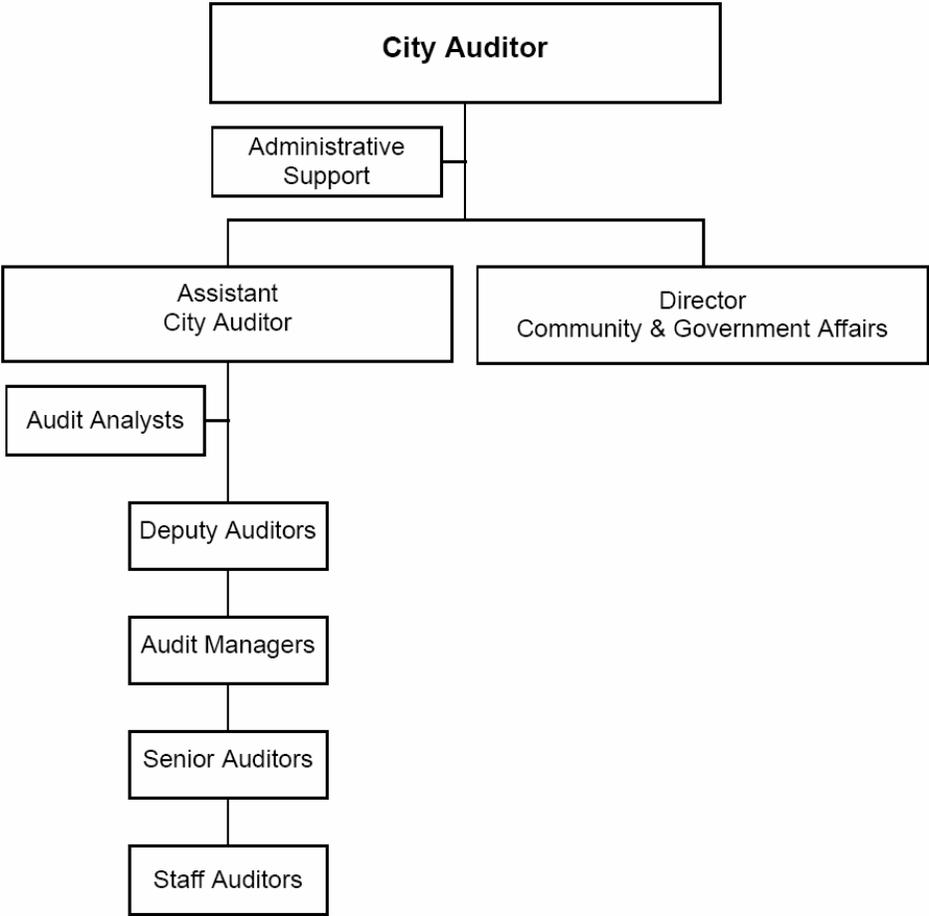


City Auditor



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.

- 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.

Opportunities and Challenges

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

Audits or Reports Issued in FY 11:

During FY 11, 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.

This Office reviewed a wide variety of topics during FY 11. Some of the more significant projects included:

Alamitos Bay Marina Rehabilitation Project Viability

The purpose of this audit was to determine if the Marine Bureau could absorb the anticipated \$90 million in additional debt associated with the Marina Rebuild Project without requiring subsidies from the Tidelands Fund or General Fund. Our audit found that the project financial analysis prepared by Marine Bureau Management was incomplete and lacked critical financial assumptions, making it unclear if the Marina could generate sufficient revenue to repay the debt. As a result of our audit, Management acquired a financial consultant to prepare a more comprehensive financial analysis for each phase of the project. Only those phases in which Marina revenues can cover projected debt payments are allowed to move forward.

Harbor Department Transfer Analysis

In FY 10, in response to a Special City Council Session regarding concerns over the future stability of the City's Tidelands Operating Fund (TOF), we conducted an analysis of the Harbor Department's annual transfer to the TOF. This analysis initiated a series of discussions between the City and Harbor Department and eventually led to a proposed charter amendment (Measure D) to change the calculation method of the transfer. Measure D was approved by voters in November 2010 and requires the Harbor Department to calculate the transfer to the Tidelands Fund as 5% of Gross Operating Revenues instead of 10% of the Increase in Net Assets. Measure D eliminates varying interpretations of net assets and is expected to increase the TOF transfer by approximately \$2 million to \$3 million each year.

Harbor Security Division Dive Team Overtime Review

We initiated a review of the Security Division of the Harbor Department due to the high level of overtime and identification of significant internal control issues surrounding the oversight of Dive Team personnel. The review identified a lack of structure, planning, and effective oversight of the Dive Team, which created inefficiencies resulting in unjustified overtime and underutilization of manpower. New management is now overseeing the Security Division and is actively implementing changes to address our concerns and recommendations.

Opportunities and Challenges

Police Officers Association (POA) MOU

In August 2011, City Council was presented with proposed negotiated changes to the existing MOU between the City and the POA that would reduce the City's portion of future pension contributions to PERS. City Council requested the City Auditor to review costs and savings data prepared by Financial Management. Working with Financial Management, we were able to review the information for reasonableness and identify adjustments needed to more accurately reflect the effect of the potential MOU changes.

Queen Mary Capital Improvements Audit Phase III

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 April 1, 2010 through December 31, 2010, which included determining if operator Save the Queen (STQ) completed the required \$5,300,000 in approved capital expenditures during the three year period of the Agreement. Our audit found that STQ completed an aggregate amount of \$5,524,000 of the required capital improvements by December 31, 2010, exceeding the required amount by \$224,000.

Towing Operations Division Cash Handling Procedures Follow-Up Audit

In 2009, the City Auditor issued a report on significant control problems surrounding the cash handling procedures at the Towing Operations. During FY 11, the City Auditor performed a follow-up audit to determine if management had implemented changes to reduce the risk of fraud and misappropriation of funds. We found weaknesses still existed in the Towing Division's software that allows critical data fields to be altered without supervisory review. These deficiencies continue to expose the Division to potential fraud in their cash operations. Management is currently working with a software consultant to modify the system.

During FY 11, the City Auditor also performed several contract audits to determine if proper rent was paid and all contractual obligations were met. Contracts reviewed included Baja La Palapa Restaurant Group, Inc., Belmont Brewing Company, Long Beach Anglers, Inc., and Reef Restaurant, Inc.

Other work performed included an audit of the City's Billing System and cash controls at El Dorado Park East and Wardlow Parks. Grants compliance audits surrounding the City's Community Development Neighborhood Stabilization Program (ARRA Funding), Lead Hazard Control Program (ARRA Funding), and the Long Beach Woman, Infants and Children (WIC) program were also performed.

The Office also oversaw a number of compliance and required financial reviews such as Quarterly Cash and Investment audits, the City's annual Financial and Single Audits, GANNs Appropriate Limit Letter concerning government allowed spending, financial statements for Los Cerritos Wetlands Authority, Article 9 (b) and (c) dealing with the City's oil agreement, Proposition H oil tax expenditures and revenues, Proposition L study on contracting certain security personnel, and Underground Storage Tank compliance reviews.

Opportunities and Challenges

Audits and projects in progress:

Several projects initiated in FY 2011 remain in progress:

- 3rd Quarter FY 2011 Cash and Investments
- Animal Care Services Revenue Audit
- Audit of Citywide Collection Process
- Belmont Pool Revenue Controls Audit
- El Dorado East Regional Park Follow-Up #2
- Navy Yacht Club Review
- Parks, Recreation and Marine Registration/Reservations Revenue Controls Audit
- Proposition L Towing Oversight
- Queen Mary Revenue Review
- Sports Office Revenue Controls Review
- Terminated Employees 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 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 Accomplishments

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.

The following FY 11 information illustrates the scope of this work.

- Number of checks reviewed: 47,408
- Value of checks reviewed: \$608,207,594
- Number of checks withheld: 998
- Value of checks withheld: \$11,450,210
- Number of wire transfers authorized: 1,048
- Value of wire transfers authorized: \$2,500,585,738

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.

Opportunities and Challenges

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 11 the Office managed over 300 active garnishment files for City employees. Garnishment payments total approximately \$75,000 each payroll period. Additionally the Office maintains files for 1,200 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 stays current with appropriate continuing education to ensure that all new laws, rules and regulations are being observed.

Fraud Hotline

Revitalization of the City Auditor's Fraud Hotline continued in FY 11. 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; and
- Fraud levels rise.

The 2010 Report to the Nation issued 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 and estimates a typical organization loses 5% of its annual revenue to fraud.

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.

Opportunities and Challenges

Website

In FY 11, improvements continued on the City Auditor's website to provide easily accessible information to the public. 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

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 FY12 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 Benefit Liabilities

As in many other municipalities, Long Beach is facing critical issues of skyrocketing, unsustainable employee pension and retiree healthcare 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.

Opportunities and Challenges

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.

Financial Summary by Category

	Actual FY 10	Adopted* FY 11	Adjusted** FY 11	Estimated** FY 11	Adopted* FY 12
Revenues:					
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	29,014	-	-	771	-
Interfund Services - Charges	-	-	-	-	-
Intrafund Services - GP Charges	-	-	-	-	-
Harbor P/R Revenue Transfers	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Operating Transfers	-	-	-	-	-
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Total Revenues	31,178	-	-	771	-
Expenditures:					
Salaries, Wages and Benefits	2,207,589	2,277,443	2,277,443	2,142,446	2,366,308
Overtime	-	-	-	-	-
Materials, Supplies and Services	330,215	340,304	362,214	321,802	165,304
Internal Support	102,466	103,195	103,195	113,062	96,772
Capital Purchases	-	-	-	18,000	-
Debt Service	-	-	-	-	-
Transfers to Other Funds	(57,250)	-	-	(80,854)	-
Prior Year Encumbrance	-	-	-	-	-
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Total Expenditures	2,583,019	2,720,942	2,742,852	2,514,456	2,628,384
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 document.

** Numbers as published in the FY 11 Proposed Budget released August 2, 2011.

Personal Services

Classification	FY 10 Adopt FTE	FY 11 Adopt FTE	FY 12 Adopt FTE	FY 11 Adopted Budget	FY 12 Adopted Budget
City Auditor	1.00	1.00	1.00	185,189	187,596
Assistant City Auditor	1.00	1.00	1.00	155,214	160,066
Audit Analyst	3.00	3.00	3.00	194,689	198,737
Audit Manager	3.00	3.00	3.00	256,939	274,159
Deputy City Auditor	4.00	4.00	4.00	495,459	519,810
Executive Assistant	1.00	1.00	1.00	69,445	70,835
Senior Auditor	4.00	4.00	4.00	280,090	272,493
Staff Auditor	3.00	3.00	3.00	169,811	142,924
Subtotal Salaries	----- 20.00	----- 20.00	----- 20.00	----- 1,806,836	----- 1,826,620
Overtime	---	---	---	---	---
Fringe Benefits	---	---	---	772,394	855,702
Administrative Overhead	---	---	---	50,761	67,439
Attrition/Salary Savings	---	---	---	(330,321)	(383,453)
To Be Negotiated Savings	---	---	---	---	---
Mayoral Veto	---	---	---	(22,226.59)	-
Total	----- 20.00	----- 20.00	----- 20.00	----- 2,277,443	----- 2,366,308

Key Contacts

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