

MINUTE ITEM

6/22/67

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

After consideration of Calendar Item 52 attached, and upon motion duly made and carried, the following resolution was adopted:

THE EXECUTIVE OFFICER IS AUTHORIZED TO EXECUTE A CONTRACT WITH PRICE WATERHOUSE & COMPANY, BASED ON THEIR PROPOSAL OF JUNE 6, 1967, TO CONDUCT AN OPERATIONAL AUDITING PROGRAM AND REVIEW OF FINANCIAL PRACTICES OF THUMS LONG BEACH CO., THE COST NOT TO EXCEED \$22,000.

Attachment

Calendar Item 52 (2 pages)

52.

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

The State Lands Commission at its April 27, 1967, meeting authorized 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.

The staff of the State Lands Division requested proposals from three firms on May 10, 1967;

1. Lybrand, Ross Brothers and Montgomery
2. Price Waterhouse & Company
3. Arthur Young & Co.

These proposals were to be presented by June 7.

All three of these firms submitted proposals by June 7. The proposal of Arthur Young & Co. was quite detailed, but indicated a much wider scope of study was proposed than contemplated by this Division. The other two proposals indicated a good comprehension of the problem faced; however, the proposal submitted by Price Waterhouse & Company included a more definitive work plan. The Lybrand, Ross Brothers and Montgomery proposal was very general in its approach.

The Price Waterhouse proposal indicated that they would commit to this project staff experienced in both petroleum company auditing and systems analysis and operations research. In addition, they named the individuals and gave a detailed resume of each individual's experience.

All three firms have had experience with State contracting procedures; however, Price Waterhouse and Arthur Young explicitly set forth the basis and rates for charging services. Price Waterhouse estimated about 20 to 25 man weeks of effort to be accomplished over a 12 to 15 week period, while Arthur Young estimated 36 to 45 man weeks of effort over a comparable period. Fee billings were estimated to cost between \$16,000 and \$22,000 in the Price Waterhouse proposal, whereas Arthur Young estimated \$29,000 to \$35,000.

Lybrand, Ross Brothers and Montgomery on the other hand indicated about eight weeks at a cost of not to exceed \$17,500.

Staff review of these proposals indicates that Price Waterhouse & Company submitted the more meaningful work program. Their plan envisions a broader commitment of personnel with more varied experience background than Lybrand,

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Ross Brothers and Montgomery indicated would be the case in their proposal. They have apparently grasped the problem more clearly than Arthur Young by setting out a definitive course of action in the first instance. Arthur Young's proposal envisions a period of initial study to determine what the problem is, and then to develop a plan of action. In addition, Arthur Young proposes formal progress reports. Both of these items resulted in a higher cost estimate and, in the opinion of staff, are not essential to solving the problem.

Expenditures for development of the Long Beach Unit of the Wilmington Oil Field exceed \$1,000,000 per week, with corresponding revenues of approximately \$600,000 per week at this time. Any improvement in system control would more than offset the cost of this contract. It is felt that undertaking this contract at this time is essential to the State's management effort in Long Beach.

It is proposed that \$22,000 be encumbered from 1966-67 fiscal year funds for the contract. This can be financed by a transfer of salary savings accrued from auditing positions which have been held vacant awaiting reclassification to put into effect operational audit recommendations of Lybrand, Ross Brothers and Montgomery made in their prior report on this Division's auditing responsibilities.

IT IS RECOMMENDED THAT THE EXECUTIVE OFFICER BE AUTHORIZED TO EXECUTE A CONTRACT WITH PRICE WATERHOUSE & COMPANY, BASED ON THEIR PROPOSAL OF JUNE 6, 1967, TO CONDUCT AN OPERATIONAL AUDITING PROGRAM AND REVIEW OF FINANCIAL PRACTICES OF THUMS LONG BEACH CO., THE COST NOT TO EXCEED \$22,000.