

**CALENDAR ITEM
C91**

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Statewide

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10/19/12
Bid Log 2012-07
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**REQUEST AUTHORITY FOR EXECUTIVE OFFICER OR DESIGNEE TO SOLICIT
PROPOSALS FOR FINANCIAL AUDIT CONSULTING SERVICES, AWARD AND
EXECUTE AGREEMENTS REGARDING AUDIT OF ROYALTY PAYMENTS FOR
VARIOUS STATE OIL AND GAS LEASES AND CONTRACTS**

PARTY:

California State Lands Commission
100 Howe Avenue, Suite 100 South
Sacramento, CA 95825-8202

BACKGROUND:

The Bureau of State Audits (BSA) published its report 2010-125 regarding its review of Commission's management of leases in August, 2011. Among other subjects, the report was critical of the Commission's auditing of State leases. Specifically the audit found that "The Commission does not regularly audit its revenue generating leases". This was attributed primarily to severe staff reductions resulting from General Fund budget cuts. Staff was subsequently successful in establishing four additional auditor positions in the 2012-13 Budget.

In anticipation of the new positions, staff began early in 2012 to recruit and test for Mineral and Land Auditor series, to be in a position to hire immediately upon passage of the budget. The recruitment effort, which included advertising on national trade websites, resulted in the hiring of only two individuals, who filled already established positions that had been vacated by recent retirements. Subsequent to the recruitment of the specialty Mineral and Land Auditor series, recruitment began on more general Governmental Auditor series. To date, none of the four new positions have been filled due to lack of qualified applicants. Feedback from potential candidates indicates that the salaries are not competitive for the qualifications required or for relocating to the Los Angeles area.

While attributing the ability to effectively audit revenue generating leases to a lack of adequate staffing, the BSA also recommended that the Commission "Explore and take advantage of other approaches to fulfill its auditing

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responsibilities, such as contracting with an outside consulting firm...” . The Commission staff is currently successfully using an outside consulting firm to conduct a financial audit of one of its largest gas leases, which is subject to an audit or a condition of an assignment. Staff was not available to meet the assignor’s timeframe so assignor consented to fully reimburse Commission for the cost of the consultant. This audit is due for completion in 6-8 weeks.

The Commission currently has a portfolio of over 60 oil, gas, geothermal and mineral leases as well as 70 percentage-of-gross commercial leases requiring periodic audits with an annual income of over \$500 million in the 2011-12 fiscal year; almost entirely to the General Fund.

PROPOSED ACTIVITY:

Staff requests authority to solicit proposals, award and execute an agreement with an independent oil and gas financial audit firm/individual to review and analyze the historical royalty or contractual payments and their associated chargeable expenses. The selected firm/individual will work directly for the Commission staff and shall enter into confidential agreements with the lessees and others to acquire the necessary information and documents upon which to base their review and findings.

Consultant selection shall be conducted consistent with procedures specified in the State Contract Manual. Funding shall be redirected from that provided for the new positions in the 2012-13 Budget.

Staff will continue with due diligence to seek to fill the positions through the civil service process and will terminate the contract upon successful filling of the vacancies.

OTHER PERTINENT INFORMATION:

The staff recommends that the Commission find that the subject proposal does not have the potential for resulting in either direct or a reasonably foreseeable indirect physical change in the environment, and is, therefore, not a project in accordance with CEQA.

Authority: Public Resources Code section 21065 and Title 14, California Code of Regulations, sections 15060 (c)(3) and 15378.

STATUTORY AND OTHER REFERENCES:

- A. Public Resources Code Section 6106 (Delegation to execute written instruments)
- B. Public Contract Code Sections 10339-10345
- C. State Contract Manual (rev. 10/05)
- D. Government Code Section 19130

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E. California Administrative Code Title 14 section 15045

IT IS RECOMMENDED THAT THE COMMISSION:

1. Find that these activities are exempt from the requirements of CEQA pursuant to Title 14 California Code of Regulations 15060(c)(3) because these activities are not projects as defined by Public Resources Code section 21065 and Title 14 California Code Regulations 15378.
2. Find that the services contracted for are not available within civil service, cannot be performed satisfactorily by civil service employees, or are of such a highly specialized or technical nature that the necessary expert knowledge, experience, and ability are not available through the civil service system, as specified in Government Code section 19139(b)(3).
3. Authorize the Executive Officer or his designee to solicit proposals, award and execute contracts for royalty and expense evaluation and audit services in accordance with State policies and procedures.