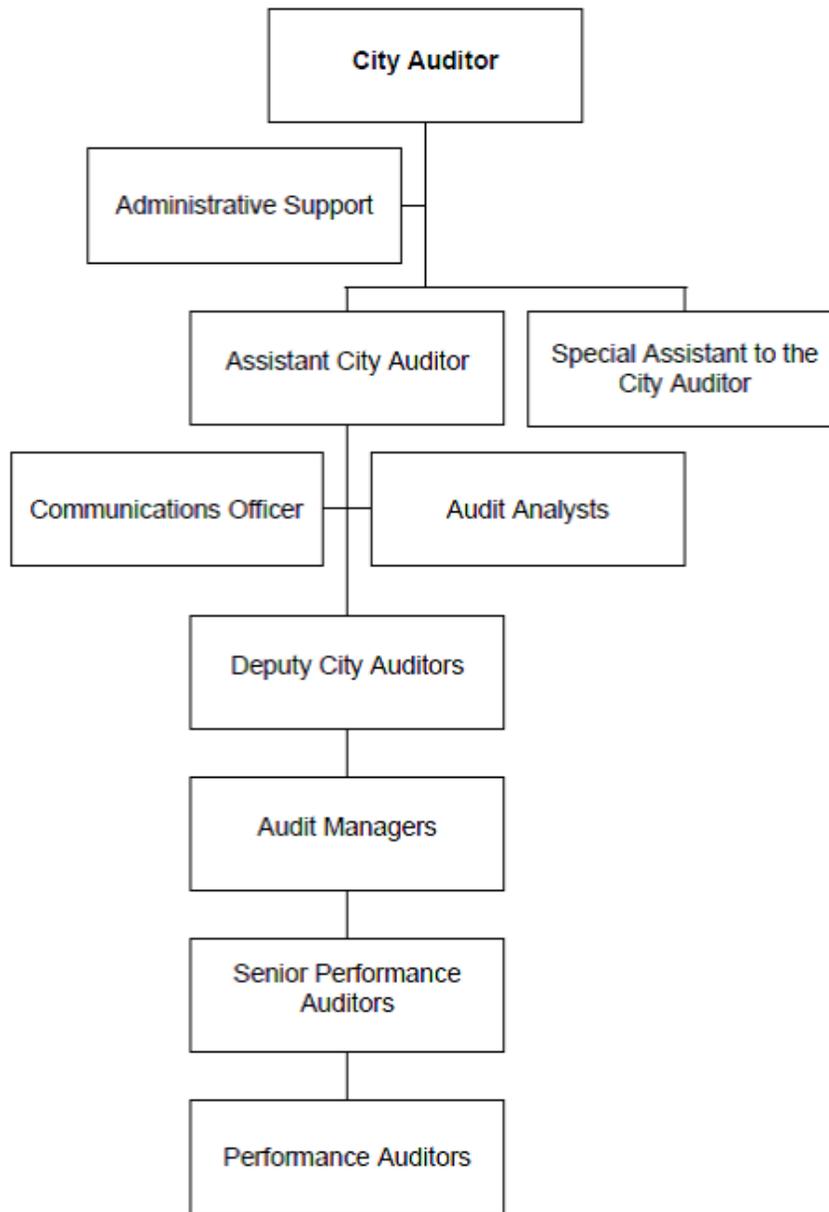


# City Auditor



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

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### **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. Benchmarking Studies
  - 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 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 an 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 mobile app, telephone, mail, fax, and email.
  - 3. Review and take appropriate action on each reported incident.

## FY 15 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 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 15 the City Auditor's Office complied with all Charter and Municipal Code mandates.

### **Audits or Reports Issued in FY 15:**

During FY 15, 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 Auditor also provides professional services that are non-GAGAS audits, such as investigations of alleged fraud and analyzing emerging issues.

To see information on audits and projects please see our 2015 Annual Work Plan which is available at [www.CityAuditorLauraDoud.com](http://www.CityAuditorLauraDoud.com).

The Office reviewed a wide variety of topics during FY 15. Some of the more significant projects included:

#### **Proposition H Summary Report**

In 2006 the City Auditor's Office reviewed the City's Oil Production Tax, reported that it was below the rate of neighboring cities, and then conducted a comprehensive analysis to identify a fair rate. As a result, in 2007, Prop H was put on the ballot to add an additional per barrel tax and that it must be spent on public safety. This report outlined the benefits Prop H has had on Long Beach public safety during the seven years since its passage. The report found that from 2007 to 2013, over 82 million barrels of oil have been produced, which generated over \$22 million of Prop H oil tax revenue for Long Beach Police and Fire support. The revenues from Prop H have averaged more than \$3.5 million per year.

#### **Digital and E-Government Best Practices Report**

The objective of this report was to document the City's existing digital or e-government solutions and explore innovation and technology trends and best practices that would allow the City to enhance its services, communication, and interaction with the public. The report provided information to assist in the Mayor's Office's efforts to optimize the City's use of digital technology to better engage and serve constituents.

#### **Police & Fire Public Safety Dispatcher Overtime Audit**

This audit was initiated as the result of a Fraud Hotline complaint regarding inappropriate payment of night shift differential to some dispatchers. While investigating the complaint we found that dispatchers had substantial overtime, which represented 22% of dispatcher hours and cost more than \$1.3 million in 2014. The audit evaluated the Police and Fire Departments' internal controls and staffing practices for managing dispatcher overtime and special pay compensation. The audit found that both department Communication Centers consistently answered and dispatched calls for service within industry standards. However, due to the high number of vacancies in the dispatcher positions, they had to rely heavily on personnel to work significant amounts of overtime, which can result in an unhealthy work environment and can lead to high employee turnover, decreased quality of service, increase safety-related incidents, and a decline in performance due to fatigue. We recommended,

## FY 15 Accomplishments

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and the departments agreed, to work together to increase the number of recruitments and potential applicants to help fill vacancies.

### **Health Revenue Collection Audit**

The objective of this audit was to evaluate the adequacy of internal controls over the collection of Clinical Services and Vital Records revenue within the Department of Health and Human Services. This revenue was a combined total of \$1.7 million in FY13. The audit found a lack of financial expertise within the Clinical Services Division that contributed to significant internal control weaknesses over collection and processing of revenue, which leaves them vulnerable to fraud and misappropriation. The Division lacked separation of duties for business-critical functions, had manual processes that are inconsistent and subjective, and minimal documentation and oversight. The current process for handling revenue has left no audit trail for which financial data can be effectively monitored and verified. In addition, the Division's software system is ineffective even though nearly 10 years and over \$1 million dollars was spent to purchase, implement, and maintain it.

### **Marine Bureau Cash Handling Operations Audit**

The audit was initiated after we received a request from the Parks, Recreation, and Marine Department to identify Marine Bureau operations where internal controls could be strengthened to reduce the risk of fraud or error. The audit evaluated internal controls over cash handling and revenue collection, as well as the imprest checking account. It covered revenue received and processed by Marine Bureau employees, which averaged \$1.3 million per year from FY 10-14. The audit found that while PRM has made an effort to improve cash controls and update its policies and procedures, the implementation of those policies were problematic. We found significant internal control weakness at all three marina offices that results in little assurance that all collected monies were actually recorded and deposited.

### **Marine Bureau Contracts, Leases, and Permits Audit**

This audit was also requested by the Parks, Recreation, and Marine Department with the objective to review Marine Bureau contracts, leases, and permits, including the process by which existing contract terms and conditions were established, and renewed or terminated. The audit identified 54 contracts, leases, and permits that generate at least \$570,000 in revenue each fiscal year. We found that contracts had been initiated and extended in a haphazard way, resulting in inconsistent contract terms and conditions, and providing an opportunity for past management to provide exceptions to vendors based on their discretion. We also evaluated vendor performance and compliance for a selected sample of contracts, and assessed the effectiveness of contract oversight responsibilities. Budget cuts has left PRM with limited personnel to oversee contracts and therefore, only the minimal amount of oversight and monitoring is taking place.

### **Emergency Board-Up Services Contract Audit**

The objective of this audit was to determine whether the City's contract for board-up service is reasonable, competitive, and oversight is sufficient. The audit was based on a complaint received by the Fraud Hotline related to an emergency board-up service performed under the contract reviewed. We found a high potential for fraud surrounding this contract because the City authorized almost \$150,000 worth of work without a valid contract; there is a known relationship between primary and subcontractors; the subcontractor pricing can be increased at any time, which occurred during the audit period; and the City has no involvement in the selection or monitoring of the subcontractor.

## **FY 15 Accomplishments**

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### **Airport Parking Agreement for Parking Facilities Audit**

The objectives of this audit were to review the parking facilities operating agreement and to assess whether the terms and provisions are current, competitive, and being met. The operations covered in the contract generated an average of \$9 million in revenue over the past three years. The audit found that the contractor is generally in compliance with agreement requirements even though certain terms and conditions of the agreement are outdated due to the contract being 23 years old. The audit identified that a new Request for Proposals should be issued to include updated requirements and a wider range of services. In addition, parking revenue has been declining but no changes to increase parking revenue were implemented during the audit period and analysis of the revenue was limited. Since discounted tickets totaled over \$230,000 in an 11-month period and zero value tickets accounted for 21% of all tickets issued there is the potential for increased analysis around these two types of tickets that could increase revenue.

### **Audit of Vehicle Lien Sales**

The objective of the audit was to assess the adequacy of financial-related practices and internal controls involved in the City's vehicle impound lien sales operations. These operations averaged revenue of over \$2.75 million per year or \$106,000 per auction in the past three fiscal years. The audit determined lien sales operations have similar internal control weaknesses that were identified in a 2009 audit of towing operations, which are the responsibility of the same Division and, at times, include the same personnel for both functions. The audit found a lack of controls and separation of duties regarding revenue processing that could pose potential risks to the City and internal control weaknesses in the information technology systems, which is a significant problem throughout the City. Additional findings included: current vehicle inventory management practices are vulnerable to errors and loss; it is difficult to justify removing and auctioning off personal property from impounded vehicles since revenues are minimal; and revenues from lien sales have declined significantly in recent years and so operational and marketing practices should be re-assessed.

### **Citywide Candidate Statement Costs**

The focus of this review was to analyze the methodology, reasonableness, and accuracy of both the estimate and final calculations for candidate statement costs for Citywide candidates during the 2014 Primary Nominating Election. Candidate statements are included within the Sample Ballot Book and candidates are required to pay for the costs associated with doing so. The results of this limited scope review revealed that some factors for the costs were estimated and calculated incorrectly causing the amounts charged pre-election to be significantly lower than they should have been. In addition, the estimated and final cost calculations were prepared using two different approaches, which resulted in Citywide candidate cost share to be based on incompatible data. The changes we recommended are imperative to ensure these costs are fully recovered from individual candidates and therefore no costs are absorbed by the City.

### **UST Program Audit**

The purpose of the audit was to assess the Department of Financial Management's compliance with the Underground Storage Tank (UST) Compliance Program from July 1, 2013 through June 30, 2014. The UST Program is intended to provide structure and outline specific procedures to ensure the City's UST sites follow State and Federal laws. Based on the procedures performed for the period reviewed, we found that the Department was in compliance with the UST Program.

## **FY 15 Accomplishments**

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### **Audits of Hauler Fee Payments**

These audits covered a total of seven refuse hauler contracts. The purpose of the audits was to verify that payment of AB939 and franchise fees were remitted to the City in accordance with the associated contract terms. The audits found collectively that \$134,276 was owed to the City due to under paid fees and late charges. Also, due to non-enforcement of late payment contract terms the City lost out on an additional \$133,755 of revenue.

The Office is also involved in 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, and Proposition H oil tax expenditures and revenues.

### **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. Our Office plans to issue a report during FY 16 showing the status of all audit findings.

### **Other Accomplishments**

#### **Peer Review**

Since taking Office in 2006, City Auditor Laura Doud elected that the Office follow Government Auditing Standards (GAS) which provide a framework for conducting audits with competence, integrity, and objectivity. Auditing organizations following these Standards require a peer review every three years to ensure audit work is adhering to established policies and procedures. In FY 15 the Office underwent its third peer review performed by a panel of independent external auditors and achieved the highest possible standards of performance in government auditing. The review found the Office's internal operations met standards established by Government Accountability Office (GAO) ensuring that our work is reliable and credible.

#### **Mobile App**

The Office developed a new mobile app that provides quick access to the Office from both Apple and Android devices. It provides the public with a way to conveniently and confidentially report fraud, access audit information, and receive the latest Office news. The MyAuditor app is the first of its kind among government audit offices.

#### **Annual Work Plan**

In FY 15, the Office released its first Annual Work Plan to the public. The Annual Work Plan enhances transparency by providing information about the role of the Office, planned activities, and audit processes. The 2015 Annual Work Plan shows how our Office consistently focuses on internal improvements and provides increased value to the City.

#### **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.

## FY 15 Accomplishments

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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. Our Office is considering the publication of an annual hotline report that provides information to all interested parties on how the hotline works, the Office's internal processes for investigating allegations, type of calls received, and how the issues were resolved.

### **Website**

In FY 15, 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](http://www.CityAuditorLauraDoud.com), provides transparency and usable information to the citizens of Long Beach.

### **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

### **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 15 information illustrates the scope of this work:

- Number of checks reviewed: 52,545
- Value of checks reviewed: \$699,892,094
- Number of checks withheld: 137
- Value of checks withheld: \$10,453,691
- Number of wire transfers authorized: 1,132
- Value of wire transfers authorized: \$1,797,063,917

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.

## FY 15 Accomplishments

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### **Wage Garnishments**

The Office of the City Auditor administers all City employee wage garnishments. During FY 15, the Office managed over 215 active garnishment files for City employees. Garnishment payments total approximately \$60,000 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

## Financial Summary by Category

	Actual FY 14	Adopted* FY 15	Adjusted** FY 15	Adopted* FY 16
<b>Revenues:</b>				
Property Taxes	—	—	—	—
Other Taxes	—	—	—	—
Franchise Fees	—	—	—	—
Licenses and Permits	—	—	—	—
Fines and Forfeitures	—	—	—	—
Use of Money & Property	—	—	—	—
Revenue from Other Agencies	—	—	—	—
Charges for Services	—	—	—	—
Other Revenues	—	—	—	—
Interfund Services - Charges	—	—	—	—
Intrafund Services - General Fund Charges	—	—	—	—
Harbor & Water P/R Rev Trsfs	—	—	—	—
Other Financing Sources	—	—	—	—
Operating Transfers	—	—	—	—
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<b>Total Revenues</b>	—	—	—	—
<b>Expenditures:</b>				
Salaries, Wages and Benefits	2,189,623	2,594,236	2,594,236	2,653,252
Overtime	705	—	—	—
Materials, Supplies and Services	666,714	165,304	229,023	165,304
Internal Support	38,261	211,041	211,041	228,348
Capital Purchases	9,120	—	—	—
Debt Service	—	—	—	—
Transfers to Other Funds	—	—	—	—
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<b>Total Expenditures</b>	2,904,424	2,970,581	3,034,300	3,046,904
<b>Personnel (Full-time Equivalents)</b>	22.00	22.00	22.00	22.00

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

\*\* Amounts as published in the FY 16 Proposed Budget released July 2, 2015.

## Personnel Summary

Classification	FY 14 Adopt FTE	FY 15 Adopt FTE	FY 16 Adopt FTE	FY 15 Adopted Budget	FY 16 Adopted Budget
Assistant City Auditor	1.00	1.00	1.00	181,450	181,450
Audit Analyst	3.00	3.00	3.00	213,483	213,483
Audit Manager	3.00	3.00	3.00	300,267	300,267
City Auditor	1.00	1.00	1.00	202,221	203,785
Deputy City Auditor	4.00	4.00	4.00	571,137	571,137
Executive Assistant	1.00	1.00	1.00	81,289	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
<b>Subtotal Salaries</b>	----- 22.00	----- 22.00	----- 22.00	----- 2,112,454	----- 2,114,018
<b>Overtime</b>	—	—	—	—	—
<b>Fringe Benefits</b>	—	—	—	966,615	1,024,613
<b>Administrative Overhead</b>	—	—	—	40,794	40,249
<b>Attrition/Salary Savings</b>	—	—	—	(525,627)	(525,627)
<b>Expenditure Transfer</b>	—	—	—	—	—
<b>Total</b>	----- 22.00	----- 22.00	----- 22.00	----- 2,594,236	----- 2,653,252

## Key Contacts

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