



R-20

OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

July 8, 2008

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Authorize the City Manager to execute a contract with Grobstein, Horwath, & Company, LLP to conduct a review of revenues, expenses, and procedures of Tidelands Oil Production Company under its agreement with the City of Long Beach in an amount not to exceed \$175,000.

DISCUSSION

The City of Long Beach, as a Unit Operator, manages the Wilmington Oil Field on behalf of the working interest owners. The Long Beach Gas and Oil Department contracts with the Tidelands Oil Production Company (Tidelands Oil) to operate the part of the field known as the "West Wilmington Oil Field," which covers the geographic area around the Port of Long Beach. (See attachment.) In order to ensure that the City is recovering all appropriate revenues from this relationship, the City Auditor's Office has initiated a review of the contract to ensure proper compliance with all relevant terms.

During the Spring of 2008, the City Auditor's Office issued a Request for Proposal for a review of Tidelands Oil's compliance with the West Wilmington Oil Field agreements. Five firms submitted proposals, which were considered by a selection committee comprised of representatives from the City Auditor's Office, the Long Beach Gas and Oil Department, and the Harbor Department. A consortium of firms led by Grobstein, Horwath, & Company, LLP (Grobstein) was selected. This consortium has significant relevant experience for this engagement, including contract compliance work, public sector accounting, and audit work in the oil industry.

Grobstein will be paid on an hourly basis, not to exceed \$175,000 including all expenses. Long Beach Gas & Oil will charge Tidelands Oil directly for all contract costs. These expenses, and any recoveries generated by this audit, will then be apportioned to the working interest owners, such as the City (including the Harbor Department) and the State of California, in proportion to their interests.

TIMING CONSIDERATIONS

City Council action is requested on July 8, 2008, in order to allow sufficient time for the planning and execution of this review.

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FISCAL IMPACT

Tidelands Oil will reimburse the City for all the costs for this contract. These costs, and any recoveries made as a result of this audit, will ultimately be shared by all of the working interest owners of the fault blocks, such as the City (including the Harbor Department) and the State of California.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

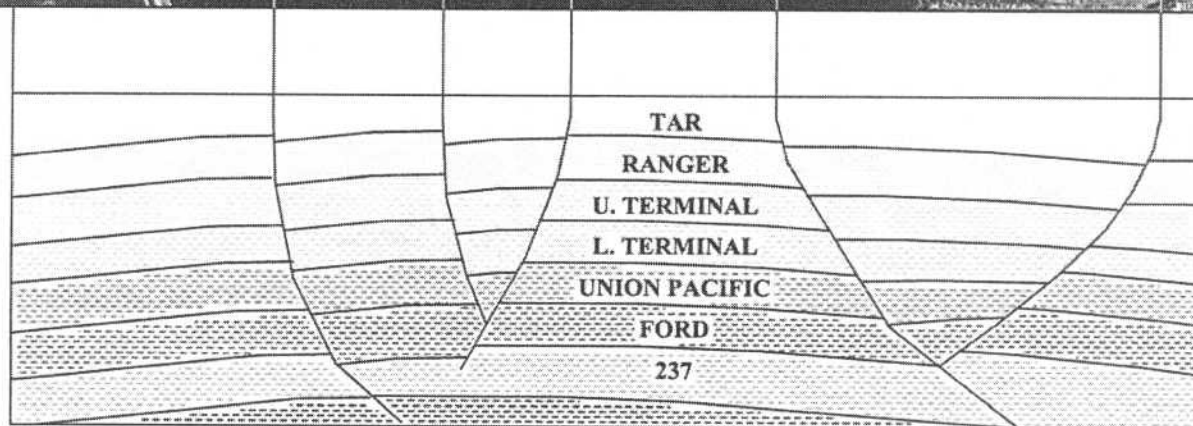
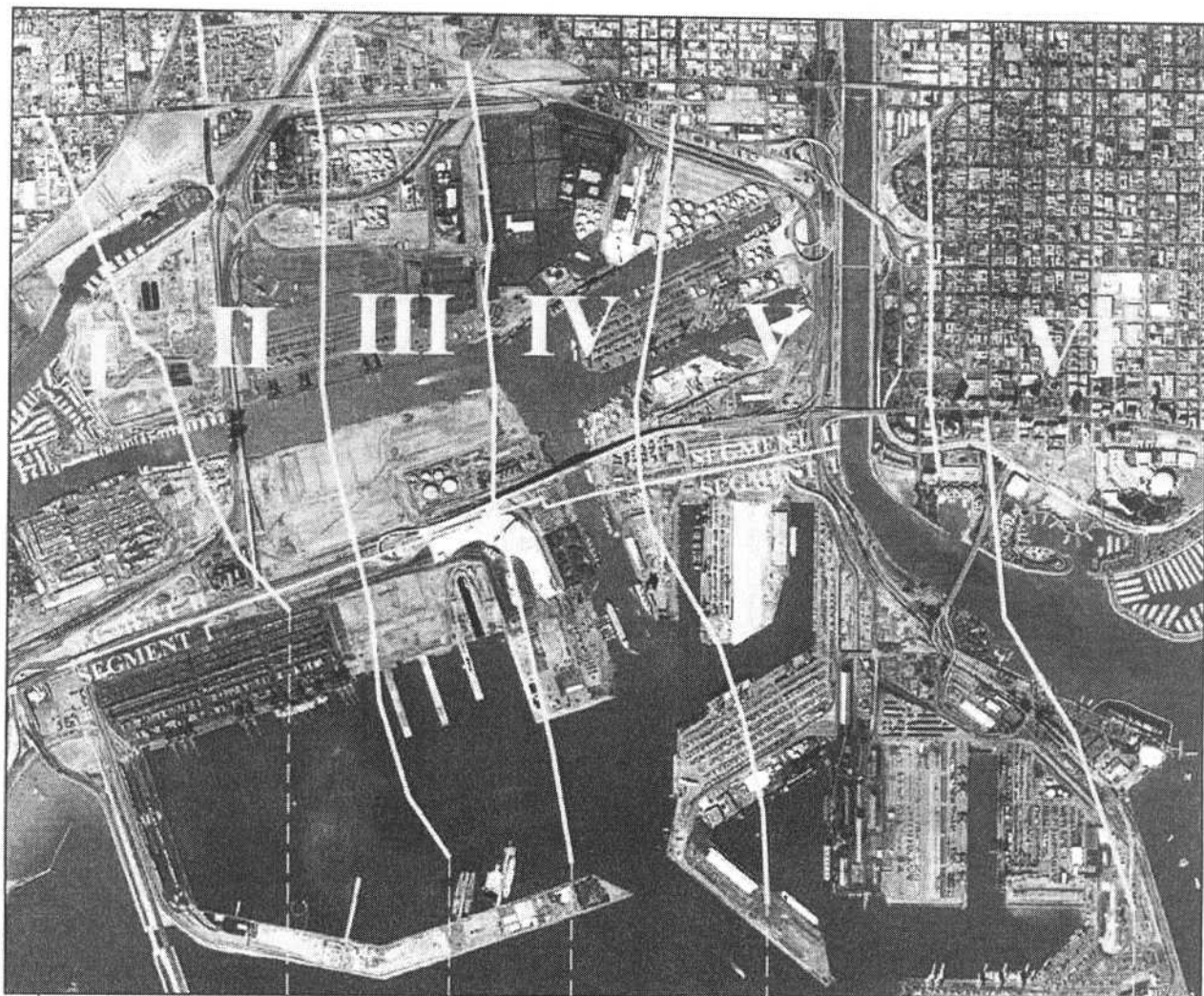
A handwritten signature in black ink, reading "Laura L. Doud". The signature is written in a cursive, flowing style.

LAURA L. DOUD
CITY AUDITOR

Attachment

LLD:JJ:nb

WEST WILMINGTON FIELD DIVIDED BY FAULT BLOCKS & SEGMENTS



Tidelands
OIL PRODUCTION COMPANY