

# 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

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## **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.**

- A. 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.
- B. Strive to provide next day approval on all payment vouchers submitted.

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

- A. Provide easy confidential process for employees, vendors and citizens to report misuse of City resources.
  - 1. Provide live, independent interviewers 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.
- B. Monitor high risk American Recovery and Reinvestment Act (Recovery Act) funding. Place priority on disclosure of fraud, theft or misconduct regarding Recovery Act funding.

## Fiscal Year 2010 Accomplishments

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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 10 the City Auditor's Office complied with all Charter and Municipal Code mandates.

### **Audits or Reports Issued in FY 10:**

During FY 10, the City Auditor conducted performance audits and attestation engagements in accordance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, the official auditor of the U.S. Congress. GAGAS is the industry benchmark for government audit organizations. The City Council and the public were assured that the Long Beach City Auditor's Office is meeting these standards when, in FY 09 the Office underwent an independent peer review, which determined that the Office has achieved the highest standards of performance in the profession.

The City Auditor also provides professional services that are non-GAGAS audits, such as investigations of alleged fraud and analyzing emerging issues.

- \* Denotes GAGAS Audit
- \*\* Denotes non-GAGAS Audit

#### **Port of Long Beach Clean Trucks Lottery Report \***

The Office of the City Auditor performed specific procedures, to assist Port of Long Beach management in determining whether applicants for Round Three of the Clean Trucks Program met the POLB established application criteria.

#### **Towing Operations and Cash Handling Procedures Audit \***

At the request of Towing Operations management, the City Auditor conducted an audit of the cash handling procedures of Towing Operations. Serious internal control weaknesses were found, such as deficient software and a lack of separation of duties. High-risk issues were communicated to management as they were identified, enabling management to begin corrective procedures immediately. Management has made plans for further implementation of other recommendations by the City Auditor.

#### **Parks, Recreation & Marine Purchasing and Competitive Bidding Process Audit Report \***

The purpose of this audit was to determine whether the Department's competitive bidding process was in compliance with City policies and procedures and conducted in an effective and efficient manner. Our audit identified the need for written policies and procedures to formalize the bidding process as well as regular training to ensure that standard bidding practices are followed.

#### **Gas Franchise Fee Audit \*\***

Since 1956, the City has granted access to city-owned utility easements and/or pipelines to the Southern California Gas Company (SoCalGas) in exchange for a franchise fee outlined in a City Ordinance managed by the Long Beach Gas & Oil Department. The audit found that the \$18.6 million in franchise fee payments for calendar years 2007 and 2008 were accurate, supported by underlying records, and adhered to applicable provisions of the Ordinance. The audit also recommended that the City require additional data from SoCal Gas on a regular basis to ensure amounts paid under the Ordinance are accurate.

#### **Technology Services Department (TSD) Inventory Control Audit \***

The City Auditor performed an audit of the inventory controls in the TSD Department Customer Services Bureau. The purpose of the audit was to determine whether internal controls over inventory in the department were in place and adequate to ensure that City assets are properly safeguarded. As a result of the audit, we identified internal control weaknesses that need to be strengthened to ensure the City assets are properly accounted for and safeguarded.

## Fiscal Year 2010 Accomplishments

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### **Internal Controls Over Stimulus Funds Report \***

This is the first report the City Auditor issued related to the American Recovery and Reinvestment Act (Recovery Act). The objective of our audit was to provide a preliminary assessment of the City's internal controls addressing the accountability and transparency requirements of the Recovery Act. We found that the City is making appropriate progress toward establishing the necessary additional internal controls. However, we identified issues that could impact the City's budget or affect the City's readiness for Recovery Act funding.

### **Quarterly Audits of Cash and Investments as of December 31, 2008, March 31, 2009, June 30, 2009, September 30, 2009, December 31, 2009 and March 31, 2010\***

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 10, the quarterly cash and investment examination reports for the quarters noted above were completed and filed with the City Council.

### **Transient Occupancy Tax Reviews 2009 and 2010\*\***

Long Beach Municipal Code section 3.64 authorizes the City to levy transient occupancy taxes (TOT) on individuals who occupy a hotel/motel room in Long Beach for a period of 30 days or less. TOT is collected by the hotel/motel operator and remitted to the City monthly. The City Auditor monitors a program that performs TOT reviews of all hotels/motels in the City within a three-year period. Each hotel is reviewed at least once every three years and the eight largest hotels are reviewed annually. The TOT reviews completed in FY 2009 and FY 2010 resulted in an additional \$99,970 and \$8,624, respectively in TOT revenue to the City.

### **Audit of Proposition H Revenues and Expenditures\***

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 additional cost to taxpayers. Over 70 percent of Long Beach voters approved Proposition H, an unprecedented approval of a tax measure in Long Beach. The City Auditor performed the third 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. For FY 09 the City received a total of \$3,534,806 of Prop H special tax revenue. Of interest, from June 1, 2007 through December 31, 2009, quarterly oil production in Long Beach has declined 9.5%, thereby reducing the amount of special oil tax revenues to the City.

### **Article 9 (b) and (c) of the Contractor's Agreement 2008\*\***

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, additional revenue of \$1,099,192 and \$1,456,410 for 2009 and 2010 respectively was paid to the City.

### **Gann Appropriations Limit Letter, Fiscal Year Ended September 2009\***

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 2010, 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, 2009.

## Fiscal Year 2010 Accomplishments

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### **California Sales and Use Tax Review\*\***

To ensure the City is not overpaying sales and use tax and to recover any overpayments made, the Office of the City Auditor engaged the services of state and local tax experts Downey Smith & Fier to perform a review of the City's sales and use tax payments.

Overall, the City is appropriately paying and accruing the correct amount of sales and use tax. However, the review found that the City overpaid tax for certain purchases. As a result of the review, the City received a tax refund in FY 2010 of \$134,097 which was allocated to various funds.

### **Harbor Department Transfer Analysis\*\***

In response to a Special City Council Session regarding concerns over the future stability of the City's Tidelands Operating Fund (TOF), the Office of the City Auditor (OCA) conducted an analysis of the Harbor Department's annual transfer to the TOF.

The purpose of our analysis was to:

1. Provide clarity regarding the revenues and expenses used to determine change in net assets on which the annual transfer is based, and
2. Identify alternative solutions to meet the lawful obligations of the Tidelands Operating Fund without an amendment to the City Charter.

As a result, the Board of Harbor Commissioners agreed to:

1. Approve the annual transfer for the total amount of \$12,423,706 based on the Fiscal Year 2009 Audited Financial Statements;
2. Approve the annual transfer on October 1, 2010 based on 80% of the Harbor's unaudited change in net assets as of September 30, 2010, with the remaining 20% to be transferred upon issuance of the Harbor's Fiscal Year 2010 audited financial statements.

In addition, a charter amendment (Proposition D) approved by voters in November 2010, requires the Harbor Department to calculate the transfer to the Tidelands Fund as 5% of Gross Operating Revenues. This proposition eliminates varying interpretations of net assets.

### **Queen Mary Capital Improvements Audit Phase II\***

The purpose of this audit was to ensure that capital improvements were made in compliance with the Queen Mary's City Agreement during the period of January 1, 2009 through March 31, 2010, which includes determining if operator Save the Queen performed the required \$4,300,000 in approved capital expenditures.

Our audit found that STQ completed an aggregate amount of \$3,983,000 of the required \$4,300,000 in capital improvements by March 31, 2010; resulting in a shortfall of \$317,000. In addition, STQ performed certain improvements that deviated from the Approved Capital Plan; however, City approval was sought.

Although total aggregate capital expenditures are \$317,000 less than their \$4,300,000 obligation under the agreement, STQ continues to make significant progress towards implementing renovations that clearly improve the visitors' experience and contribute to the preservation of the Queen Mary.

### **El Dorado East Regional Park Follow-Up\***

This was a follow-up audit of cash controls over El Dorado East Regional Park gate entrance fees. Its purpose was to determine the adequacy, effectiveness, and timeliness of actions taken by management to address the findings of the prior audit report of February 9, 2005. Additionally, we examined the Park's current internal controls over its collection process and deposit of entrance fee revenues.

Our audit found several problem areas reported in the 2005 audit report that were not corrected. As a result, serious control weaknesses remain, creating a high risk of potential fraud and jeopardizing

## Fiscal Year 2010 Accomplishments

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revenue. We presented the Department with the audit results and have requested a 90-day update on their efforts to improve controls and reduce the risk of theft.

### **American Golf Follow-Up on Minimum Rent Adjustment\*\***

We performed follow-up procedures to an audit conducted in 2006 of Lease #17748 between the City and American Golf Corporation (AGC). The audit recommended the City immediately exercise its right to adjust minimum rent, pursuant to the Lease, effective July 1, 2005. However, our follow-up procedures indicated management did not adjust rent nor assess interest on late payments. We recommended management immediately notify AGC of the adjustment in minimum monthly rent effective July 1, 2009 to require the full minimum rent be paid on the 1<sup>st</sup> day of each month, assessing interest on late payments when appropriate.

### **Audits and projects in progress:**

Several projects in 2010 remain in progress:

- 4<sup>th</sup> Quarter 2010 Cash and Investments
- Animal Care Services Revenue Audit
- ARRA Neighborhood Stabilization Grant Audit
- Audit of Proposition H Revenues & Expenditures FY 2010
- Belmont Brewing Company Lease Agreement
- Billing and Collections Section Audit
- Duplicate Payments Analysis
- Health Department Stimulus Funds Audit
- Marine Bureau Audit
- Quarterly Audits of Cash & Investments for December 31, 2009 & March 31, 2010
- Towing Follow Up Audit
- Underground Storage Tank Compliance Audit
- Utility Users Tax Review
- Women, Infants & Children Grant Audit

### **Additional Developing Responsibilities of the City Auditor's Office**

Included in the lists above are project responsibilities evolving through ordinances, ballot measures and new contract agreements that now often include language assuring 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.

### **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.

### **Other FY 10 Accomplishments**

#### **Two National Awards Received in FY 10**

In FY 10, The Long Beach City Auditor's Office was awarded the prestigious Knighton Gold Award for the "Towing Operations Cash Handling Procedures Audit Report." This award for excellence is the highest honor given by the Association of Local Government Auditors (ALGA), which represents

## Fiscal Year 2010 Accomplishments

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400 local audit organizations nationwide. Audits performed by local government auditors in the United States and Canada are evaluated using criteria including:

- Potential for significant impact,
- Focus and recommendations on effective and efficient government; and
- Clarity of communication style.

The Knighton Award is one of two prizes for achievement earned by the Office in FY 10. The City Auditor's website, [www.CityAuditorLauraDoud.com](http://www.CityAuditorLauraDoud.com) also earned a Silver Award for its informative content and ease of navigation.

These awards mark the third consecutive year that the Long Beach City Auditor's Office has won national recognition for outstanding work. Previous awards were the 2007 Silver Website Award and a 2008 ALGA award for the Long Beach Museum of Art Audit.

### **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.

Current FY 10 numbers have not been finalized; however, the following FY 09 information illustrates the scope of this work.

- Number of checks reviewed: 49,735
- Value of checks reviewed: \$ 613,727,916
- Number of checks withheld: 1,547
- Value of checks withheld: \$ 8,788,083
- Number of wire transfers authorized: 1,029
- Value of wire transfers authorized: \$ 2,659,404,147

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.

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 City employee wage garnishments. During FY 10 the Office managed over 300 active garnishment files for City employees. Garnishment payments total approximately \$85,000 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. Staff complies with appropriate continuing education to ensure that all new laws, rules and regulations are being observed.

### **Comprehensive Annual Financial Report (CAFR)**

The Office of the City Auditor coordinates the City's annual financial audit to ensure that the CAFR 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.

## Fiscal Year 2010 Accomplishments

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### **Fraud Hotline**

Revitalization of the City Auditor's Fraud Hotline continued in FY10. 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.
- Fraud levels rise.

A 2009 report by the Association of Certified Fraud Examiners found that intense financial pressures caused by the economic downturn have led to an increase of fraud across the country.

### **American Recovery and Reinvestment Act (ARRA) and Fraud Risk**

All projects using federal Stimulus funds, a recent 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 is reviewing projects using Stimulus dollars to ensure compliance with federal Single Audit or other funding guidelines and requirements.

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.

### **Website**

In FY 10, 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](http://www.CityAuditorLauraDoud.com) provides transparency and usable information to the citizens of Long Beach.

# Opportunities and Challenges

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## **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.

## **Significant Issues**

### **Economic Crisis**

The national economic crisis continues to affect local government and threaten services to citizens. Revenue to the City's General Fund is down and costs are going up. The assessed value of property is down, sales tax revenue is down, and hotel occupancy is down, all adversely affecting City revenue.

Once again in FY11 there will be pressure placed on departments to freeze hiring and not fill vacant staff positions. As fewer department personnel take on more responsibility, the risk of costly mistakes rises. In periods of downsizing, risk increases and the need for audits is greater as management typically has fewer resources for internal controls such as segregation of duties and management oversight.

There is also a greater risk of fraud, waste, and abuse of City funds. The Office remains committed to providing independent assurance that public funds are spent responsibly and as intended.

### **Unfunded Pension Liabilities**

As in many other municipalities, Long Beach is facing critical issues of skyrocketing, unsustainable employee pension costs. Immediate pension reform is imperative. The enormity and complexity of these challenges will require participation of every sector of our City government --- management and employees.

The City Auditor's Office is analyzing this complex issue in order to make independent recommendations to the Mayor and City Council for immediate and long-term solutions. This department is dedicated to working with management for change and devising a solution that will ensure continued viability of the City.

## **Notes**

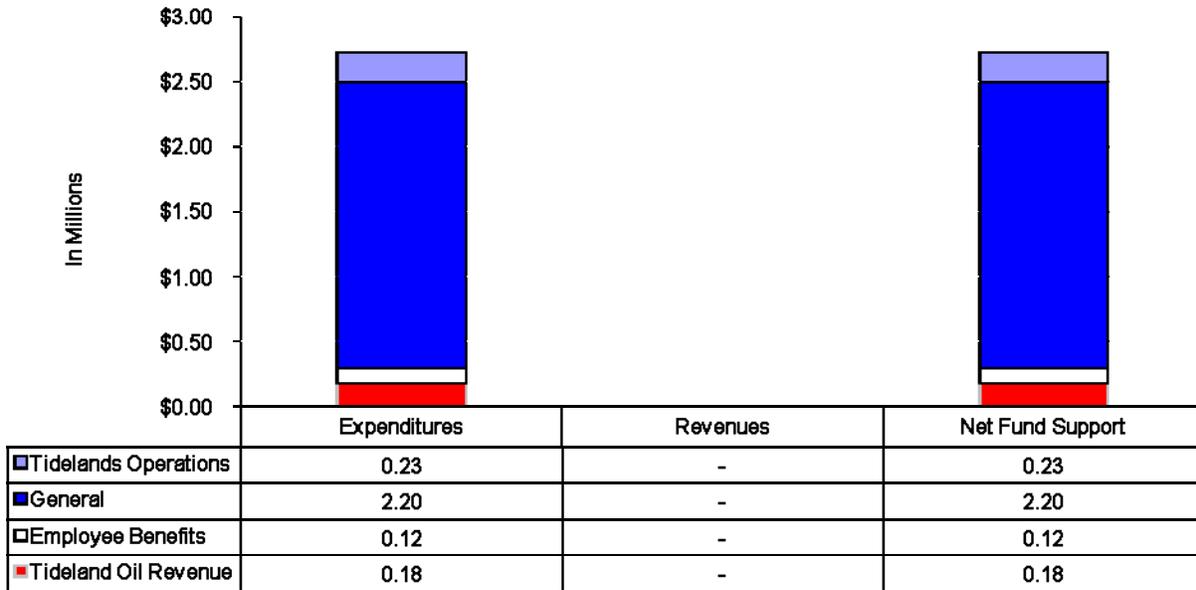
The City Auditor is directly elected and accountable to the residents of Long Beach. All audits are conducted based on the professional judgment of the City Auditor and her staff in accordance with Generally Accepted Government Auditing Standards, other applicable statutes and industry regulations.

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

[www.CityAuditorLauraDoud.com](http://www.CityAuditorLauraDoud.com).

## Summary of Character of Expense

### Adopted\* FY 11 Budget by Fund



	Actual FY 09	Adopted* FY 10	Adjusted FY 10	Year End** FY 10	Adopted* FY 11
<b>Expenditures:</b>					
Salaries, Wages and Benefits	2,106,225	2,217,902	2,321,493	2,207,589	2,277,443
Materials, Supplies and Services	259,015	340,304	360,315	330,215	340,304
Internal Support	88,765	120,620	120,620	102,466	103,195
Capital Purchases	519	-	-	-	-
Debt Service	-	-	-	-	-
Transfers to Other Funds	(39,607)	-	-	(57,250)	-
Prior Year Encumbrance	-	-	-	-	-
<b>Total Expenditures</b>	2,414,916	2,678,826	2,802,427	2,583,019	2,720,942
<b>Revenues:</b>					
Property Taxes	-	-	-	-	-
Other Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Use of Money & Property	-	-	-	2,164	-
Revenue from Other Agencies	-	-	-	-	-
Charges for Services	-	-	-	-	-
Other Revenues	6,991	-	-	29,014	-
Interfund Services - Charges	-	-	-	-	-
Intrafund Services - GP Charges	-	-	-	-	-
Harbor P/R Revenue Transfers	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Operating Transfers	-	-	-	-	-
<b>Total Revenues</b>	6,991	-	-	31,178	-
<b>Personnel (Full-time Equivalents)</b>	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



## Key Contacts

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