

MINUTE ITEM

27. (PROPOSED BUDGET, 1959-60 FISCAL YEAR - W. O. 2929.)

Following presentation of Calendar Item 31 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE COMMISSION APPROVES THE PROPOSED "A" AND "B" BUDGETS OF THE STATE LANDS DIVISION FOR THE FISCAL YEAR 1959-60 IN THE TOTAL AMOUNT OF \$1,049,380, INCLUSIVE OF CONTRIBUTIONS TO THE STATE EMPLOYEES RETIREMENT FUND. THE APPROVAL IS TO BE SUBJECT TO FINAL REVIEW AND APPROVAL BY THE DEPARTMENT OF FINANCE. FURTHER, IN CONNECTION WITH THE APPROVAL OF THE BUDGET, THE COMMISSION APPROVES SPECIFICALLY THE ESTABLISHMENT OF POSITIONS AS FOLLOWS:

"A" BUDGET

SUPERVISING STATE FINANCIAL EXAMINER	1
GENERAL AUDITOR II	1
ACCOUNTANT-AUDITOR I	1

"B" BUDGET

PETROLEUM GEOLOGIST	1
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Attachment
Calendar Item 31 (8 pages)

CALENDAR ITEM

MISCELLANEOUS

31.

(PROPOSED BUDGET, 1959-60 FISCAL YEAR - W. O. 2929.)

Factors to be considered in forecasting the State Lands Division's activity, hence its budgetary requirements, for the Fiscal Year 1959-60 are: (1) revenue and workload trends and, (2) the effects of litigation and legislation.

The Governor's Budget for the Fiscal Year 1958-59 estimated the total revenue of the State Lands Division at \$13,558,300. The first month of that period (July 1958) revenues of more than four times that amount, \$55,750,459.56, were recorded.

Workload factors may be pictured by considering statistics on the Division's transactions as follows:

	<u>Work Orders</u>
On Hand July 1, 1957	953
New Transactions Opened	666
Transactions Closed	630
On Hand July 1, 1958	989

As these figures indicate, the workload of the Division as a whole showed an increase of 4% on July 1, 1958 over July 1, 1957, reflecting a small increase in activity.

In view of the foregoing, and in accordance with Department of Finance Directive, the Division's budget proposal is reflected by an "A" Budget, designed to maintain the existing level of service, and a "B" Budget, providing for such additional services as are deemed necessary.

Other factors of major importance affecting the Division's operations are:

1. Litigation. In addition to 164 minor litigatory actions on hand July 1, 1958, it is anticipated that the Orange County suit will remain active during the current and budget years. The Commission is aware that on August 15, 1958 the United States filed a suit against the State, the City of Long Beach, and others, seeking an injunction to stop oil production from Long Beach tidelands and asking damages upwards of seventy million dollars.

Recently a suit has been filed by Carl Whitson, an individual, in the U. S. District Court. In this action the plaintiff seeks to upset the Submerged Lands Act of 1953.

MISCELLANEOUS 31. (CONTD.)

In connection with these actions the Division must (1) furnish assistance to the Attorney General in the preparation of the State's defense, (2) provide for the costs of services rendered by the Department of Justice. The workload that may develop from this activity is not predictable, but must be handled as it arises.

2. Legislation. Chap. 73/58 provided for cooperative development and unit operation of oil and gas pools and repressuring operations to ameliorate subsidence. It was designed particularly to assist in solving problems in the Long Beach-Wilmington Basin.

This statute will generate new workload. The Division's staff will be called on to make thorough studies of proposed plans, and to sit in at meetings of the Management, Engineering, Legal and Accounting committees, formed to activate unitization and repressurization projects.

In summary the workload that the Division will be called on to discharge during the current and budget years appears greater than that which it handled during the period just closed. In view of the foregoing, the Division's budget proposal is considered economical and realistic.

A comparative summary and analysis of the current and proposed budgets follows:

<u>STATE LANDS DIVISION - "A" BUDGET</u>	<u>Estimate 1958-59</u>	<u>Proposed 1959-60</u>	<u>Increase or Decrease</u>
Number of Positions	102.3	103.5	+ 1.2
Administration - Support	\$868,095	\$938,434	+\$ 70,339
Cont. to Retirement Fund	<u>49,390</u>	<u>51,909</u>	+ <u>2,519</u>
Total Exp. for Support	\$917,485	\$990,343	+\$ 72,858 (+ 7.9%)

OTHER CURRENT EXPENSE

Determination of Boundary of Tide and Submerged Lands, City of Long Beach	<u>\$ 21,310</u>	<u>\$ 50,000</u>	<u>+\$ 28,690</u>
Total Expenditures	\$938,795	\$1,040,343	+\$101,548 (+ 10.8%)

MISCELLANEOUS 31 (CONTD.)

Comparison by Object Category

<u>Description</u>	<u>Current Year</u>	<u>Budget Year</u>	<u>Difference</u>
Salaries and Wages	\$591,184	\$621,348	+ \$30,164
Operating Expenses	314,568	342,111	+ 27,543
Equipment	<u>7,114</u>	<u>11,346</u>	+ <u>4,232</u>
Total Allotments	\$912,866	\$974,805	+ \$61,939
Estimated Reimbursements	<u>- 44,771</u>	<u>- 36,371</u>	+ <u>8,400</u>
Net Expenditures	\$868,095	\$938,434	+ \$70,339

Salaries and Wages. Costs estimated for 1959-60 show an increase of \$30,164, or 5.1%. This amount is composed of normal salary adjustments, \$8,184; reduction in estimated salary savings, \$2,000; and proposed new positions, \$19,980. The increase due to new positions is offset by a corresponding decrease in Operating Expenses - Auditing Services and should be viewed as a transfer of existing expense and workload from Operating Expense to Salaries and Wages. The proposed new positions consist of:

Supervising State Financial Examiner	\$8,940.00
General Auditor II	6,060.00
Account Auditor I	<u>4,980.00</u>
Total	\$ 19,980.00

Chapter 29/56, 1st E.S., placed the entire responsibility for operation under the program it outlined in the State Lands Commission. This included the auditing of the City of Long Beach's operations in connection with the production of oil and gas, expenditures for remedial subsidence, and expenditures for harbor maintenance and development.

Lacking an auditing staff, the Division contracted auditing services temporarily with the Audits Division, Department of Finance. The services have not been entirely satisfactory for the following reasons:

1. Reports are necessarily slow in forthcoming.
2. The work to be performed has been split between the Division's staff auditors and the Audits Division, and thus the program lacks thorough coordination.

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3. Responsibility and authority for direction of the auditing phase of the work has been split between dual authorities.

The executive staff of the Division proposes that an auditing section be established with State Lands handling the entire auditing phase of the Long Beach operation. This proposal will also provide the Division auditing services in connection with oil and gas and mineral leases under its jurisdiction. A discussion of this proposal is contained in Exhibit "A" attached.

At the Division's budget hearing held September 26, 1958, the Budget Division, Department of Finance, concurred in the proposal and recommended the following:

- "1. Combine the complete audit program into one agency,
2. Transfer the three positions requested above from the Audits Division to the State Lands Commission to put the responsibility where it belongs,
3. Establish a new auditing function in the State Lands Division with the supervisor reporting to the Assistant Executive Officer."

The program herein outlined represents a normal rounding out and sound development of the Division's staff to discharge properly its numerous functions; offering at the same time a definite improvement in the quality of the entire Divisional operation. The matter of its adoption represents a policy decision on the part of the Commission.

Operating Expenses. Allotments requested for the budget year are estimated at \$27,543 in excess of those of the current year. This increase is primarily due to increased costs anticipated for service of the Attorney General's office, and funds requested for a one-time project -- the establishment of an Index of Lands Under the Jurisdiction of the U. S. There is a statutory requirement that this Index be established (127 Gov't Code).

Equipment. Allotments requested for the budget year are estimated to exceed those for the current year by \$4,232. Major items causing this increase are: replacement of worn and obsolete office equipment, and one piece of automotive equipment no longer serviceable; office equipment for the auditing positions proposed.

This summarizes the Division's "A" Budget.

STATE LANDS DIVISION - "B" BUDGET

The "B" Budget proposal provides for one new position in the Mineral Resources Section plus necessary office equipment. It can be summarized as follows:

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	<u>1959-60</u>
Number of Positions	1
Administration-Support	\$8,301
Contributions to Retirement Fund	<u>736</u>
Total Expenditures for Support	\$9,037

This position is requested as the nucleus of a Geological Subsection in the Mineral Resources Section. The request is based on recommendations made to the Commission by its Board of Petroleum Engineering Consultants, Dr. Herman Kaveler, and Keplinger and Wanenmacher, nationally known petroleum engineers of Tulsa, Oklahoma.

IT IS RECOMMENDED THAT THE COMMISSION APPROVE THE PROPOSED "A" AND "B" BUDGETS OF THE STATE LANDS DIVISION FOR THE FISCAL YEAR 1959-60 IN THE TOTAL AMOUNT OF \$1,049,380, INCLUSIVE OF CONTRIBUTIONS TO THE STATE EMPLOYEES RETIREMENT FUND. THE APPROVAL IS TO BE SUBJECT TO FINAL REVIEW AND APPROVAL BY THE DEPARTMENT OF FINANCE. FURTHER, THAT IN CONNECTION WITH THE APPROVAL OF THE BUDGET, THE COMMISSION APPROVE SPECIFICALLY THE ESTABLISHMENT OF POSITIONS AS FOLLOWS:

"A" BUDGET

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EXHIBIT "A"

AUDITING SERVICES

In 1956 the Audits Division, Department of Finance, was engaged (1) to audit and account for the State's share of revenues from February 1956 forward to a current date when State Lands would take over the activity, and (2) to prepare a program for auditing the City's operations.

From the inception of the program to the present time there has been a lack of coordination in the operation resulting from outside direction of auditing work. Reports from the Audits Division affecting operations have been slow in forthcoming. The single report rendered by the Audits Division under this agreement was received two years after services were engaged, on July 22, 1958. The report covered operations to December 1957. As of this writing, the auditing phase of the program is eight to nine months in arrears.

Ch. 29/56, 1st. E.S., placed the entire responsibility for operations, under the program it outlined, in the State Lands Commission, and delegated to the Commission the authority to deal with the City of Long Beach. Included in these authorities were: "Authority to examine financial records relating to production and sale of hydrocarbon products from the Long Beach tidelands, and to conduct such other investigation and studies as it may deem necessary in connection therewith." In view of the statutory provision, and to coordinate operations fully, members of the State Lands Commission have suggested on several occasions that the entire auditing phase of the operation should be conducted by State Lands. This matter has had executive review, and a conclusion has been reached that the Agency should establish an auditing section. Reasons for this decision are as follows:

1. To bring full responsibility and authority for the operations of the program at Long Beach under a single head; so as
 - a. To better coordinate all phases of the operation;
 - b. To secure information resulting from auditing work on a more current basis;
 - c. To effect economies (the Division believes that this work can be performed with staff personnel at a saving of approximately \$1,300 annually compared with present operating costs under service agreement);
 - d. To secure flexibility in the direction and use of the auditing staff (a contractor may or may not perform the operations deemed most useful and/or most desired);
2. To audit all other phases of the Division's operations inclusive of:
 - (a) royalties payable under oil and gas, and mineral leases, and
 - (b) the Division's internal operations.

Duties and assignments of the audit unit are set forth in the section of this report immediately following.

AUDITING

This unit of the agency has been planned to consist of six positions (three currently established, and three requested for 1959-60), headed by a Supervising State Financial Examiner. Duties and responsibilities are as follows:

1. To audit all phases of operations under the provisions of Ch. 29/56, 1st. E.S. (This would constitute the section's major assignment);
2. To audit and account royalties from oil, gas and mineral leases;
3. To review internal fiscal operations.

The supervisory position in this unit will be dealing with the City Auditor of the City of Long Beach, an elective position commanding a \$12,000 annual salary, with the Chief Accounting Officer of the Long Beach Harbor Department (salary, \$11,400 annually), and with the Director of Finance of the City of Long Beach (salary, \$13,000 annually).

The key to the success of this proposal lies in the establishment of the supervisory position of the section at a proper level. The classification of the position must be such that it will attract a Certified Public Accountant having (1) the ability to design audit programs, (2) a working knowledge of oil and gas royalty accounting, (3) supervisory experience and the ability to direct a staff of auditors, and (4) tact and diplomacy in conducting operations.

Review of the progress of operations under Ch. 29/56, 1st. E.S., brings an old saw to mind - "You can lead a horse to water, but you can't make him drink". The City of Long Beach, rightfully or otherwise, is reluctant to accept the State's decisions and determinations respecting operational problems generally, and particularly those decisions which affect the split of tideland revenues between the City and the State. This is demonstrated by the still unsettled "Town Lot Unit" project.

Many of the accounting and auditing problems that have arisen between the City and the State might have been solved at staff level had State Lands been equipped with a qualified and authorized employee. This would have saved both parties top-level conference time, money spent for advice of the Attorney General, and threats to recourse to legal action that some problems have evoked.

It is the opinion of the executive staff of the Division that 65 to 75% of the time of a properly qualified supervisor of the unit can be spent profitably in directing program operations and in working out mutually satisfactory solutions of differences with the City; further, that in so doing, both parties to the operation will save time, hence money, and a healthier relationship.

will develop. Given the foregoing, assignments to the position being discussed would be (1) operations under Ch. 29/56, 1st. E.S., City of Long Beach - 70%; and (2) direction of auditing of lease royalties, review of internal control, etc. - 30%.

Other than the program being conducted under Ch. 29/56, 1st. E.S., this unit of the Division will be called on (1) to review oil and gas royalty payments and verify their conformance with lease provisions; (2) to conduct audits of the plants of independent gas refiners who are processing wet gas derived from tide and submerged land leases; (3) to audit the operations of leases producing minerals other than oil and gas, such as Columbia Southern Chemical Company, U. S. Borax Company, Ideal Cement Company, Moe Sand and Gravel Company, etc.; (4) to review internal cash control and fiscal operations of the agency.