

MINUTE ITEM

19. (LONG BEACH TIDELANDS, CH. 29/56, 1ST E.S., AUDITING SERVICES - W. O. 2323.4.)

After presentation of Calendar Item 8 attached, Mr. Kirkwood requested a further review of the bases for the audit program to be conducted under service contract and as to the type of procedure contemplated for the future. The Executive Officer reported that the Lands Division proposes to present a complete summary of staff and Audit Division recommendations in the near future for Commission consideration in the specification of a continuing audit program. Mr. Kirkwood stated agreement with the staff recommendation subject to review of the proposed service contract at the time of next Commission consideration of the total audit program.

UPON MOTION DULY MADE AND UNANIMOUSLY CARRIED, THE FOLLOWING RESOLUTION WAS ADOPTED:

THE EXECUTIVE OFFICER IS AUTHORIZED TO ENTER INTO AND EXECUTE INTERAGENCY CONTRACTS WITH THE AUDITS DIVISION, DEPARTMENT OF FINANCE, AS FOLLOWS:

1. A SUPPLEMENTARY AGREEMENT PROVIDING FOR ADDITIONAL SERVICES FOR THE FISCAL YEAR 1957-58 AT A COST OF \$7,000; THUS MAKING THE TOTAL SERVICES FOR THE CURRENT FISCAL YEAR \$22,000;
2. AN INTERAGENCY AGREEMENT PROVIDING FOR THE FURNISHING OF AUDITING SERVICES IN CONNECTION WITH OPERATIONS UNDER CHAPTER 29/56, 1ST E.S., FOR THE FISCAL YEAR 1958-59 IN AN AMOUNT NOT TO EXCEED \$15,000.

Attachment
Calendar Item 8 (2 pages)

CALENDAR ITEM

MISCELLANEOUS

8.

(LONG BEACH TIDELANDS, CH. 29/56, 1ST E.S., AUDITING SERVICES - W. O. 2323.4.)

On August 15, 1956 and September 13, 1957, the Commission authorized agreements with the Audits Division, Department of Finance, for the purpose of establishing accountability by the City of Long Beach in connection with the disposition of revenues from the city's granted tidelands under the provisions of Ch. 29/56, 1st E.S.

Reports have been made to the Commission respecting the problems encountered by the Audits Division in carrying out this work. Mention has been made of the complications created by the many interests involved in the operation, by cost distribution problems and the requirement to seek legal opinions as to the propriety of the city's charges relating to oil and gas production costs. As the Commission is aware the "post-auditing" phase of this operation has been segregated from current auditing. The Division's staff is handling current work relating to remedial subsidence projects, while the review of the city's operations and those of its contractors, Long Beach Oil Development Company and Richfield Oil Corporation, relating to oil and gas production and revenues resultant therefrom, are being audited by the Audits Division. Additionally, the Audits Division has had as an assignment the auditing of expenditures from the city's share of the revenues made for trust purposes, i.e., maintenance and improvement of the harbor district. Currently the backlog of work in this field is approximately 16 months.

Work performed by the Audits Division has resulted in many exceptions to oil and gas production costs deducted by the city from oil and gas revenue prior to distribution. Substantial increases in revenue to the State may be anticipated when these exceptions are resolved. A typical example of the type of charge deemed questionable is the "land use" charge which the city had included in costs for oil and gas production. This charge amounted to \$41,000 monthly since February 1956. Exception to this charge resulted in its reduction in February 1958 to \$11,000 per month. In settlement of previous overcharges the city remitted additional revenues of \$690,000, plus interest, to the State. Likewise, gas production costs were reduced by \$6,000 monthly during 1957 as the result of audit findings. It is apparent that the services that have been rendered have been highly productive.

Auditing services contracts for the fiscal year 1957-58 amounted to \$15,000. These funds were fully expended as of March 31, 1958. Services presently being rendered (for the remainder of the fiscal year) are estimated at \$7,000.

In summary it should be pointed out: (1) that the work being performed has had highly beneficial results, (2) that a considerable backlog of work still exists. For these reasons it appears desirable that there be a continuance of the services being rendered.

MISCELLANEOUS 8. (CONTD.)

IT IS RECOMMENDED THAT THE EXECUTIVE OFFICER BE AUTHORIZED TO ENTER INTO AND EXECUTE INTERAGENCY CONTRACTS WITH THE AUDITS DIVISION, DEPARTMENT OF FINANCE, AS FOLLOWS:

1. A SUPPLEMENTARY AGREEMENT PROVIDING FOR ADDITIONAL SERVICES FOR THE FISCAL YEAR 1957-58 AT A COST OF \$7,000; THUS MAKING THE TOTAL SERVICES FOR THE CURRENT FISCAL YEAR \$22,000;
2. AN INTERAGENCY AGREEMENT PROVIDING FOR THE FURNISHING OF AUDITING SERVICES IN CONNECTION WITH OPERATIONS UNDER CHAPTER 29/56, 1ST E.S., FOR THE FISCAL YEAR 1958-59 IN AN AMOUNT NOT TO EXCEED \$15,000.