

27. AUDIT OF FIELD CONTRACTOR, LONG BEACH UNIT - W.O. 5200.400.

After consideration of Calendar Item 3 attached, and upon motion duly made and unanimously carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED:

1. TO OBTAIN, FROM INTERESTED CERTIFIED PUBLIC ACCOUNTANTS WITH OIL INDUSTRY EXPERIENCE, PROPOSALS TO CONDUCT AN EXTENSIVE AUDIT OF THE FIELD CONTRACTOR AND ITS OPERATING COMPANY, LONG BEACH UNIT; AND
2. TO REPORT THE ESTIMATED COSTS AND BENEFITS, TOGETHER WITH PROPOSED FINANCING AND RECOMMENDATIONS.

Attachment

Calendar Item 3 (1 page)

3.

AUDIT OF FIELD CONTRACTOR, LONG BEACH UNIT - W.O. 5200.400.

Article 21 of the Contractors' Agreement, Long Beach Unit, authorizes the State to audit the books, records, and accounts of the Field Contractor. Since the formation of the Long Beach Unit in April 1965, and up to January 1, 1967, the Field Contractor, on behalf of the Unit Operator, has expended in excess of \$45,000,000.00 for the development and operation of the field, and has received in excess of \$20,000,000.00 in oil revenue. To date it has not been possible for the Division to conduct an in-depth audit of the Field Contractor's books and operations. In view of the lapse of time and the large expenditures and receipts involved, it is believed that the State should conduct an audit of the Field Contractor, and its operating company (THUMS Long Beach Co.), which audit would be general and thorough in extent and in addition would examine certain financial practices such as allocation of deductions for Unit expense purposes, control of assets, and oil pricing.

Ordinarily the type of audit proposed here would be undertaken by the internal audit staff of the State. There are at present eight budgeted positions in the audit function at Long Beach. Four of these positions are vacant; three are being reviewed for the purpose of upgrading specifications to obtain people qualified in line with recommendations made by Lybrand, Ross Bros. and Montgomery, CPAs, in a report rendered to the State Lands Division in July of 1966 and approved by the Commission in October of 1966. It is anticipated that the State Personnel Board will act shortly on the Division's request. However, even if such action is taken during the interim, no effective audit control will be exercised by qualified personnel.

IT IS RECOMMENDED THAT THE COMMISSION AUTHORIZE THE EXECUTIVE OFFICER:

1. TO OBTAIN, FROM INTERESTED CERTIFIED PUBLIC ACCOUNTANTS WITH OIL INDUSTRY EXPERIENCE, PROPOSALS TO CONDUCT AN EXTENSIVE AUDIT OF THE FIELD CONTRACTOR AND ITS OPERATING COMPANY, LONG BEACH UNIT; AND
2. TO REPORT THE ESTIMATED COSTS AND BENEFITS, TOGETHER WITH PROPOSED FINANCING AND RECOMMENDATIONS.