

CITY AUDITOR

The mission of the City Auditor's Office is to:

- *Promote transparency, accountability and efficiency in City operations.*
- *Provide independent assurance that public funds are spent appropriately and effectively.*
- *Prevent fraud, waste, and abuse of City resources.*

Department Goals

Goal 1 Promote transparency, accountability and efficiency in City operations.

- A. Apply professional audit services including:
 - 1. Financial Audits
 - 2. Operational Audits
 - 3. Revenue Audits
 - 4. Contract Reviews
 - 5. Lease Reviews
 - 6. Internal Control Reviews
 - 7. Fraud Investigations
 - 8. Economic Analysis of significant transactions and business deals
- B. Perform Annual Financial Audits and Federal Single Audit
- C. Verify City's cash and investments as required by City Charter
 - 1. Verify the City's cash and investments once each quarter in a timely manner.
 - 2. Test invested assets to determine compliance with the City's current Investment Policy and other applicable Government Code restrictions.
- D. Open communication with the public
 - 1. Communicate findings of audits in a clear, concise and understandable format for distribution to residents of the City and/or other stakeholders.
 - 2. Ensure there are mechanisms within the Office whereby resident complaints and issues can be handled appropriately and in a timely manner.
 - 3. Actively promote a fraud hotline, allowing City employees, residents and others to anonymously provide tips and other information to assist in detecting and preventing fraud, abuse and government waste.

Goal 2 Provide independent assurance that public funds are spent appropriately and effectively.

- 1. Audit all pending payment vouchers and wire transfers for compliance with applicable statutes, City policies and regulations, lease agreements and any and all applicable contractual provisions.
- 2. Strive to provide next day approval on all payment vouchers submitted.

Goal 3 Prevent fraud, waste and abuse of City resources.

- A. Reduce fraud, waste and abuse of Long Beach City resources by providing easy confidential reporting means for employees, vendors and citizens.
 - 1. Provide live, independent interviewers for interested parties to report fraud, waste and abuse against the City 24 hours a day, seven days a week.
 - 2. Facilitate direct reporting to the Office of the City Auditor of fraud, waste and abuse of City resources via telephone, mail, fax, email and courier service.
 - 3. Review and take appropriate action on each reported incident.

Fiscal Year 2009 Accomplishments

For over 100 years, the residents of Long Beach have entrusted the City Auditor to provide independent assurance that City-controlled public funds are well-managed, spent prudently and as intended, providing the expected services, and are recorded and reported accurately.

The Long Beach City Charter defines the responsibilities of the City Auditor, and during FY 09 the City Auditor's Office complied with all Charter and Municipal Code mandates.

Peer Review

In FY 09, the Long Beach City Auditor's Office underwent a peer review, and this independent audit determined that the Office has achieved the highest standards of performance in the profession. This was the first peer review the Long Beach City Auditor's Office ever conducted.

Government Auditing Standards guide local government auditors nationwide and are issued by the Comptroller General of the United States, the official auditor of the U.S. Congress. Since 1988, audit organizations following these Standards are required to undergo a peer review every three years. The audit found that the Office's internal operations are in full compliance with Standards to ensure that work of the Office is reliable and credible.

Audits or Reports Issued in FY 09:

During FY 09, the City Auditor conducted performance audits in accordance with Generally Accepted Government Auditing Standards (GAGAS). GAGAS is a high level of professional standards and is also the industry benchmark for government audit organizations. The City Auditor also provides professional services that do not involve a GAGAS audit, such as investigations of alleged fraud and analyzing emerging issues.

Queen Mary Capital Improvements Audit

The purpose of this audit was to ensure that operators of the Queen Mary completed certain capital improvements required under its agreement with the City. The audit found that Save the Queen (STQ) completed \$2,039,000 of \$2,800,000 in capital improvements required through their first benchmark date of December 31, 2008. This audit served as a warning that Save the Queen has fallen behind in its obligation to improve the ship. The City Auditor is scheduled to revisit this issue again after the next benchmark date, December 31, 2009.

Queen Mary Inventory Audit

The City Auditor's Office conducted an audit of City-owned fixed assets on the Queen Mary in response to a request by the City Attorney. Several recommendations were made, one of which addressed the need for policies and procedures to protect all City-owned assets that are under management by third party administrators under lease and operating agreements. City management concurred with the City Auditor's recommendations to implement Administrative Regulation changes that will protect City-owned assets on the Queen Mary as well as at other City-owned venues operated by third parties.

Cost Benefit Analysis of LB/LCW Partners Land Exchange

The City Auditor provided the Mayor and City Council with a concise description of costs, benefits, and risks to assist in their decisions related to this complex land exchange issue.

Independent Analysis of Citywide General Fund Budget Process, Fiscal Year 2009

The objective of this report was to provide greater transparency to the City's budget process, to provide objective analysis to assist the Mayor and City Council in considering future budgets, and to assist the taxpayers in understanding how the elected representatives allocate funds on their behalf.

Fiscal Year 2009 Accomplishments

Long Beach Development Services Cashiering Audit

The audit reviewed the internal controls over cashiering operations of this department (formerly known as the Planning and Building Department), which processed 21,789 transactions during FY 07 totaling \$26.3 million in revenue, of which approximately \$718,000 was in cash.

Audit of Proposition H Revenues and Expenditures

The City Auditor performed the second annual audit of Proposition H revenues and expenditures to ensure that funds remitted by the oil producers are properly calculated and are being used properly.

Background:

In 2007 the City Auditor collaborated with the Mayor, City Councilmembers, and City Departments to help educate voters on the importance of a fee adjustment to the existing oil tax that was well below market rate. The incremental revenues resulting from the rate increase have been allocated for Public Safety without creating additional cost to taxpayers. Over 70 percent of Long Beach voters approved Proposition H, an unprecedented approval of a tax measure in Long Beach.

Prop H Oil Tax results:

- During FY 08 the city received a total of \$3,677,000 of Prop H special tax revenue for the first full year of implementation.

Purchasing Card Audit

Since 2002, the City has issued MasterCard credit cards to departments to provide a more convenient and efficient method for employees to purchase business-related goods directly from suppliers without the need of a purchase order.

The audit found several internal controls that should be improved. For example, we found non-compliance with policies which has the potential to cause significant financial losses in a program with so much activity. In one seven month period cardholders made 6,800 P-Card transactions totaling approximately \$1,214,570.

Custodial Services Analysis, March 2009

The Office analyzed the costs of contracted custodial services and verified that there would be significantly lower cost to the City than if the same level of service were to be performed by City employees. This audit was conducted to comply with the City Charter, which requires such a finding when services are contracted.

Article 9 (b) and (c) of the Contractor's Agreement 2007

The City of Long Beach is the Unit Operator of the Long Beach Unit (LBU), Wilmington Oil Field. In 1965, the City entered into a Contractor's Agreement for the day-to-day operations of the LBU. Article 9 of the Contractor's Agreement establishes the methods of valuation of oil allocated to the field contractor and non-operating contractors.

The records of each contractor are audited annually to ensure that the valuation of oil is determined in accordance with provisions of Article 9 of the Agreement.

As a result of the audits total adjustments for calendar years 2006 and 2007 were \$11,860,068 and \$13,604,319, respectively; these adjustments were realized in 2008 and 2009 and yielded \$573,351 (2006) and \$1,099,192 (2007) in revenue to the City.

Fiscal Year 2009 Accomplishments

Quarterly Audits of Cash and Investments as of December 31, 2007, March 31, 2008, June 30, 2008, September 30, 2008, and December 31, 2008

The City Auditor is required by City Charter to verify the cash in the City Treasury at least once a quarter and make a written report to the City Council. In FY 09, the four quarterly cash and investment examination reports for the quarters noted above were completed and filed with the City Council.

3rd and 4th Quarter FY 2008 Investment Audit

This audit was initiated by the economic events of 2008, specifically, the Lehman Brothers bankruptcy that resulted in a \$20 million loss of City investments. The audit focused solely on the City's pooled investment activities for two quarters ending September 30, 2008. We found the City to be in compliance with the California Government Code and the City's Investment Policy.

Gann Appropriations Limit Letter, Fiscal Year Ended September 2008

In order to increase the accountability of local governments in adopting their Gann Appropriations Limits, California voters approved Proposition 111 in June 1990. Proposition 111 requires the annual calculation of the Gann Limit be reviewed as part of the annual financial audits. To comply with this requirement, during FY 2009, the City Auditor's Office performed agreed upon procedures to the Appropriations Limit Worksheet of the City of Long Beach, California for the year ended September 30, 2008.

Audits and projects in progress:

Several projects in 2009 remain in progress:

- Federal Stimulus Funds Monitoring
- Towing Operations Cash Handling Procedures Audit
- Technology Services Inventory Control Audit
- Parks Recreation and Marine Bid Process Audit
- El Dorado East Regional Park Cash Controls Audit
- Tidelands Oil Production Company Review
- Utility Users Tax Review
- Gas Franchise Fee Audit
- Reverse Sales Tax Review
- Transient Occupancy Tax Collections Review
- Long Beach Towne Center Lease/ Vestar Audit
- Joe's Crab Shack Audit
- Duplicate Payments Review
- Billings & Collections Audit
- 2nd Quarter 2009 Cash & Investments Fiscal Year 2009 as of March 31, 2009

Ordinances, ballot measures and new contract agreements now often include language that assures the public that the City Auditor will be involved in oversight or review. These responsibilities, some mandated, some agreed upon, are in addition to activities required by the City Charter.

Examples are:

- Prop H – Oil Production Tax adjustment benefiting Long Beach Public Safety; annual audit of reviews and expenditures required
- Measure G – Utility Users Tax Update; annual audit of utility taxes received required
- Prop L – Analysis required of contracts for work usually performed by City employees
- Long Beach Municipal Code 3.64 – Authorizes the City to levy Transient Occupancy Tax (TOT) on individuals who occupy a hotel/motel room in Long Beach for a period of 30 days or less.

Fiscal Year 2009 Accomplishments

Audit Follow-up

Audit reports often contain recommendations and a request that the City Auditor be provided an update on the status of the recommendation. In some instances, follow-up activity can span several months or even years to ensure appropriate action is taken.

Long Beach Police Efficiency Study

The City Auditor monitored the adoption of FY 07 recommendations of the Long Beach Police Efficiency Study and has continued to work with the Police Department on implementation of the audit recommendations during FY 09.

The FY 07 Study focused on twelve initiatives, which were in four categories: Civilianization, Redeployment, Technology Upgrades and Fine Enforcement.

As a result of recommendations of this Office and action by City Management and the Police Department, overtime has been reduced by \$6 million.

During FY 08 the City Auditor's Office pursued one of the revenue generating recommendations of the audit:

- Wheel Locks and Towing
 1. The audit recommended the use of wheel clamps as a way to better enforce parking regulations and increase revenues to the City.
 2. The City Auditor met with the Public Works Department to discuss implementation of this proposal. A pilot program began in June 2009, and the City Auditor's Office will continue to work with the Public Works Department to assess this program and to improve the City's enforcement efforts.

Other FY 09 Accomplishments:

National Award for the Museum of Art Audit

City Auditor Doud received a 2008 Knighton Award from the Association of Local Government Auditors (ALGA) for the Long Beach Museum of Art Capital Campaign Audit. This prestigious national award from ALGA represents 400 local government audit organizations. Audits are evaluated using selected criteria including the potential for significant impact, focus and recommendations on effective government, and clarity of communication style.

Disbursements

As required by City Charter, the City Auditor reviews all disbursements of City funds. The Office of the City Auditor is also responsible for final approval of the City's wire transfers.

FY 09 Disbursements Activity:

- Number of checks reviewed: 46,858
- Value of checks reviewed: \$642,333, 832
- Number of checks withheld: 1,008
- Value of checks withheld: \$10,430,427
- Number of wire transfers authorized: 1,103
- Value of wire transfers authorized: \$2,595,020,218

In accordance with the City Charter, the City Auditor signs each check that the City issues, including vendor payments, workers' compensation claims and employee payroll checks.

Fiscal Year 2009 Accomplishments

Each disbursement is reviewed to ensure payments are appropriate, timely, authorized, and documented. If there is an issue with a requested disbursement, payment is withheld until the issue is resolved.

No checks or wire transfers may leave the City without the express authorization of the Office of the City Auditor.

Wage Garnishments

The Office of the City Auditor administers all wage garnishments of City employees. During FY 09 the Office managed approximately 300 active garnishment files for City employees. Garnishment payments total between \$80,000 and \$97,000 each payroll period. Additionally the Office maintains files for 1,000 inactive cases.

The process is complex because each garnishment has unique regulations regarding collection and payment of monies processed. Currently, the Office of the City Auditor manages accounts for over 15 agencies including the U.S. Department of Education, California Franchise Tax Board, United States Internal Revenue Service and Los Angeles County Sheriff's Department.

The City Auditor's Office staff performs all duties related to wage garnishment including review of garnishments each pay period. Staff complies with appropriate continuing education to ensure that all new laws, rules and regulations are being observed.

CAFR Coordination

The Office of the City Auditor coordinates the City's annual financial audit to ensure that the Comprehensive Annual Financial Report and Component Unit Reports are issued in a timely manner. The Office of the City Auditor also coordinates the City's annual Single Audit to comply with federal regulations.

Fraud Hotline

Revitalization of the City Auditor's Fraud Hotline continued in FY 09. As a Certified Fraud Examiner, the City Auditor knows the importance of providing a system to report fraud against the City easily and confidentially.

Appropriate follow-up measures are implemented for each Fraud Hotline report. Currently the 24-hour, 7 day-a-week Hotline is receiving approximately 60 calls annually that pertain to allegations of fraud, waste, or abuse against the City. The volume of calls is expected to increase as awareness of the service increases.

During FY 09, the City Auditor's Office initiated an education campaign that included distribution of information brochures to over 6,000 employees and posting of Fraud Hotline Posters throughout City buildings. The City Auditor informed the public of the Fraud Hotline at numerous community meetings and through various media outlets.

American Recovery and Reinvestment Act (ARRA) and Fraud Risk

All projects using federal Stimulus funds, a new infusion of federal money provided by ARRA, will be subject to the City's current policies of financial oversight as outlined in the City Auditor's Statement of Controls to ensure that funds are spent appropriately.

In an effort to provide independent assurance that public funds are spent appropriately and effectively and to prevent fraud, waste and abuse of City resources, the Office of the City Auditor will be reviewing projects using Stimulus dollars to ensure compliance with federal Single Audit or other funding guidelines and requirements.

Fiscal Year 2009 Accomplishments

Stimulus funds have been designated by California's State Auditor as an area of high risk for waste and fraud.

This is due to:

1. The immense amount of money coming in from federal grants,
2. The limited amount of time to spend the money; and
3. Numerous new and complex reporting requirements.

Failure to comply with these ARRA Guidelines puts the City at risk for losing existing funding or having to return money already spent.

Whistleblower Protection Legislation

Governor Schwarzenegger signed into law "whistleblower" protection legislation that was advocated by City Auditor Doud. This followed testimony by the City Auditor before the California State Assembly Committee on Local Government and also the California Senate Committee on Local Government in support of Whistleblower legislation.

This law made whistleblower protections explicit so that residents of all cities in California could be assured that their identities would be confidential when reporting fraud.

Website

In FY 09, improvements continued on the City Auditor's website to provide easily accessible information to the public. All audit reports are available online on this nationally recognized website and are posted in a timely manner. The City Auditor's website, www.CityAuditorLauraDoud.com provides transparency and usable information to the citizens of Long Beach.

Opportunities & Challenges

Opportunities

- The City Auditor's Office is charged by the public with being an independent steward over City finances, functions and operations. This charge provides a unique opportunity to conduct audit services that will be the impetus for a better, stronger and more efficient local government.

Challenges

- To provide responsive and efficient auditing services to a broad array of City departments and related organizations and to communicate the findings of the Office to the residents of Long Beach and other stakeholders in a straightforward and transparent manner. The Office will maintain our independence in order to ensure fair, appropriate and necessary findings and recommendations.

Notes

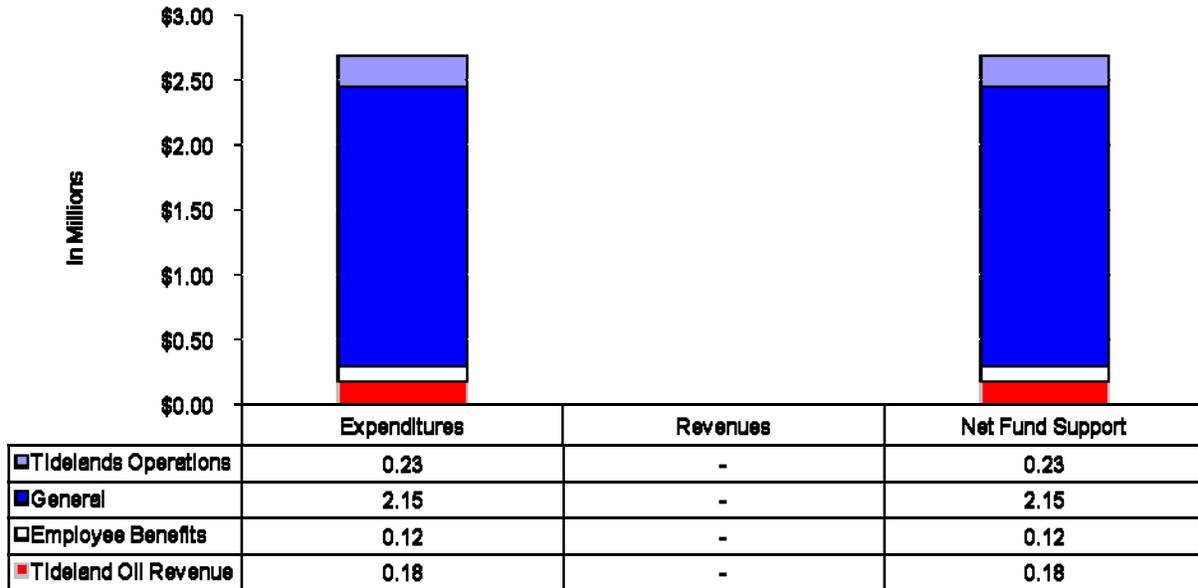
- The City Auditor is directly elected and accountable to the residents of Long Beach. All audits are conducted based on the professional judgment of the City Auditor and her staff in accordance with Generally Accepted Government Auditing Standards, other applicable statutes and industry regulations.

Please visit the City Auditor's website for updates and further information at:

www.CityAuditorLauraDoud.com.

Summary by Character of Expense

Adopted* FY 10 Budget by Fund



	Actual FY 08	Adopted* FY 09	Adjusted FY 09	Year End** FY 09	Adopted* FY 10
Expenditures:					
Salaries, Wages and Benefits	2,021,861	2,365,273	2,327,844	2,106,225	2,217,902
Materials, Supplies and Services	490,883	340,304	378,860	279,027	340,304
Internal Support	178,458	114,473	114,473	88,765	120,620
Capital Purchases	-	-	-	519	-
Debt Service	-	-	-	-	-
Transfers to Other Funds	(69,152)	-	-	(39,607)	-
Prior Year Encumbrance	-	-	-	-	-
Total Expenditures	2,622,048	2,820,050	2,821,176	2,434,928	2,678,826
Revenues:					
Property Taxes	-	-	-	-	-
Other Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Use of Money & Property	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Charges for Services	-	-	-	-	-
Other Revenues	400	-	-	6,991	-
Interfund Services - Charges	-	-	-	-	-
Intrafund Services - GP Charges	-	-	-	-	-
Harbor P/R Revenue Transfers	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Operating Transfers	-	-	-	-	-
Total Revenues	400	-	-	6,991	-
Personnel (Full-time Equivalents)	20.00	20.00	20.00	20.00	20.00

* Amounts exclude all-years carryover. See budget ordinance in the front section of this book.

**Unaudited

Personal Services

Classification	FY 08 Adopt FTE	FY 09 Adopt FTE	FY 10 Adopt FTE	FY 09 Adopted Budget	FY 10 Adopted Budget*
City Auditor	1.00	1.00	1.00	181,733	181,733
Assistant City Auditor	1.00	1.00	1.00	145,060	155,214
Audit Analyst	3.00	3.00	3.00	190,038	193,817
Audit Manager	3.00	3.00	3.00	273,256	278,721
Deputy City Auditor	4.00	4.00	4.00	460,371	482,044
Executive Assistant	2.00	1.00	1.00	67,394	69,445
Senior Auditor	4.00	4.00	4.00	277,917	285,563
Staff Auditor	2.00	3.00	3.00	143,927	157,909
Subtotal Salaries	----- 20.00	----- 20.00	----- 20.00	----- 1,739,696	----- 1,804,446
Overtime	---	---	---	---	---
Fringe Benefits	---	---	---	749,303	769,118
Administrative Overhead	---	---	---	46,488	49,270
Attrition/Salary Savings	---	---	---	(170,214)	(301,341)
Furlough Savings	---	---	---	---	(103,591)
Total	----- 20.00	----- 20.00	----- 20.00	----- 2,365,273	----- 2,217,902

*Reflects changes in compensation due to prior fiscal year adjustments, new hires or promotions not known prior to the adoption of the FY 09 Budget.

Key Contacts

Laura Doud, CPA, CFE, City Auditor

James Johnson, JD, Assistant City Auditor

Janet Day, CPA, Deputy City Auditor

Danica Rogers, CPA, CIA, CFE, Deputy City Auditor

333 West Ocean Boulevard, 8th Floor
Long Beach, CA 90802
Phone: (562) 570-6767
Fax: (562) 570-6167

Fraud Hotline: 888-Fraud 07 (888-372-8307)
www.CityAuditorLauraDoud.com