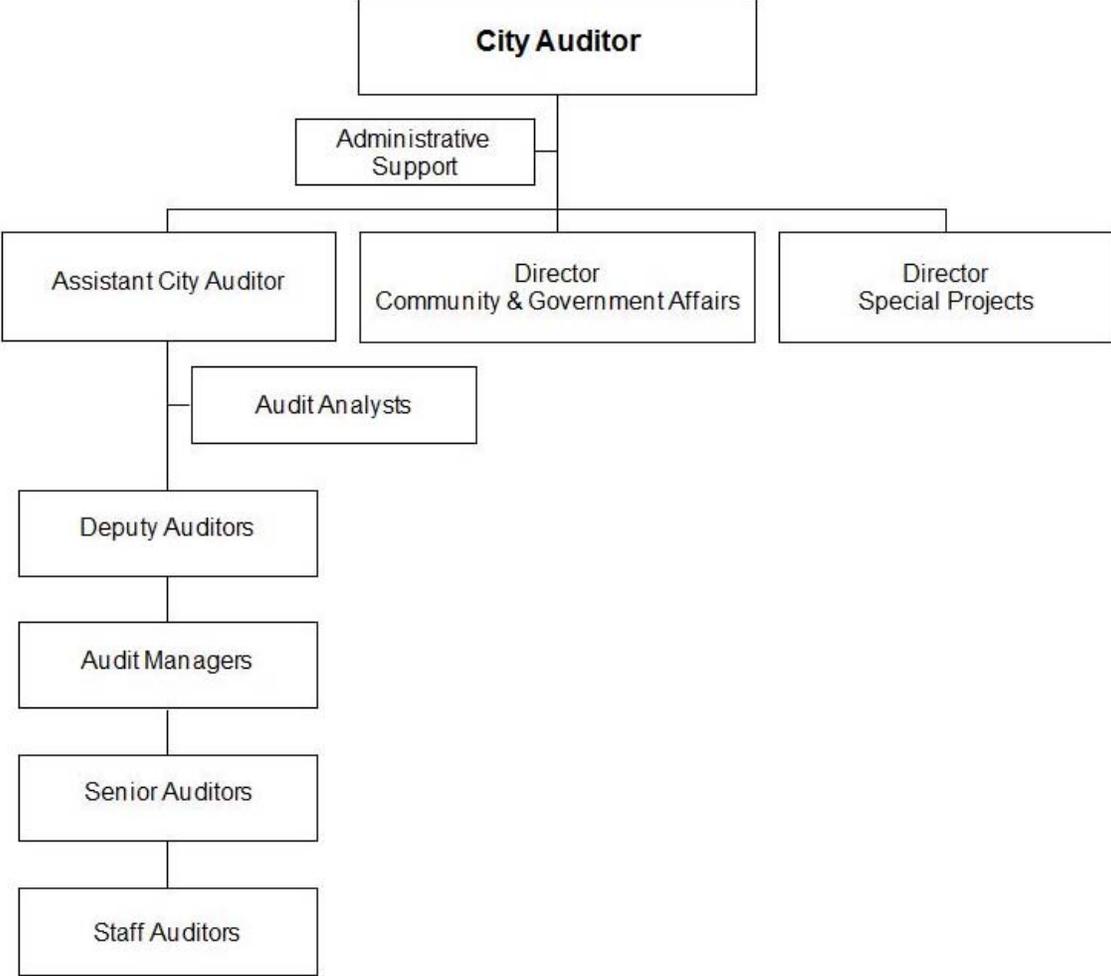


City Auditor



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 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 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.

FY 12 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 12 the City Auditor's Office complied with all Charter and Municipal Code mandates.

Audits or Reports Issued in FY 12:

During FY 12, 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 and FY12 the Office underwent independent peer reviews, 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 12. Some of the more significant projects included:

Parking Citations Collection Process

The purpose of this audit was to assess the efficiency and effectiveness of parking citation collection efforts and to determine the reliability of the parking citation system during fiscal years 2009 through 2011. Our audit found that Management is considerably hampered by an antiquated software system, which lacks the ability to eliminate old citations, calculate and allocate fees, interface with the DMV, and produce basic reports to effectively manage the data. As a result, the City currently has approximately \$17.6 million in outstanding parking citations that are three years old or less.

Parks, Recreation & Marine Revenue Collection

The objective of the audit was to determine whether adequate internal controls were in place over the revenue collection process at several locations charging recreational fees. Our audits identified a lack of communication and oversight by Management, the use of minimal technology at individual sites and the need for policies and procedures. The report concluded that the existing decentralized revenue collection structure is not conducive to providing adequate oversight and controls over the collection of \$6.6 million in recreational fees and charges.

Animal Care Services Revenue

After Animal Care Services' (ACS) Management discovered a significant discrepancy between revenues recorded and deposited for the month of August 2010, we performed an audit to determine the existence of a possible misappropriation of monies collected at ACS during the period of October 1, 2009 through August 31, 2010. Our audit revealed that \$253,150 in cash was misappropriated over the 11 months reviewed. The lack of an adequate reconciliation process, segregation of duties, and supervisory review provided the opportunity for misappropriation of funds to occur during various stages of the revenue collection process. A

FY 12 Accomplishments

Police investigation was initiated and was completed in May 2012, which resulted in the arrest and conviction of a former ACS employee.

Other work performed included audits of Terminated Employees, the Underground Storage Tank Compliance Program, Airport Leases and Concessions, and the Transit Occupancy Tax. The City Auditor also performed non-GAGAS services, which included reviews of the City's lease with the Navy Yacht Club, potential contracting with a new office supplies provider, methodology of calculating gas rates, and calculation of campaign contribution limits.

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 12 are in progress:

- 3rd Quarter FY 12 Cash and Investments
- Water & Sewer Rate Increases
- Parking Meters Revenue Collection
- Business License Tax and Permit Revenue
- Queen Mary Revenue Review

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 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.

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 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

FY 12 Accomplishments

- 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 300 active garnishment files for City employees. Garnishment payments totaled approximately \$75,000 each payroll period. Additionally the Office maintains files for 1,200 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

Revitalization of the City Auditor's Fraud Hotline continued in FY 12. As a Certified Fraud Examiner, the City Auditor knows the importance of providing a system to report fraud against the City easily and confidentially.

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 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.

Website

In FY 12, 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 and Challenges

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, efficient auditing services to a broad array of City departments and related organizations and to communicate the findings of the Office to the Mayor, City Council and residents of Long Beach in a straightforward, transparent manner.

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 FY 13 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. Several FY 12 audits found significant losses to the City due to improper internal controls.

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 continues to analyze 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.

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

www.CityAuditorLauraDoud.com

Financial Summary by Category

	Actual FY 11	Adopted* FY 12	Adjusted** FY 12	Estimated** FY 12	Adopted* FY 13
Revenues:					
Property Taxes	-	-	-	-	-
Other Taxes	-	-	-	-	-
Licenses and Permits	-	-	-	-	-
Fines and Forfeitures	-	-	-	-	-
Use of Money & Property	-	-	-	-	-
Revenue from Other Agencies	-	-	-	-	-
Charges for Services	-	-	-	-	-
Other Revenues	2,585	-	-	-	-
Interfund Services - Charges	-	-	-	-	-
Intrafund Services - GP Charges	-	-	-	-	-
Harbor P/R Revenue Transfers	-	-	-	-	-
Other Financing Sources	-	-	-	-	-
Operating Transfers	-	-	-	-	-
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Total Revenues	2,585	-	-	-	-
Expenditures:					
Salaries, Wages and Benefits	2,207,331	2,366,308	2,343,725	2,361,308	2,539,502
Overtime	-	-	-	-	-
Materials, Supplies and Services	270,018	165,304	544,536	396,951	340,304
Internal Support	56,205	96,772	96,772	96,772	103,404
Capital Purchases	19,748	-	-	-	-
Debt Service	-	-	-	-	-
Transfers to Other Funds	-	-	-	-	-
Prior Year Encumbrance	-	-	-	-	-
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Total Expenditures	2,553,302	2,628,384	2,985,033	2,855,031	2,983,210
Personnel (Full-time Equivalents)	20.00	20.00	20.00	20.00	22.00

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

** Numbers as published in the FY 13 Proposed Budget released August 1, 2012.

Key Contacts

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