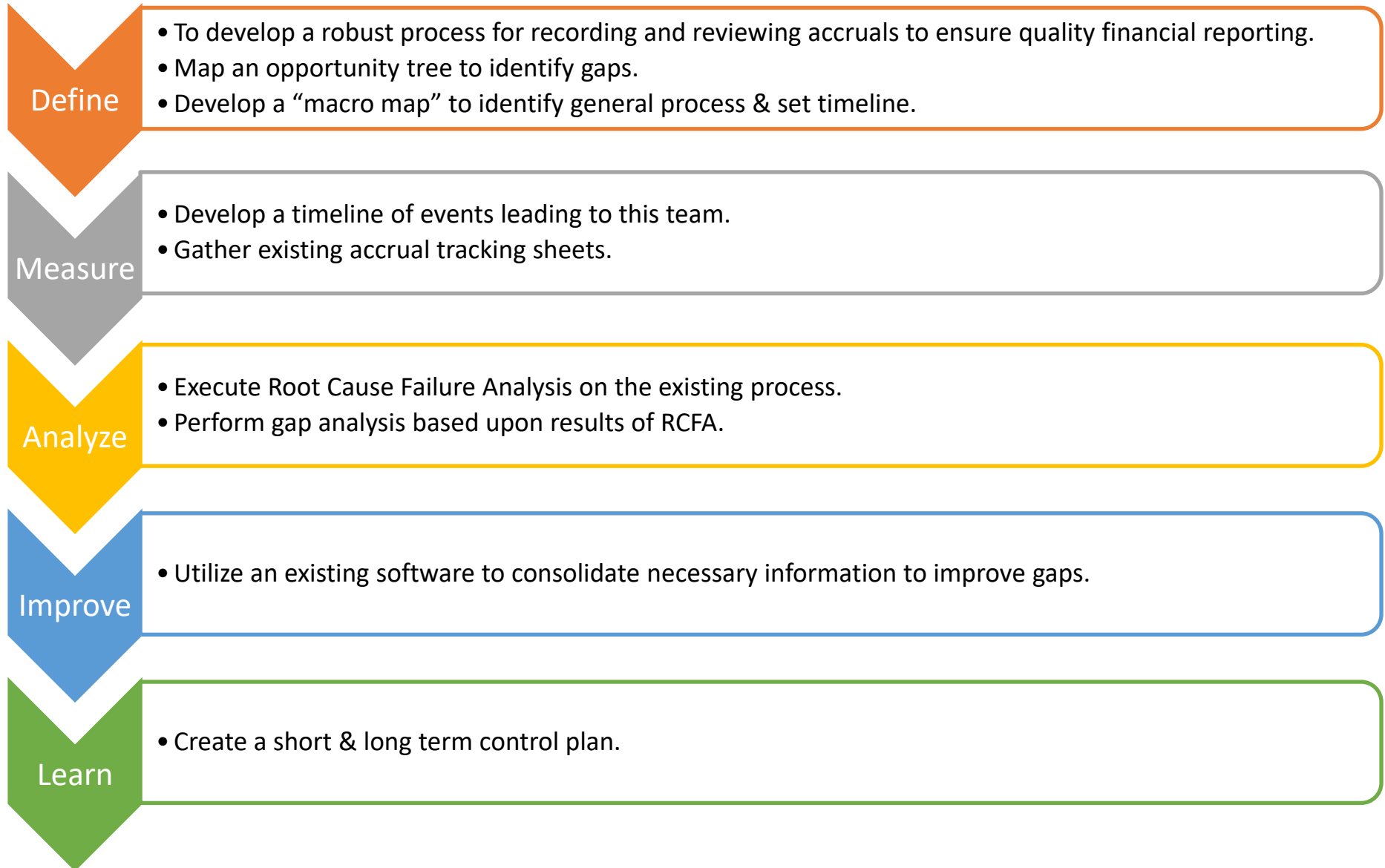


# ▶ PEXA

## Case Study: Accruals Reporting Root Cause Failure Analysis



# Process Summary



# Define



## Charter: Accrual RCFA Team

### PURPOSE

- To develop a robust process for recording and reviewing accruals to ensure quality financial reporting.

### IMPORTANCE

- Accruals need to be recorded and reviewed in a timely manner for month-end close. Accurate reporting and booking of accruals is critical to financial reporting compliance.
- Business processes generate substantial accruals that need to be booked and reviewed each month to ensure completeness and accuracy. Missed accruals in the past have resulted in restatements of over \$25MM.

### SCOPE

- Short and long term fixes to the accrual process, including metrics and reporting.
- Cost of goods sold (COGS) Accruals for feedstocks.
- System recommendations (i.e. QTS, Borque, SAP, Gizmo, etc.)
- RCFA for missed major accruals that occurred in November and December of 2014
- Out of Scope: Deal Capture, MM Implementation, Refinery Operating Expenses, Capital Accruals, Hedging, SGA, Intermediation, RINS, Accruals not related to COGS

### METRICS

- Post-period accounting adjustments (greater than \$1MM)
- Closing schedule adherence (8 DAYS close, 8-10 DAYS reconciliations).

### RESOURCES

- Team Members
- Sponsor
- Team Leader
- Coach

### DELIVERABLES

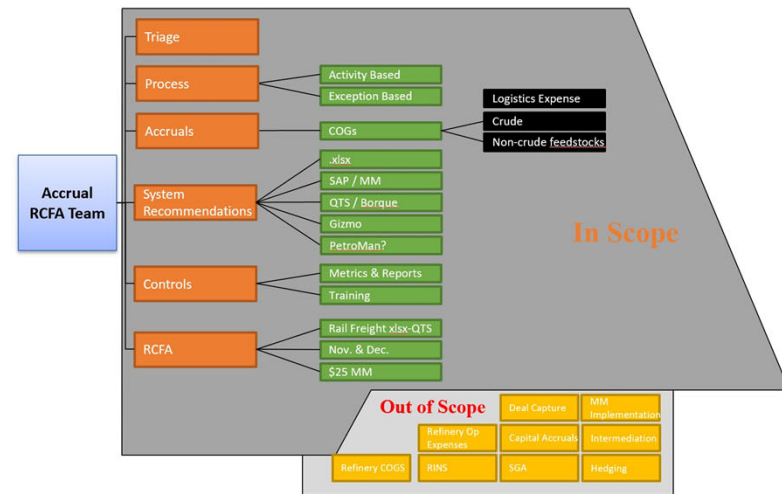
- Completed RCFA Analysis on Missed Accruals
- Accrual Procedure and Process Map
  - Communication Plan – integrate support groups in planning process; communicate activity changes; educate ACC on new procedures or processes
- Accrual Tracking System
- Short-term and Long-term Recommendations
  - System Recommendation
  - Control Plan

### SCHEDULE

- Team Launch: March 18, 2015
- Full Report Completion: June 19, 2015



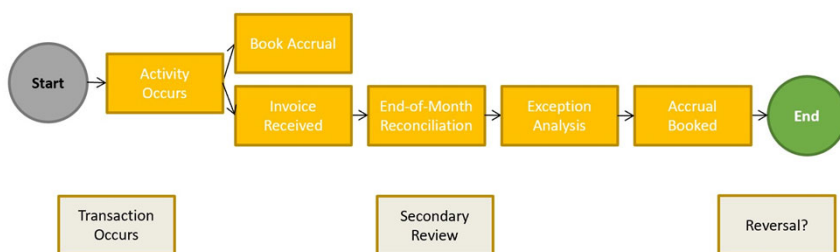
## Opportunity Tree



11



## Macro Map



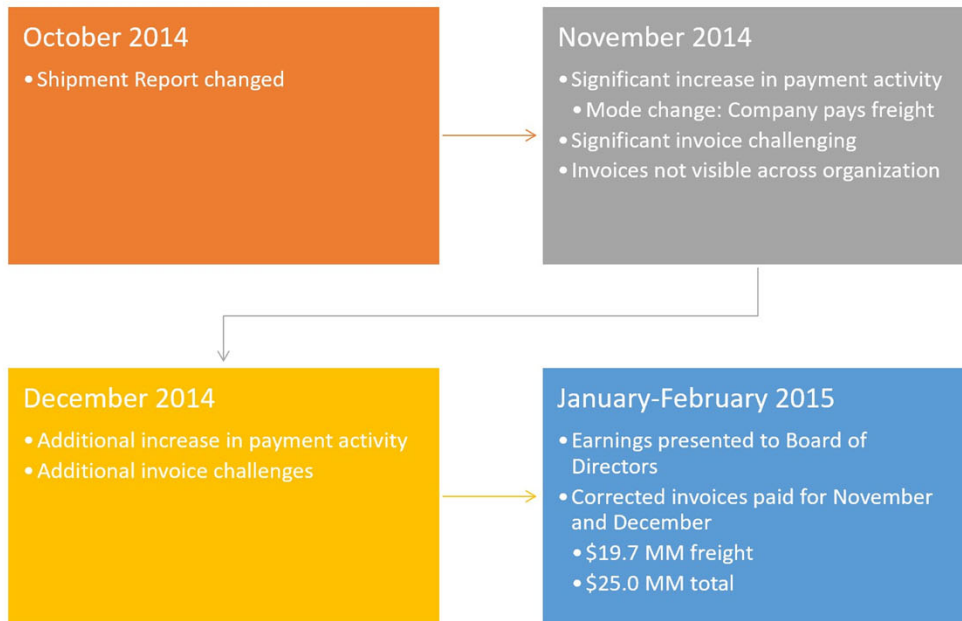
## Accrual Team Timeline



# Measure



## Timeline of Events

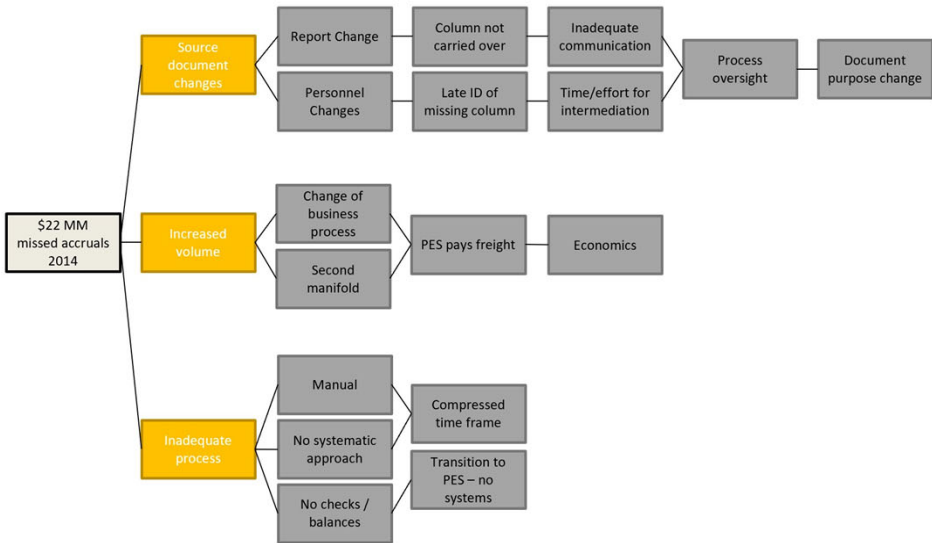


## Accrual Tracking Sheet (Sample Snapshot)

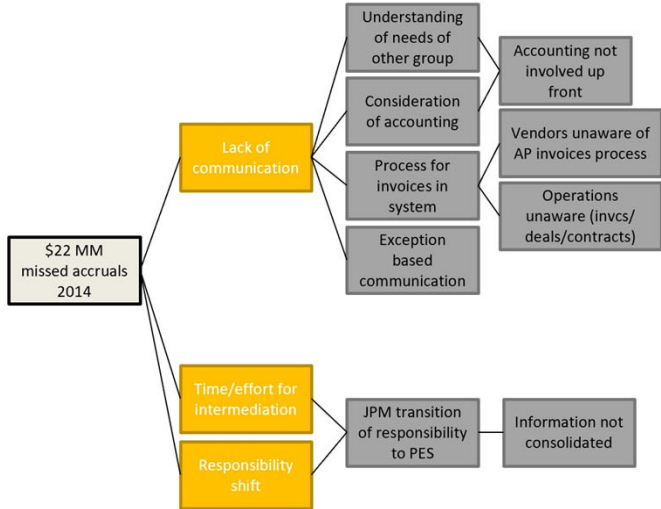
Month	Accrual		DAY Requested	DAY Received	Date of Accrual	Comments
April	Spill Tax		DAY 4	DAY 3	DAY 3	Crude Only, No products
		Refined				
		Crude				
April	Harbor Maintenance Fee		DAY 3	DAY 5	DAY 5	
		Refined				
		Crude				
April	Pipeline Over shorts		DAY 4	DAY 6	DAY 6	Buckeye Late
		SXL				
		Buckeye				
		Colonial				
		IRPL				
April	Inspections		DAY 6	DAY 7	DAY 7	Product Only
April	Crude Freight and Lightering		DAY 3	DAY 3	DAY 3	
April	Barge Charters Refined		DAY 4	DAY 4	DAY 8	Ponciana Disputed amount, RTC 80 & 83
April	Barge Ancillaries		DAY 5			
	Crude Demurrage					
April	Vessel/Barge		DAY 1	DAY 2	DAY 2	
	Product Demurrage					
April	Vessel/Barge		DAY 6	DAY 5	DAY 5	Invoice list, not activity based
April	Pipeline Tariffs and Transmix		DAY 6	DAY 5	DAY 5	
		SXL				
		Buckeye				
		Colonial				
		IRPL				
April	Rail Freight Crude		DAY 3	DAY 3	DAY 3	Triplicate Payment of same unit train
		Unit Trains				
		BNSF Cars				
April	Rail Freight Products		DAY 3	DAY 2	DAY 2	All Centennial, no rail freight accrued
		Butane to Bath				
		Onbase Accrual				
April	Railcar Leases		DAY 2	DAY 5	DAY 5	BNSF 75,000/per car included

# Analyze

## Missed Accruals RCFA



## Missed Accruals RCFA



## Gaps Identified



<b>Rail</b>	<ul style="list-style-type: none"> <li>• Unit Train Freight – manual process between traders and supply</li> <li>• Train First Moves – not captured in any current system</li> <li>• Rail Demurrage – accrual estimate only, no data analysis</li> <li>• Crude Rail accruals – not captured in any current system</li> <li>• LPG Rail accruals – not captured in any current system</li> </ul>
<b>Waterborne</b>	<ul style="list-style-type: none"> <li>• Spot barge accrual process highly inefficient</li> <li>• Product Time - Charter Vessel Ancillaries not trip based</li> <li>• Product Vessel Demurrage only done on existing invoices</li> </ul>
<b>Other</b>	<ul style="list-style-type: none"> <li>• Inadequate communication with Accounting on significant business changes</li> <li>• Renewable accruals (truck/purchases) – deal, schedule, and payment status not managed in any current system</li> <li>• General – No contract management system to capture logistics commitments (railcar leases, storage, etc)</li> </ul>

# Improve

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Use Gizmo to Capture All Trade, Schedule and Actualization Data

MLC data in production since October 2014

Push data into production commencing July 2015

Capture all physical movements

Capture Freight Costs

- Barge/Vessel details
- Trip Data for Rail

Inventory Tracking

# Learn

## Control Plan

Short Term Solutions - Manual	Responsible	Implementation Timing
Vendor to add identifying number to match with movement for spot barges		Complete
Formalized Accrual Checklist		Complete
Monthly review of business process changes		6/25/2015
Identification to accounting of non-standard activities		6/25/2015
Create process for calculating product demurrage		6/30/2015
Consolidate barge charter spreadsheets		6/30/2015
Trip by Trip costing for time-charter ancillary costs		6/30/2015
Deal numbers added to on-base invoice payments		6/30/2015
Central review for verification of invoices		6/30/2015
Activity based accrual process for unit train freight		7/31/2015
Monthly meetings to review team progress		7/31/2015

Short Term Solutions - Automated	Responsible	Implementation Timing
Contract management system to track charters		6/30/2015
QTS rail detention module		6/30/2015
Gizmo upgraded to handle logistics costs and COGS: PES and MLC activity		7/1/2015
Gizmo upgraded to handle pipeline and rail logistics costs		7/31/2015
Gizmo upgraded to handle all waterborne costs		7/31/2015
Rack automation (refinery)		8/31/2015

Long Term Solutions - Automated	Responsible	Implementation Timing
Automated system for South Yard AEI scanner		12/31/2015
Evaluate alternatives to Solarc (SAP MM)		3/31/2016
Solarc (automate accrual creation based on activity, tracking of payment status)		1/1/2017

[Learn more](#)

Ajay Patel

ajay@pexa.biz | (856) 905-4691

Neil Shah

neil@pexa.biz | (215) 316-6148

www.pexa.biz