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A Conversation With . . . **Long Beach City Auditor Laura Doud**



Long Beach City Auditor Laura Doud ran unopposed for a second term in the office that she describes as a check and balance for the city. Working with an annual office budget of about \$2.7 million, Doud says she represents the people and works to provide transparency in city government through auditing the city's various departments and financial contracts.

Doud is a Long Beach native and says her heart is in the International City. She is a California State University, Long Beach grad with a degree in accounting. During a three-year stint as a staff auditor in the city's office more than 10 years ago, Doud saw first hand the inefficiencies and lack of checks on the financial transactions in the City of Long Beach. She later became a certified public accountant, a certified fraud examiner and earned a law degree at Pacific Coast University of Law. She then served as controller for the Water Replenishment District of Southern California, where she says she helped turn around one of the most fiscally challenged government entities.

At the urging of friends and colleagues, and her own drive to improve her beloved hometown, Doud ran for Long Beach city auditor in the 2006 election against a 14-year incumbent. She won easily, and in July 2006, she was sworn in as the 10th elected city auditor in the city's history.

Four years later, Doud says she is proud of the work done by her “awesome, all-star team” of 12 auditors, two audit analysts, two administrative assistants and a director of communications. But the proof is in the pudding. The office recently earned the Knighton Gold Award, the highest honor given by the Association of Local Government Auditors (ALGA) for its 2009 Towing Operations Audit. The award is one of two prizes for 2009 achievement from ALGA for Long Beach. The second award is a Silver Award for the informative content and ease of navigation of the city auditor’s office Web site, www.cityauditorlauradoud.com. These awards mark the third consecutive year that the Long Beach City Auditor’s Office has won national recognition for outstanding work. Previous awards were the 2007 Silver Website Award and the 2008 Honorable Mention Award for the Long Beach Museum of Art Audit.

Doud sat down with Business Journal Staff Writer Tiffany Rider to talk about the auditing process and the role of the office, as well as the financial issues the city is and will be facing.

LBBJ: Walk us through the auditing process. For example, your office recently audited the Long Beach Technology Department and followed up with a presentation to the city council.

Doud: Basically, we send a letter informing the department that we’re going to perform an audit. We have an entrance conference to let them know what our objective is [and] to talk to them about the inventory process. When you think about technology services, they control about 10,000 pieces of equipment. In these past two years, there was about \$3 million in expenditures spent on computers. This was more of an audit of the hardware – the computers, the monitors, that sort of stuff. We notified them that we were going to perform an audit. We met with them to let them know we wanted to review their inventory procedures to see how they’re handling and controlling everything. So we met with their management and we talked about the policies and procedures over their inventory controls and asked for a report from their system to show a listing of all of this so we could verify it.

LBBJ: So you request information in advance of those you audit?

Doud: Yes. We initially inform them we’re going to perform an audit, and then at that entrance conference we give them a document request.

LBBJ: How do you decide who to audit?

Doud: That’s a really good question. The charter is very open-ended about what we can do. We’ve been very aggressive at going after revenue. Not only is auditing about collecting all revenues; it’s about making sure all departments are operating as efficiently and effectively as possible and ensuring that they have all the proper internal controls in place so that things don’t fall through the cracks. We had some questions about technology services. We knew that they are in charge of a lot of equipment. Computers are constantly being upgraded, so we just wanted to see what kind of inventory controls they had in place and to see if it all reconciled appropriately. We found that it didn’t. There were some serious weaknesses within their system that I think they’re tightening up right now.

LBBJ: Is there some sort of schedule? Once you perform an audit, do you document that so you can make a note of when to audit it again?

Doud: Not so much. We don’t have a set schedule. The way that we worked when we first came to office was to brainstorm together to see what the biggest problems facing the city are. The biggest problem facing the city was the budget. So we looked at the budget and we found out that 50 percent of the budget is the police department. When was the police department last audited? It had been like 14 years. So we decided it’s time to look at the police department to see if there are ways we can streamline, improve and make sure the taxpayers are getting the best bang for their buck. . . . There were a lot of low-hanging fruit when I came in. . . . In my third year we started to look more at internal controls, making sure departments have proper internal controls in place. . . . Just to review the process, we do give them a heads up. We do meet with them personally to tell them what our objective is, introduce them to the auditors who will be in their office who will be asking questions. We review their policies and procedures,

we review their systems, we review the way they take inventory if they do, and then we verify it ourselves.

LBBJ: How long does a process like that take?

Doud: About six months.

LBBJ: Is that somewhat typical or average for an audit?

Doud: I think so. Yes. Something that most people don't know about this office is, there is so much ongoing on a day-to-day basis. The city charter requires us to approve every check that the city writes to vendors to pay for services and supplies. Every single check runs through this office. We have to approve so much documentation to make sure the city is paying for things accurately. We're performing audits on top of the day-to-day phone calls and activities going on in this office. If we didn't have all these other responsibilities, then we could just crank out audits left and right. But we're managing it amongst a lot of other requests. So that is pretty typical.

LBBJ: How are audits and recommendations presented to the city council?

Doud: We present all of our audits to the city council, which had never been done by the previous administration. What they did when they performed an audit, they would just give it to the department head. But we take all of our audits to the city council because that's a public forum where we can communicate with the residents who we work for. So everything is made public and I present all of our audits to the city council. After we're done, we post them on our Web site.

LBBJ: What were the recommendations made to city council about the technology department audit?

Doud: The main one is that we recommended that they update their records, their system, and that's a recommendation we made citywide. We also recommended that they devote more than one staff person to keep the system current. We felt like their inventory controls could have been tightened up a bit to not allow so many people access to the inventory and to keep it tight. Those were the main ones.

LBBJ: Is there any follow up on these recommendations made to the city council?

Doud: Yes. The final recommendation for technology services was to come back within six months to a year and report back to the city council and the city auditor to make sure these recommendations were implemented.

LBBJ: Is that typical of other audits too, that they have a certain amount of time to implement the recommendations?

Doud: Yes.

LBBJ: Are all of the audits done with the current staff?

Doud: Yes. The performance audits are those that are done in city departments and city operations. The city charter requires the financial audits. It's the comprehensive annual audit that KPMG performs. That is contracted out and that has been contracted out for 20 years. That's the huge annual financial audit to make sure that our financial statements are in compliance with generally accepted accounting principles. It's all the financial statement stuff. What our office does is look at city departments and city operations to see if they are operating at the very best, and most efficiently, effectively, responsibly. If you look and pull the last 15 audits that we've done, they've all been done in house.

LBBJ: Do you ever have any concurrent audits, or multiple audits in the works?

Doud: All the time. Right now we have several going. On our Web site, if you click the link that says 'Audits In Progress,' we keep it updated so people can see what we're working on.

LBBJ: Who audits the city auditor?

Doud: That's a great question. The biggest organization in the audit industry is called the Association of Local Government Auditors (ALGA). It is the organization that coordinates the auditing of local governmental audit offices such as this one. It is required by generally accepted auditing standards that every auditing shop undergo an audit once every three years. The committee at ALGA appoints an audit committee to come audit you. It's not like I pick who gets to audit the office. Three auditors were selected to come audit the office whom I had never met before from three different states throughout the country. They came in and checked all of our records and everything we're doing here. I'm really happy to report that we passed with full compliance.

LBBJ: When was that?

Doud: That was March 2009.

LBBJ: Do you audit the Long Beach Convention Center?

Doud: I believe the convention center has a contract with the city that we would audit.

LBBJ: The Long Beach Convention and Visitor's Bureau? How about the business improvement districts, like the Downtown Long Beach Associates?

Doud: I do know that, as the list goes on, the city does have contracts with these specific entities and they are required to submit financial documentation to the city. So yes, all of this is within our jurisdiction to review and to check to make sure that they're sending all that they're required to the city. If there's a problem that we can investigate further we will. As you know, this is a huge city with a ton of contracts. These contracts are the first line of defense that would go to community development. They handle a lot of what you're talking about here. Our office, with 12 auditors, can't audit every contract within the city. We pick and choose.

LBBJ: Right. We were just wondering if these fall under your jurisdiction.

Doud: Yes, they do.

LBBJ: Others that would have contracts with the city would be the health department, gas and oil, the water department, the Port of Long Beach, the Long Beach Airport and the Queen Mary?

Doud: Yes.

LBBJ: Since you began your work here, there have been some significant changes that the office underwent from the previous administration. How, from that transitional point over the last four years, has your office evolved?

Doud: It's really a wonderful city and I came to appreciate how much it requires running a big city like this. There are more than 5,000 employees [working for the city]. For instance, in the audit of the police department, we found some great recommendations that they've taken to heart and have improved upon. That has saved \$4 million annually to the General Fund. . . . There are a lot of really good things here in this city, some great things. I'm such a huge champion of this city, so at times it's hard to be talking critical about it. But my job is to look for the areas that need improvement, and so it is rewarding to work [where] you feel like you're making a difference. Any program or anything you want to do in this city, the bottom line is you need money to do it. That is a motivating force for me, to be aggressive and to make sure I look at whether we're getting all the money that's due. Every contract we look at has problems. This office has an important role [so people need] to know that there's an auditor who is awake, alert, aggressive and who's on it and going after every dollar that the city is owed. The last thing I want to do is support raising taxes without making sure that we're collecting everything that's due to us.

LBBJ: Would you say in your experience that department heads enjoy the auditing process, or do they look at you stigmatically as the IRS?

Doud: I do have to say that I've been pleasantly surprised, especially lately. They have been so much more open than I was expecting. I think that our office has developed some trust. When I first came in, I believe there was some hesitancy about, "Who is she? What's her motivation? It is a political office. Is she doing this for politics? Is she doing this for a headline to make us look bad?" That has not been the case. I'm really about making improvements in the city and making our work transparent to the public. I go to the city council because I work for the public and I think it's important to let the public know what we're doing as their representative. Our whole goal is to make things better, to improve the way things are being done here. There's always a better way to do things. Whatever concerns they had about me initially, I think [since then] we've developed some trust. Technology services was very open. The police department was very open. We audited public works and they were very open. The towing department, which is the audit we got the gold award for . . . What was cool about that audit is that they asked for it. The head of the department said, "I know we have problems. Can you come in and audit us?" I think that's really a sign of a great city, a city that doesn't pretend problems don't exist.

LBBJ: Is there a schedule or timeline for future audits or audits in progress?

Doud: [It's based] really on risk. The low-hanging fruit, when we first came into the office, were really the police department, the oil production tax, the audit of this office – and the Long Beach Museum of Art was having problems. Those were the four big audits we did our first year. We do respond to requests from the city manager, from city council, from the constituents when they have concerns. We take all of those things into consideration. That's how a lot of our audits come to be, but our others [are determined] by, one, money, and two, the greatest risk. Towing was a huge risk. They were collecting \$6 million and all of it in cash.

LBBJ: Let's talk about capturing revenue. One of the primary functions of your office is to identify and capture all revenue due to the city. Where are there difficulties in capturing revenue due to the city?

Doud: One is this: In November 2008, Measure G passed. It was basically an update on the Utility Users Tax (UUT). It's now a new law, and we are right now performing the first full comprehensive audit of the UUT that has been done in the City of Long Beach in a long time. UUT includes telephone, gas, water and electricity. It provides about \$40 million in revenue a year to the city. We're auditing the UUT now to make sure they're in compliance with the new law. We're in the process right now so I can't comment much, but we will report to the public when we're done. There have been some challenges, and we're working through them. Like I mentioned earlier, I can't support an increase in taxes until I know for sure we're collecting all that's due to the city.

LBBJ: What is your role in the discussion of the city pensions?

Doud: The pension issue is by far the biggest challenge facing the city. This is something we have to put as a priority. You talked about how do I determine which audits to do and how do I plan. One thing I failed to mention is that we go with the requests we're given, the risk-basis and such, but we also ask ourselves what the problems are facing the city. The first question I asked myself when I got in office was what's the biggest problem in Long Beach. The budget. Right now the biggest problem is pensions, by far. It's the number one issue that's facing the city and the state. The pension costs are unsustainable. Our role . . . I think the public would expect me to be the independent voice for them. Financial management obviously gives presentations to the council, and you'll hear some of the collective bargaining units questioning if the numbers and projections are accurate. I believe it is our role to ensure the accuracy of those projections. I believe, and I'll say this for the record, that financial management and their expert actuaries are doing a good job with their projections and with their numbers. I concur with them.

LBBJ: How are the city's finances? What are we looking at right now?

Doud: The projection for next year is an \$18.5 million deficit. I think one of the biggest problems facing us is that we have about a \$385 million budget within the General Fund. About 88 percent of that is salaries, wages and benefits that the city is locked into because of the contracts with these unions or collective bargaining units. They have promised these pay raises and so forth. Because these contracts promised these raises, we're required to pay them. But guess what? Our revenue is not keeping up with these pay raises. There's the problem. Our revenues are not

keeping up. The assessed value of property is down. Sales tax revenue is down. Our hotel occupancy is down. So we need to now get our expenditures in line with our revenues, and control these expenses. When you think that 88 percent of it is salaries, wages and benefits, and a large portion is the benefit part, we have to get control of those expenditures. Two ideas that have come about to help our pension costs is one, to consider having the employees pay a greater portion of their share, and the other is to consider a new tier for new employees that come to work here. We have those to consider.

LBBJ: What do you see for the future of this office?

Doud: I'm excited about the future. We have a great team in place. I feel like the momentum is going strong and everything is clicking. The city has received over \$100 million in stimulus funds. That's a priority for this office. There are strict requirements that go with stimulus funds, so we want to make sure the city is not putting itself at risk to losing those funds. We've been auditing the stimulus funds. Another is the one I talked about earlier, the UUT audit we're doing. The other big audit we're doing right now is on the billing and collections system to make sure that the city is properly billing for and collecting all the money that's due. So I'm excited about that. In a couple of weeks I'll be coming out with our review of the transfer that the Port of Long Beach makes to the [city's] tidelands operating fund. The port makes an annual transfer and we looked at it and came up with some recommendations.