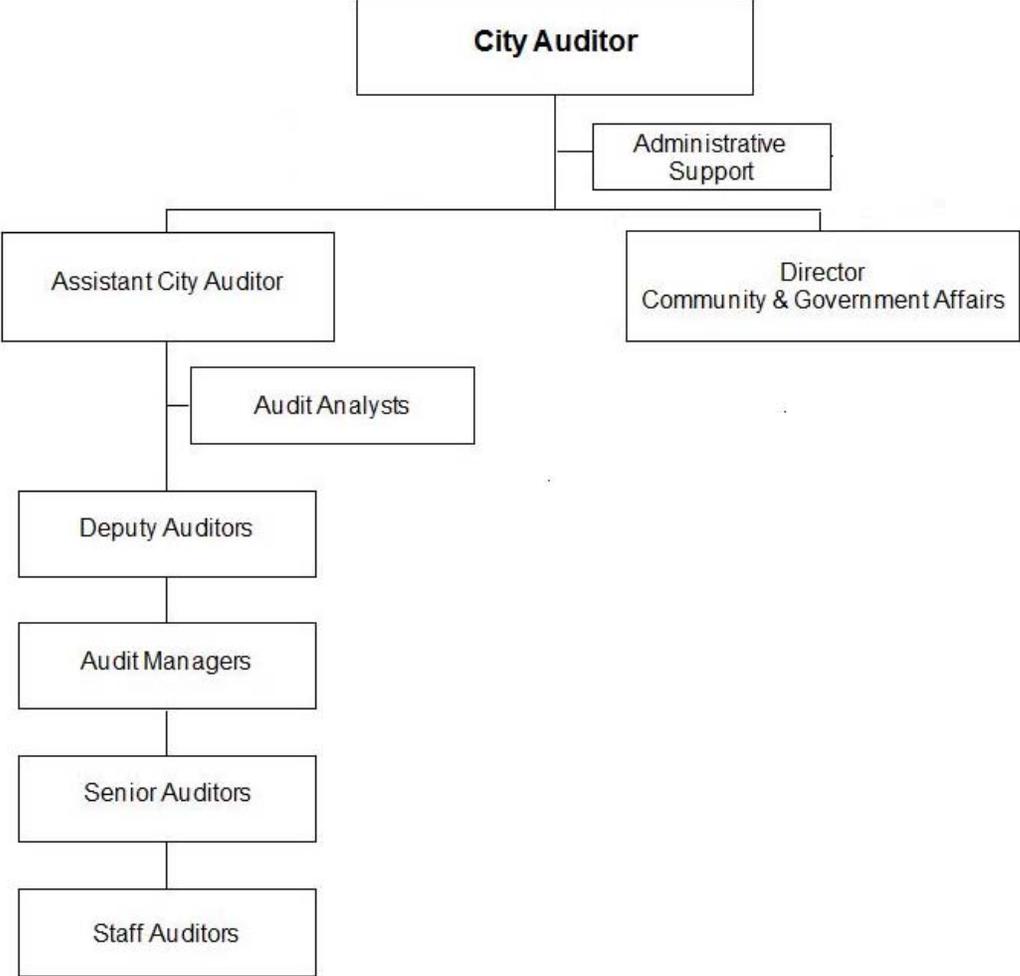


City Auditor



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

- Provide independent assurance that public funds are spent wisely and responsibly.
- Promote transparency, accountability and efficiency in City operations.
- 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. Revenue Audits
 - 3. Contract Reviews
 - 4. Lease Reviews
 - 5. Internal Control Reviews
 - 6. Fraud Investigations
 - 7. 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 wisely and responsibly.

- 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, and email.
 - 3. Review and take appropriate action on each reported incident.

FY 14 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 recorded and reported accurately.

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 and other applicable statutes and industry regulations.

The Long Beach City Charter defines the responsibilities of the City Auditor, and during FY 14 the City Auditor's Office complied with all Charter and Municipal Code mandates.

Audits or Reports Issued in FY 14:

During FY 14, the City Auditor conducted 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 and FY 12 the Office underwent independent peer reviews, both of 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 14. Some of the more significant projects included:

Citywide Fuel Expenditures Audit

The Office conducted a comprehensive series of audits of the City's three fueling systems which are overseen by the Fleet Services Bureau, the Harbor Department, and the Water Department. This final audit recommended consideration of the consolidation of the City's multiple fuel operations that in FY 12, supported 123,000 fuel transactions, and purchased over 2 million gallons of fuel costing over \$5.7 million.

Audit of Harbor International Travel Expenses

The objective of our audit was to determine the appropriateness of travel expenses for international trips involving Harbor Commissioners. Among other findings, the audit noted that the Department did not have a dedicated administrative unit to oversee the process and there was a lack of coordination between parties involved in making travel arrangements, resulting in ineligible expenses being reimbursed and large expenses unquestioned.

Animal Care Services Bureau Revenue Follow-up Audit

This audit was to follow-up on our 2011 audit that confirmed theft by an employee of more than \$253,000. The objective of this audit was to assess the current reconciliation processes and internal controls to ensure their effectiveness to deter fraud. Our audit found that, while the Bureau has implemented new procedures and safeguards recommended in the initial audit, there is still a need to strengthen the revenue handling process. Findings of the audit included duplication of efforts in the reconciliation process and improvements needed surrounding system controls and security in the revenue collection processes.

FY 14 Accomplishments

Marina Fund, Tidelands Operating Fund and Rainbow Harbor Fund Audit

This audit reviewed specific expenses initiated by Parks, Recreation, and Marine Department staff that were charged to the Marina Fund 403 that may be more appropriately charged to the Tidelands Operating Fund 401 or the Rainbow Harbor Fund 411. The objective of our audit was to evaluate the reasonableness of certain Parks, Recreation and Marine Department analyses and to evaluate the Tidelands Operating Fund 401 and Rainbow Harbor Fund 411's ability to sustain additional costs from Marina Fund 403.

Proposition H Summary Report

The objective of this report was to summarize the tax revenues raised by Proposition H in the past seven years. Approved by voters on May 1, 2007, the Police and Fire Public Safety Oil Production Tax (Prop H) assessed an additional 25 cents per barrel special tax on oil producers operating in Long Beach. The funds can only be used for police officers, firefighters, and related costs, including but not limited to equipment, facilities, and training. As of the end of FY 13, Prop H raised an average of \$3.5 million per year and more than \$22 million cumulatively for public safety needs. As required by the Municipal Code, the City Auditor annually prepares an independent financial audit of Prop H revenues and expenditures for each fiscal year.

Building Permits Audit

The objective of this audit was to assess the appropriateness and accuracy of building permit fees within Development Services' Building and Safety Bureau (Bureau). The audit found that overall the Bureau correctly calculated and applied plan check and permit fees in the sample tested. However, the audit determined that the system used to track and record permit information is limited in assisting management with adequate supervisory review, and the controls over user access are weak. In addition, the audit found there had been no analysis of the actual costs to provide permit services since 2005 to determine if fees are appropriately set.

Marine Bureau Audit

This audit evaluated two operational areas of the Bureau and separate reports were issued. The first report focused on the process by which permits, leases and contracts were initiated and extended. The audit found inconsistent contract terms and conditions and minimal contract oversight. We noted the Department's opportunity to revamp its approach to contract management, and create a strategic plan along with standardized processes that could increase revenue and provide optimal services to the public. The second report evaluated enhanced internal controls over cash handling and revenue collection that took effect in early 2013 at three Bureau offices. The audit found sufficient written procedures, but implementation of the policies were problematic and significant internal control weakness continues to exist. We recommended strengthening controls and discontinuing the use of an unauthorized imprest fund.

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, Gann Appropriations 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, and Proposition H oil tax expenditures and revenues.

Audits and projects in progress:

Several projects initiated in FY 14 are in progress, including:

FY 14 Accomplishments

Police & Fire Public Safety Dispatcher Overtime Audit

The objective of this audit is to evaluate the Police and Fire Departments' internal controls and staffing practices for managing dispatch communications overtime and special pay compensation. To achieve our objective we will interview key personnel, observe key processes, review supporting documents, and review industry standards and best practices.

Airport Parking Agreement for Parking Facilities

The audit will evaluate whether current agreement terms, including the cost, quantity and quality of services provided, are competitive with current market conditions. The audit will also review the operator's performance and compliance with contract terms and the effectiveness of the City's contract administration responsibilities.

Audit of Automobile Lien Sales

The objective of the audit is to evaluate the adequacy of financial-related practices and internal controls involved in the City's vehicle impound lien sales operations. The audit will determine whether revenues from lien sales were collected, recorded and deposited accurately and timely. To achieve our objective, we will interview key personnel, analyze sales records, evaluate internal controls, observe current processes and practices, and assess benchmark data and best practices.

Underground Storage Tank (UST) Compliance Audit Program

The objective of this audit is to assess whether the Department of Public Works has developed an effective process to ensure compliance with the Underground Storage Tank (UST) Compliance Program (Program). The audit covers the period from July 1, 2013 to June 30, 2014. In order to achieve our objective, we will interview appropriate personnel, visit selected UST sites, review a sample of documents to ensure compliance with the Program, and follow-up on prior audit findings.

Additional Responsibilities of the City Auditor's Office

In addition to projects listed above, the Office has 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 revenues and expenditures required
- Measure G – Utility Users Tax Update; annual audit of utility taxes received required
- Prop L – Analysis required of outsourced 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 recommended actions. In some instances, follow-up activity can span several months or even years to ensure appropriate action is taken.

FY 14 Accomplishments

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 14 information illustrates the scope of this work:

- Number of checks reviewed: 49,569
- Value of checks reviewed: \$925,966,281
- Number of checks withheld: 157
- Value of checks withheld: \$5,097,710
- Number of wire transfers authorized: 1125
- Value of wire transfers authorized: \$2,845,124,813

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 authorization of the Office of the City Auditor.

Wage Garnishments

The Office of the City Auditor administers all City employee wage garnishments. During FY 14 the Office managed over 215 active garnishment files for City employees. Garnishment payments totaled approximately \$70,000 each payroll period. Additionally, the Office maintains files for 1,000 inactive cases.

The process is complex due to unique regulations for each garnishment 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 Office keeps current with changing laws, rules and regulations to ensure that the City is in full compliance.

Fraud Hotline

The City Auditor's Fraud Hotline operates 24-hours per day, 7-days a week and is available to anyone to report allegations of fraud, waste, or abuse against the City. The Hotline is promoted with educational materials distributed throughout the City. Posters and brochures on fraud awareness and prevention contain messages with the theme "Let's Be Clear" and provide clear examples of fraud against the City.

The 2014 Report to the Nation issued by the Association of Certified Fraud Examiners estimates a typical organization loses 5% of its annual revenue to fraud. The same report has found that fraud schemes are much more likely to be detected by tips than by any other method.

Appropriate follow-up measures are implemented for each Fraud Hotline report.

Fraud Policy

Recognizing that the City did not have a specific policy on reporting fraud, City Auditor Doud proposed and the City Council agreed to add a Fraud Policy to the City's Ethics Guide for City

FY 14 Accomplishments

Employees and Officials. The policy defines who is accountable for reporting fraud and how to report suspected fraud.

Website

In FY 14, 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. Additionally, projects in progress are listed providing the public with current information about the work of the City Auditor's Office. The City Auditor's website, **www.CityAuditorLauraDoud.com**, provides transparency and usable information to the citizens of Long Beach.

Financial Summary by Category

	Actual FY 13	Adopted* FY 14	Adjusted** FY 14	Adopted* FY 15
Revenues:				
Property Taxes	-	-	-	-
Other Taxes	-	-	-	-
Licenses and Permits	-	-	-	-
Fines and Forfeitures	-	-	-	-
Use of Money & Property	-	-	-	-
Revenue from Other Agencies	-	-	-	-
Charges for Services	-	-	-	-
Other Revenues	364	-	-	-
Interfund Services - Charges	-	-	-	-
Intrafund Services - GP Charges	-	-	-	-
Harbor P/R Revenue Transfers	-	-	-	-
Other Financing Sources	-	-	-	-
Operating Transfers	-	-	-	-
Total Revenues	364	-	-	-
Expenditures:				
Salaries, Wages and Benefits	2,065,981	2,529,804	2,544,364	2,594,236
Overtime	-	-	-	-
Materials, Supplies and Services	329,118	165,304	385,419	165,304
Internal Support	45,619	115,274	115,274	211,041
Capital Purchases	1,730	-	-	-
Debt Service	-	-	-	-
Transfers to Other Funds	-	-	-	-
Total Expenditures	2,442,446	2,810,382	3,045,057	2,970,581
Personnel (Full-time Equivalents)	22.00	22.00	22.00	22.00

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

** Amounts as published in the FY 15 Proposed Budget released July 2, 2014.

Personnel Summary

Classification	FY 13 Adopt FTE	FY 14 Adopt FTE	FY 15 Adopt FTE	FY 14 Adopted Budget	FY 15 Adopted Budget
City Auditor	1.00	1.00	1.00	195,366	202,221
Assistant City Auditor	1.00	1.00	1.00	160,066	181,450
Audit Analyst	3.00	3.00	3.00	212,439	213,483
Audit Manager	3.00	3.00	3.00	300,267	300,267
Deputy City Auditor	4.00	4.00	4.00	527,707	571,137
Executive Assistant	1.00	1.00	1.00	70,416	81,289
Senior Auditor	6.00	6.00	6.00	416,974	416,974
Staff Auditor	3.00	3.00	3.00	145,634	145,634
Subtotal Salaries	----- 22.00	----- 22.00	----- 22.00	----- 2,028,869	----- 2,112,454
Overtime	---	---	---	---	---
Fringe Benefits	---	---	---	987,383	966,615
Administrative Overhead	---	---	---	39,179	40,794
Attrition/Salary Savings	---	---	---	(525,627)	(525,627)
To Be Negotiated Savings	---	---	---	---	---
Mayoral Veto	---	---	---	---	---
Total	----- 22.00	----- 22.00	----- 22.00	----- 2,529,804	----- 2,594,236

Key Contacts

Laura L. Doud, CPA, CFE, JD
City Auditor

Deborah K. Ellis, CPA
Assistant City Auditor

Terra Van Andel, CFE, CGAP
Deputy City Auditor

James C. Lam, MBA, MPP, CGAP
Deputy City Auditor

Joanna Munar, MBA, CIA
Deputy City Auditor

333 West Ocean Boulevard, 8th Floor
Long Beach, CA 90802
Phone: (562) 570-6751
Fax: (562) 570-6167

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