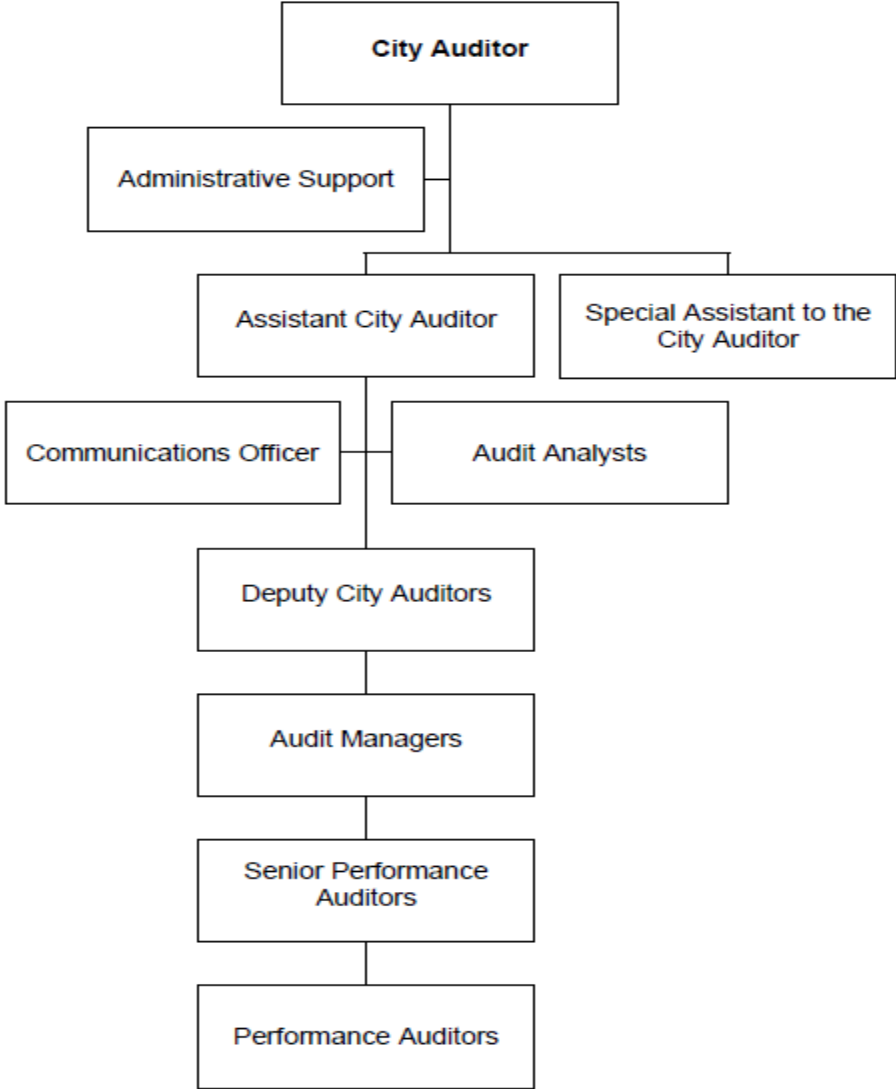


City Auditor



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. 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 16 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 16 the City Auditor's Office complied with all Charter and Municipal Code mandates.

Audits or Reports Issued in FY 16:

During FY 16, 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 2016 Annual Work Plan, which is available at www.CityAuditorLauraDoud.com.

The Office reviewed a wide variety of topics during FY 16. Some of the more significant projects included:

Job Order Contract Audit

The objectives of the audit were to evaluate the adequacy of the internal controls surrounding the Department of Public Works' Job Order Contract (JOC) program, including oversight, awarding of work, and performance monitoring. JOC is intended to efficiently move along small-scope construction projects by using a pre-established catalog to maintain competitive pricing. Since 2003, the City has used JOC to complete \$68 million in infrastructure projects, such as repair or renovations of parks, libraries and City buildings. The audit scope was from October 2013 through February 2015. The audit found significant systemic lack of controls over all key areas of the JOC process, creating an environment highly vulnerable to fraud. Contractors, knowing JOC project managers were under pressure to move projects along quickly, submitted low, unrealistic bids to secure contracts and then inflated proposals to make a profit. The audit found vague project scopes of work lacked detail to determine if pricing was appropriate and resulted in change orders and cost overruns in 91% of projects reviewed. The audit also found contractors inflated prices through use of items outside of the pre-established catalog, which were charged at 110%. Had non-catalog items been capped like they are in other JOC programs, the City could have potentially saved \$1.9 million during the audit period. As typical JOC projects average \$100,000, this is equivalent to 19 projects. These situations resulted in the City negotiating project pricing outside of the catalog and paying more than what was contractually obligated. As a result of the audit, the City reported that they temporarily suspended the program to address recommendations in the report. Legislation, recommended by our Office, was passed in May 2016 to provide key controls around the program.

Park Maintenance Audit

The objective of the audit was to assess the City's approach and strategy for landscape maintenance contract oversight in ensuring cost effectiveness and adequate park and tree conditions. The City's park landscape and tree maintenance is overseen by the Parks, Recreation and Marine Department (PRM). The City outsources to private contractors the maintenance of over 29,500 trees and nearly 2,000 acres of grounds in City parks, facilities, and street medians

FY 16 Accomplishments

costing over \$3.1 million annually. The audit found the City's parks and park trees will continue to decline unless the City changes its approach to managing resources, maintenance, and park expansion. Since awarding the landscape maintenance contracts in 2013, the City added 16 new parks and park improvements and 18 other locations such as street medians, but did not increase contract funding at the time of expansion. By adding more areas to be maintained without increasing funds, the City tasked landscape contractors to maintain more with the same amount of resources. This, coupled with the state-wide drought, created significant challenges to adequately maintain City parks and trees. The City Auditor's Office estimated there is at least a \$1 million annual shortfall for park and park tree maintenance. The audit also found mismanagement of resources due to lack of processes and controls which included:

- \$215,622 worth of relatively new equipment left unused in the City yard for several years; and
- \$80,800 paid over 16 months for maintenance that was never performed.

PRM generally agreed with the audit findings, however the Department did not agree to undertake key recommendations such as implementing a long-term, concentrated strategic approach to maintaining the City's parks and trees and expanding funding opportunities outside of the General Fund with a plan for naming sponsorships, donor programs and private-public partnerships to offset maintenance costs.

City Auditor's Fraud Hotline Report

The Office issued the first report on the Fraud Hotline which was revitalized by City Auditor Doud. Since 2007, the Office has been operating the Fraud Hotline, which is the only independent reporting system that allows City employees, vendors, business owners and residents to anonymously report their tips of fraud, waste and abuse against the City. The report provided information on who provides tips, type of tips and resolutions from tips received in 2014-2015. Of the 58 tips received during the two year period, a majority came from City employees (40%) followed by Long Beach residents (36%). The top three tips on fraud, waste and abuse against the City as highlighted in the report include:

1. Poor quality of City services
2. Reporting work hours falsely on timesheets
3. Using City property – such as vehicles and equipment – for personal use

The report detailed how tips are processed. For every tip, the Office conducts a thorough analysis to determine if there is sufficient basis to investigate. When the issue is more widespread than an individual instance, the Office conducts a more comprehensive review or audit. Thirty-one percent (31%) of tips led to or identified an audit or internal investigation.

The report also highlighted how to anonymously report tips 24 hours a day, 7 days a week to the City Auditor's Fraud Hotline:

- Phone: 1-888-FRAUD-07 (1-888-372-8307)
- Online form at CityAuditorLauraDoud.com
- MyAuditor App available at the App Store or Google Play

City Auditor's Report on Results

The first Report on Results summarized the implementation status of audit recommendations issued from our Office over a 5-year period from 2010 to 2014. Due to the extensive number of recommendations, implementation status was provided by Departments, and therefore not verified, but could be subject to follow-up audit procedures. Of the 256 total active recommendations, Departments reported that 182 (71%) were fully implemented. These changes resulted in improved oversight, access, and safeguarding of \$80 million in City revenue annually. The report showed that with City Management implementing a majority of our recommendations, the City is better, more efficient and more transparent. However, the report also highlighted that there is still room for improvement citywide. Audits have indicated reoccurring systemic issues in essential operations which expose the City to a high risk of fraud, waste and potentially uncollected revenue. Over the 5-year period, the Office found that strategic plans were lacking,

FY 16 Accomplishments

creating problems throughout departments whose operations bring in more than \$40 million in annual revenue. A substantial amount of recommendations, 45% across 12 departments, addressed the need for sufficient policy and defined processes over a particular operation. Also, numerous audits noted issues with procurement and contracts that bring in \$29 million in annual revenue as well as significant security issues with City software systems.

Contract Administration Audits

Throughout FY 16, the Office conducted limited scope reviews of selected contracts throughout the City. The Office evaluated the adequacy of the City's monitoring procedures and internal controls over the administration of contracts as well as the vendor's compliance with key contract provisions. The Office issued separate reports for each individual contract audit upon completion; a total of ten audits will be completed. A summary report that will compile all of the results is expected to be issued in FY 17. Individual reports released so far have shown that the City has not provided resources, guidance and training on how to effectively manage contracts which has led to a limited amount of oversight from City staff, poor planning, lack of agreement on work product, and services paid for outside of contract terms.

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.

Other Accomplishments

Distinguished Knighton Award for Police & Fire Public Safety Dispatcher Overtime Audit

In FY 16, the Office won the prestigious 2015 Distinguished Knighton Award from the Association of Local Government Auditor's (ALGA) for the Police & Fire Public Safety Dispatcher Overtime Audit. The audit identified \$1.3 million in public safety dispatcher overtime and a potential unsafe work environment. Based on the findings, the audit recommended that the Police and Fire Departments review more closely their current staffing levels and schedules, the disproportionate distribution of overtime among the dispatcher workforce, as well as their recruitment efforts. Judges determined the Office's report was among the best of 2015, noting, "The report identified the potential for significant impacts including budgetary, safety, and operational efficiencies." This is the fourth ALGA Knighton Audit Award the Office has received. The Knighton Award is one of the most highly regarded honors, because it recognizes the best performance audit reports issued by its 300 local government audit organization members.

Annual Work Plan & Accomplishments Report

In FY 16, the Office released its second Annual Work Plan to the public. The document enhances transparency by providing information about the role of the Office, highlighting the valuable audit work produced in 2015, and outlining planned audits with a focus on issues that directly affect the public's quality of everyday life. The 2016 Annual Work Plan & Accomplishments Report 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. In addition, the City Auditor's Fraud Hotline Report was distributed to all City employees and members of the public at community events.

FY 16 Accomplishments

The 2016 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.

Website

In FY 16, the City Auditor's website, www.CityAuditorLauraDoud.com, was updated with a more user-friendly and responsive interface, so that the public can easily access reports, find out about upcoming projects, see news items and report fraud tips.

Mobile App

The Office updated the MyAuditor 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 audits, and receive the latest Office news. The MyAuditor app is the first of its kind among government audit offices.

Social Media

A top priority in FY 16 was to enhance transparency through new communication modes allowing for two-way dialogue with the public. The Office launched new social media channels, Twitter at @LBCityAuditor and Facebook at facebook.com/LongBeachCityAuditor, which the public can follow to stay informed on how the Office is working for them and to share their comments.

Community Events

The Office attended community events to distribute Office information and interact with the public by listening to concerns, answering questions and obtaining feedback on current issues.

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 16 information illustrates the scope of this work:

- Number of checks reviewed: 55,964
- Value of checks reviewed: \$941,048,290
- Number of checks withheld: 181
- Value of checks withheld: \$9,374,871
- Number of wire transfers authorized: 1,187
- Value of wire transfers authorized: \$1,588,355,253

FY 16 Accomplishments

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 16 the Office managed about 200 active garnishment files for City employees. Garnishment payments total approximately \$50,000 each payroll period. Additionally, the Office maintains files for around 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 15	Adopted* FY 16	Adjusted** FY 16	Adopted* FY 17
Revenues:				
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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Total Revenues	-	-	-	-
Expenditures:				
Salaries, Wages and Benefits	2,416,536	2,653,252	2,653,252	2,691,331
Overtime	11	-	-	-
Materials, Supplies and Services	378,679	165,304	294,205	165,304
Internal Support	107,057	228,348	228,348	228,678
Capital Purchases	-	-	-	-
Debt Service	-	-	-	-
Transfers to Other Funds	-	-	-	-
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Total Expenditures	2,902,283	3,046,904	3,175,805	3,085,313
Personnel (Full-time Equivalents)	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 17 Proposed Budget released July 1, 2016. Amounts exclude all-years carryover.

Personnel Summary

Classification	FY 15 Adopt FTE	FY 16 Adopt FTE	FY 17 Adopt FTE	FY 16 Adopted Budget	FY 17 Adopted Budget
City Auditor	1.00	1.00	1.00	203,785	207,900
Assistant City Auditor	1.00	1.00	1.00	181,450	181,450
Audit Analyst	3.00	3.00	3.00	213,483	217,852
Audit Manager	3.00	3.00	3.00	300,267	300,267
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	418,355
Staff Auditor	3.00	3.00	3.00	145,634	148,757
Subtotal Salaries	----- 22.00	----- 22.00	----- 22.00	----- 2,114,018	----- 2,127,008
Overtime	-	-	-	-	-
Fringe Benefits	-	-	-	1,024,613	1,089,956
Administrative Overhead	-	-	-	40,249	43,852
Attrition/Salary Savings	-	-	-	(525,627)	(569,485)
Expenditure Transfer	-	-	-	-	-
Total	----- 22.00	----- 22.00	----- 22.00	----- 2,653,252	----- 2,691,331

Key Contacts

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