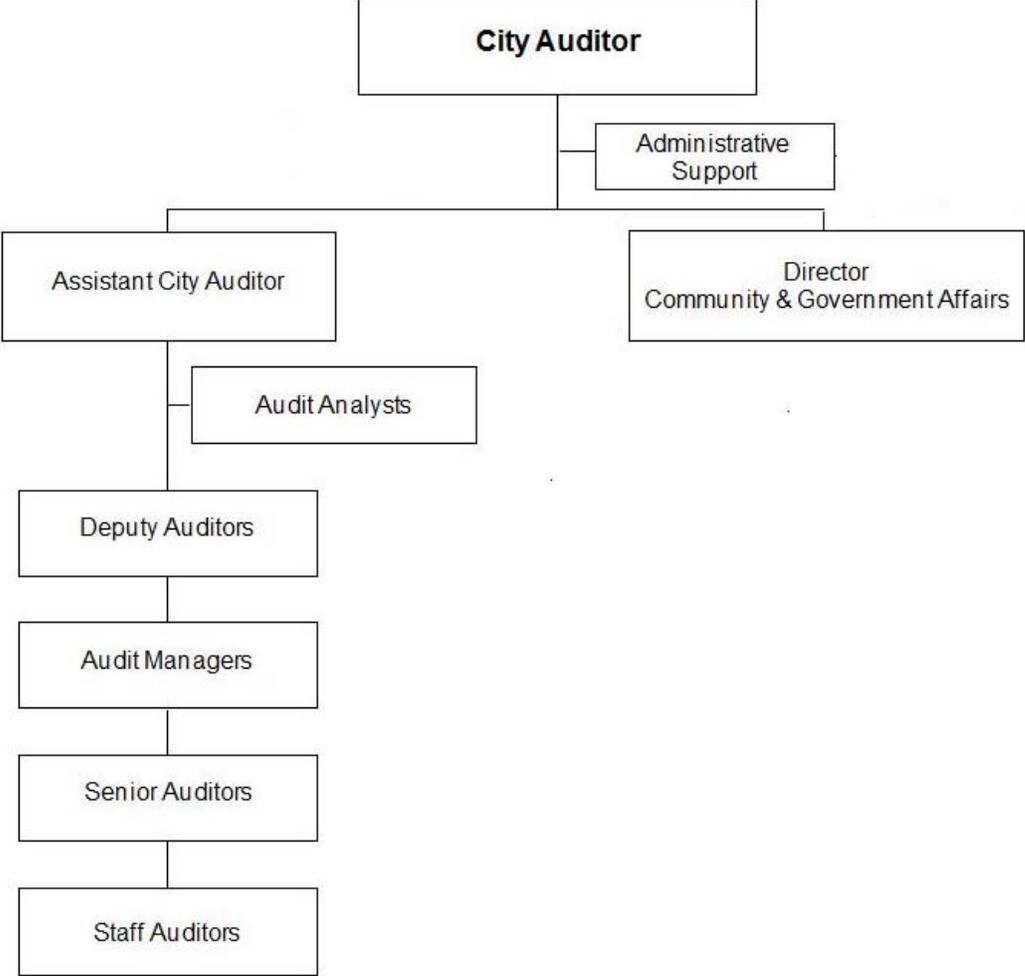


City Auditor



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 a 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 13 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 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 13 the City Auditor's Office complied with all Charter and Municipal Code mandates.

Audits or Reports Issued in FY 13:

During FY 13, 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 13. Some of the more significant projects included:

Water and Sewer Rate Increase Audit

The objective of this audit was to determine the composition and reasonableness of the factors that drove the water and sewer rate increases initiated by the Water Department during the period of October 1, 2008 through September 30, 2011. Our audit found that, to fund the Department's Capital Improvement Program, water rates were increased by 15% in 2009 and another 16% in 2010. Additionally, from 2009-2012 the Department increased sewer rates by 56%. The audit also found that since 2008, the Department's cash reserves increased by 566%. Reserves for water operations were at \$43 million, far exceeding the \$6 million required by Department policy.

Business License Revenue Collection Audit

The objective of this audit was to determine whether the processing and collection of business licenses and permits were managed appropriately and efficiently during the period of May 1, 2010 through April 30, 2012. Our audit found that the accounts receivables balance was between \$2.4 million and \$2.6 million and our recommendations focused on establishing policies and procedures to maximize business license revenue.

Other work performed included audits of the Underground Storage Tank Compliance Program and the Transit Occupancy Tax.

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.

FY 13 Accomplishments

Audits and projects in progress:

Several projects initiated in FY 13 are in progress, including:

Fuel Operations Audit

The objective of this audit is to assess the appropriateness of the City's fuel expenditures. We are examining fuel operations within the Fleet Services Bureau, the Water Department, and the Harbor Department. In addition, we are examining top usage departments including Public Works, Police, Fire, Gas & Oil, and Parks Recreation and Marine. In order to achieve our objective we are interviewing key personnel, reviewing fuel transactions, and evaluating the adequacy of the fuel systems.

Oil Production Audit

The objective of this audit is to determine if oil production reported to the City by oil producers for tax purposes is complete and reliable. In order to achieve our objective, we are interviewing key personnel and reviewing supporting documents. The audit period has been defined as October 1, 2011 through September 30, 2012.

Underground Storage Tank (UST) Compliance Program Agreed-Upon Procedures (AUP)

The objective of this engagement is to determine whether the Department of Financial Management is compliant with specific areas of the Underground Storage Tank (UST) Compliance Program (Program) as outlined in the agreed-upon procedures for the period, July 1, 2012 - June 30, 2013. In order to achieve our objective, we are interviewing appropriate personnel, visiting selected UST sites, and reviewing a sample of documents to ensure compliance with the Program.

Additional 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 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 13 Accomplishments

Other Accomplishments

National Award for Parking Citations Audit

The City Auditor's Office received the 2012 Knighton Award from the Association of Local Government Auditors (ALGA) for the Parking Citations Audit. This is the third Knighton Award the Office has received. The award is particularly meaningful because it is judged by government auditors from across the country whose criteria includes the potential impact of audits considered.

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.

Complete FY 13 data is not available as of the date of publication of this document; however, the following FY 12 information illustrates the scope of this work:

- Number of checks reviewed: 48,629
- Value of checks reviewed: \$746,928,832
- Number of checks withheld: 528
- Value of checks withheld: \$14,897,873
- Number of wire transfers authorized: 1,049
- Value of wire transfers authorized: \$2,477,486,465

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 12 the Office managed over 250 active garnishment files for City employees. Garnishment payments totaled approximately \$75,000 each payroll period. Additionally, the Office maintains files for 1,100 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 program was revitalized in FY 13 by introduction of new fraud awareness and prevention educational materials. Posters have messages with the theme "Let's Be Clear" and give clear examples of fraud against the City.

The 2012 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

FY 13 Accomplishments

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. Currently the 24-hour, 7 day-a-week Hotline is receiving approximately 40 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.

Fraud Policy

Recognizing that the City does 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 Employees and Officials. The new policy will define who is accountable for reporting fraud and how to report suspected fraud.

Website

In FY 13, 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.

Financial Summary by Category

	Actual FY 12	Adopted* FY 13	Adjusted** FY 13	Estimated** FY 13	Adopted* FY 14
Revenues:					
Property Taxes	-	-	-	-	-
Other Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Use of Money & Property	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Charges for Services	-	-	-	-	-
Other Revenues	1,611	-	-	-	-
Interfund Services - Charges	-	-	-	-	-
Intrafund Services - GP Charges	-	-	-	-	-
Harbor P/R Revenue Transfers	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Operating Transfers	-	-	-	-	-
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Total Revenues	1,611	-	-	-	-
Expenditures:					
Salaries, Wages and Benefits	2,179,475	2,539,502	2,488,143	2,508,505	2,529,804
Overtime	-	-	-	-	-
Materials, Supplies and Services	288,879	340,304	374,684	229,519	165,304
Internal Support	55,148	103,404	103,404	103,354	115,274
Capital Purchases	49,600	-	-	-	-
Debt Service	-	-	-	-	-
Transfers to Other Funds	-	-	-	-	-
Prior Year Encumbrance	-	-	-	-	-
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Total Expenditures	2,573,102	2,983,210	2,966,231	2,841,378	2,810,382
Personnel (Full-time Equivalents)	20.00	22.00	22.00	22.00	22.00

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

** Numbers as published in the FY 14 Proposed Budget released August 1, 2013.

Key Contacts

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