



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

January 31, 2008

Honorable Mayor and City Council
Citizens of Long Beach

The Office of the City Auditor recently completed its first annual audit of Proposition H (Prop H) revenues and expenditures, as required by Long Beach Municipal Code §3.80.227. The four primary objectives of this audit were as follows:

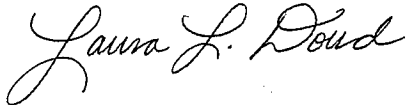
- 1) Identify Prop H revenues received during fiscal year (FY) 2007 and determine if funds remitted by the oil producers were properly calculated;
- 2) Identify FY 2007 expenditures of Prop H funds and analyze whether such expenditures complied with the approved uses set forth in the municipal code;
- 3) Determine the amount of unspent Prop H monies on deposit at September 30, 2007 that were carried-over into the current fiscal year; and
- 4) Determine the status of any projects and programs funded by Prop H revenue.

The citizens of Long Beach approved Prop H, the Police and Fire Public Safety Oil Production Tax, on May 1, 2007. Prop H amended the Long Beach Municipal Code to assess an additional 25 cents per barrel special tax on oil producers in Long Beach. This special tax is an addition to the existing tax of 15 cents per barrel produced, and is a legally distinct tax to be used specifically to fund police officers, firefighters, and related costs. This new tax became effective on June 1, 2007; therefore, the scope of our audit covered the period June 1, 2007 through fiscal year end September 30, 2007.

Our audit revealed that the City received approximately \$903,000 of Prop H revenues during FY 2007. However, there were no Prop H expenditures during the fiscal year. Detailed background information and planned uses for Prop H funds are included in the attached report.

In conclusion, we express our appreciation to employees of the Police Department, Fire Department and Department of Financial Management for providing their time, information, and cooperation during the audit process.

Sincerely,

A handwritten signature in cursive script that reads "Laura L. Doud".

Laura L. Doud, CPA
City Auditor

cc: Patrick H. West, City Manager
Anthony W. Batts, Chief of Police
David W. Ellis, Fire Chief
Lori Ann Farrell, Director of Financial Management
Braden Phillips, Bureau Manager, Administration Bureau, Police Department
David Honey, Administration Officer, Fire Department
Sandra Jong, Accounting Operations Officer, Financial Management
Michael Breen, Administrator, Fiscal Division, Police Department

Audit Report

Proposition H

Police and Fire Public Safety Oil Production Act



Office of the City Auditor

January 2008

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BACKGROUND:

Proposition H

The citizens of Long Beach (City) approved Proposition H (Prop H), the Police and Fire Public Safety Oil Production Tax, on May 1, 2007. Prop H amended the Long Beach Municipal Code to assess an additional 25 cents per barrel special tax on oil producers in Long Beach, with the tax rate to be adjusted annually based on the Consumer Price Index (CPI). This special tax is in addition to the existing tax of 15 cents per barrel produced, and is a legally distinct tax to be used specifically to fund public safety. This new tax became effective on June 1, 2007.

Amounts received from the special tax are distributed equally between the Police and Fire Departments. The proceeds from this special tax may only be used for police officers, firefighters, and related costs including, but not limited to, equipment, facilities, and training, in order to ensure timely responses for public safety needs.

Oil Producers

THUMS Long Beach Company (THUMS), Tidelands Oil Production Company (TOPKO) and Signal Hill Petroleum Inc. (SHPI) are the City's current top oil producers and account for 96% of oil produced in the City. The source for the majority of the oil produced is the Wilmington Oil Field.

The Wilmington Oil Field was discovered in Long Beach in 1932 and is 13 miles long, extending from San Pedro to Seal Beach. The field is divided into two sections: West and East. TOPKO serves as the field contractor for the western section of the oil field, and THUMS serves as the field contractor for the eastern section. In fiscal year (FY) 2007, THUMS produced 11,334,539 barrels of oil, while TOPKO produced 2,602,657 barrels of oil.

SHPI, the third largest oil producer in Long Beach, is the operator for the Signal Hill West Unit and the Signal Hill East Unit Oil Fields. The oil fields are located in both Long Beach and Signal Hill. In FY 2007, SHPI produced a total of 242,448 barrels of oil.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

Long Beach Municipal Code §3.80.227 requires annual independent financial audits of Prop H revenues and expenditures during each fiscal year. The four primary objectives of this audit were as follows:

- 1) Identify Prop H revenues received during FY 2007 and determine if funds remitted by the oil producers were properly calculated;
- 2) Identify FY 2007 expenditures of Prop H funds and analyze whether such expenditures complied with the approved uses set forth in the municipal code;
- 3) Determine the amount of unspent Prop H monies on deposit at September 30, 2007 that were carried-over into the current fiscal year; and
- 4) Determine the status of any projects and programs funded by Prop H revenue.

As Proposition H became effective June 1, 2007, the scope of our audit covers the period June 1, 2007 through September 30, 2007. We performed the following procedures during our audit:

- Obtained the Oil Production Taxes Schedule from the Department of Financial Management and recalculated FY 2007 Prop H revenues.
 - Identified the largest Prop H revenue sources and traced those revenues received to the bank statement and supporting production reports from the oil producers.
 - Independently confirmed the reported oil production amounts with the top three oil producers, accounting for 96% of oil production within the City.
 - Identified the Prop H expenditures during FY 2007 and determined whether the expenditures were in accordance with the municipal code.
 - Obtained the Police and Fire Departments' plans to use Prop H monies in the future, and determined whether those plans are in accordance with §3.80.224 of the municipal code.
 - Identified the amount of unspent Prop H monies on deposit at September 30, 2007 that were carried over into the current fiscal year.
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- Interviewed City personnel in the Police Department, Fire Department and Department of Financial Management and obtained relevant documentation regarding internal control procedures for Prop H revenues and expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

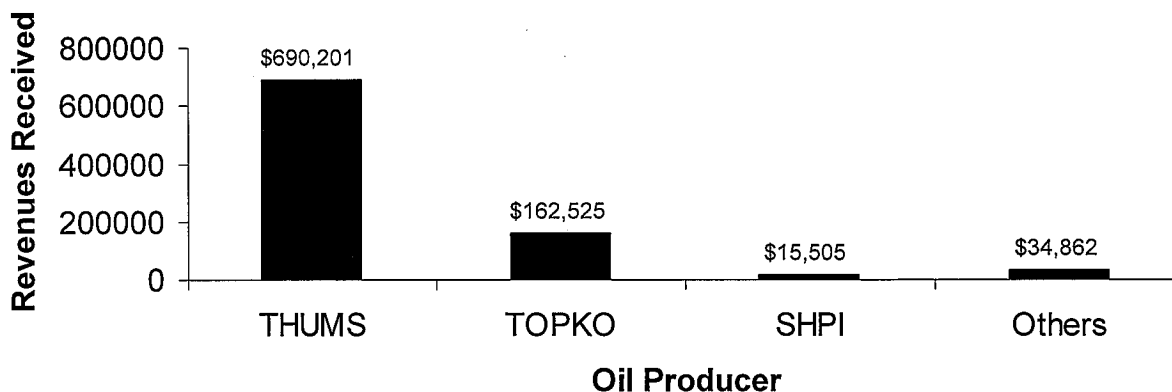
AUDIT RESULTS

Objective 1 - Identify Prop H revenues received during FY 2007 and determine if funds remitted by the oil producers were properly calculated.

The City received \$903,093 of Prop H special tax revenue during FY 2007. That revenue was based on production reports totaling 3,612,371 barrels of oil. We substantively tested 96% or \$868,230 of these revenues received through confirmations with the oil producers and traced amounts received to bank statements. All revenues were received by the September 30, 2007 due date; as such, taxes appear correctly calculated, and no penalties were incurred.

Below is a summary of the Prop H funds received from major oil producers during fiscal year 2007.

FY 2007 Prop H Revenues by Oil Producer



The total amount of special tax revenue received was deposited into Special Revenue Fund 121, the Police and Fire Public Safety Oil Production Act Special Revenue Fund, as required by §3.80.225 of the Municipal Code. The funds were then divided equally between two subfunds, one for the Police Department and one for the Fire Department.

Objective 2 - Identify FY 2007 expenditures of Prop H funds and analyze whether such expenditures complied with the approved uses set forth in the municipal code.

There were no expenditures of Prop H funds during FY 2007.

Objective 3 - Determine the amount of unspent Prop H monies on deposit that were carried-over into the current fiscal year.

Including interest, both the Police Department and the Fire Department received \$451,880 of Prop H revenue during FY 2007. As there were no expenditures during the fiscal year, 100% of those funds carried over into the current fiscal year.

Objective 4 - Determine the status of any projects and programs funded by Prop H revenue.

Police Department

There were no projects or programs funded by Prop H during FY 2007. Beginning in FY 2008, the Police Department intends to use its annual Prop H funds to permanently fund 14 additional motorcycle officers. Anticipated expenses include salaries, benefits, training, equipment and related costs for 14 police officers on an ongoing basis. Additionally, the Police Department intends to use Prop H funds to cover the costs of 14 new recruits while they are in the Police Academy.

Fire Department

There were no projects or programs funded by Prop H during FY 2007. However, beginning in FY 2008, the Fire Department intends to use its Prop H funds to purchase a new fire truck, operate an older, spare fire truck until the new truck is delivered, and fund 12 new firefighter positions, associated facility modifications and equipment.

Additionally, the Fire Department will use its Prop H funds to upgrade its Disaster Management Division to a Bureau. This upgrade includes the addition of a position dedicated to emergency preparedness.

MANAGEMENT'S COMMENTS

The Fire Department, Police Department, and the Department of Financial Management agreed with the audit results.