

LONG BEACH CITY AUDITOR'S OFFICE

# 2015 ANNUAL WORK PLAN

*Protecting the taxpayers' interests since 1908*



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# Message from the City Auditor



**Laura Doud**  
Long Beach City Auditor

*"I am confident that when the year is finished, this Office will have provided significant value towards becoming the best city we can be."*

The Office of the City Auditor is excited to present our 2015 Annual Work Plan. Since coming into Office in 2006, one of my top priorities has been to ensure our Office consistently focuses on internal improvements that enhance our work quality and provide increased value to the City. Publication of the 2015 Annual Work Plan is meant to enhance transparency by providing information about the role of our Office, planned activities, and audit processes.

Our 2015 Annual Work Plan considers the Office's limited resources and efficiently allocates those resources to best meet competing needs throughout the City. The amount of work included in the Plan is likely more than can be accomplished in one year considering resources and new issues that may arise that will take precedence. To ensure priorities meet risk demands, the Annual Work Plan is constantly reviewed throughout the year, and adjustments are made accordingly. Any projects not initiated during 2015 will be considered for inclusion in the following year's Annual Work Plan. At the end of 2015, our Office will issue an Annual Accomplishments Report detailing which projects were initiated and completed during the year.

Our Office is the only department within the City that provides an independent review of City operations without bias or pre-determined outcomes. We are committed to fostering a collaborative partnership with the Mayor, City Council and City Management to improve operational efficiencies to better meet the needs of the public. In the past year alone, we have completed several projects requested by management that resulted in valuable recommendations which could increase revenues, improve security of assets and refine financial projections. We welcome all suggestions and always ensure they are given adequate consideration when prioritizing resources.

I want to recognize and thank my staff for their commitment to public service and passion to continually seek ways to improve our City. Most importantly, I want to thank the residents of Long Beach for their trust in me to uphold the responsibilities of this position and for the continued support in our role as the independent voice for the City. The 2015 Work Plan was developed with the public's interests in mind, and I am confident that when the year is finished, this Office will have provided significant value towards becoming the best city we can be.

Sincerely,

Laura L. Doud  
City Auditor





# Focusing on Adding Value



Article VIII of the Long Beach City Charter authorizes the City Auditor as the general auditor of the City and of every department, commission and office thereof. The Office of City Auditor is an elected position, holding four-year terms with no term limits. The City Auditor reports directly to the public, and the 2015 Annual Work Plan is one vehicle this Office uses to inform the public of how the City is spending tax dollars.

Being an elected Office, we are the only department within the City that is truly independent and provides objective reviews and audits that report all pertinent facts and issues. We welcome audit requests and project suggestions from Elected Officials and City Management, because we believe it is more productive to forge partnerships than to be on opposing sides. While we may not always agree on an issue, we ensure differing opinions are amply considered and are reported in a manner that is fair to all parties.

Past information and recommendations reported by this Office have resulted in efficiencies and changes to the City Municipal Code and the City Charter to bring additional revenues to the City and improve the security of the City's assets. These increased revenues allowed the City to provide additional and improved services to the public, such as more police officers and fire fighters. As part of the 2015 Annual Work Plan, we will be reviewing all previously issued audit reports and will provide a status report on the City's efforts to implement the recommendations.

Our Office continues to receive industry recognition for our audit work. Since Laura Doud took Office in 2006, the Office has received three Knighton Audit Awards. These prestigious awards are given by the Association of Local Government Auditors (ALGA) and recognize best performance audit reports issued by its 400 government audit organization members. Criteria for consideration include significant impact, focus on effective and efficient government, and clarity of communication style. Past awards include:

- **2013 BRONZE AWARD** – Parking Citations Collection Process Audit which identified \$18 million in unpaid parking citations issued within the prior three years. Report recommendations have the potential for long-term revenue growth and received support from the Mayor for a new software system to aid in collections.
- **2009 GOLD AWARD** – Towing Operations Cash Handling Procedures Audit, which found a lack of data integrity and separation of duties that resulted in a significant fraud risk. The Office used different visual aids to assist the reader in understanding the depth of the situation. Management concurred with the recommendations even before the report was issued.
- **2008 SILVER HONORABLE MENTION** – Long Beach Museum of Art Capital Campaign Audit, which found there were insufficient funds to repay over \$3 million in bonds issued for capital requirements and no formal plan in place to determine how payment would be made.

## REPORT HIGHLIGHTS FROM 2014

### HARBOR INTERNATIONAL TRAVEL EXPENSES

The reasonableness of the Harbor Commissioners' annual \$600,000 in travel expenses was under scrutiny during budget hearings, resulting in our Office reviewing the department's processes and reimbursements and recommending money could be saved by centralizing travel administration, eliminating travel subsidies for spouses, and reducing luxury items.

### PROPOSITION H SUMMARY REPORT FYS 2007-2013

In 2007, this Office initiated Proposition H which added a 25 cents tax per barrel on oil producers operating in the City. This Proposition has brought the City over \$25.7 million in additional revenue since 2007 that is used for police and fire activities, including supporting 9.5 police officers and 9 firefighters.

### ANIMAL CARE SERVICES REVENUE FOLLOW-UP AUDIT

In 2011, we confirmed the theft of \$253,000 in Bureau funds taken over eleven months by a City employee who was subsequently convicted for the crime. During 2014, we once again reviewed the Bureau's revenue processes and found the majority of recommendations from our 2011 report had been implemented, and the risk of misappropriation was significantly lower due to the added internal controls.

### MARINE BUREAU CONTRACTS, LEASES & PERMITS

We found the Marine Bureau has a unique opportunity to potentially increase revenue and enhance services to the public by changing the way it administers service contracts, many of which are several years old with few updates. Development of a strategic plan that focuses on providing quality public services, simplification of contract terms, and identification of long-term revenue goals could increase the economic value of the contracts and improve the public's experience.



# Vehicles for Adding Value



The Office of the City Auditor performs several different tasks aimed at providing independent assurance that public funds are spent responsibly.

## PERFORMANCE AUDITS

Since the 1970's, the Office of the City Auditor has performed independent examinations of revenues, expenses, programs, functions and data systems with the intent to improve the security of the City's assets and ensure operations are efficient in providing services to the public. These audits follow the Generally Accepted Government Auditing Standards (GAGAS), which provide detailed quality control guidelines for financial and performance audits and for ensuring the independence and objectivity of the audit function.

## FRAUD HOTLINE

The Office operates a fraud hotline for City employees, vendors, and residents to report fraud easily and confidentially. It is available 24 hours a day, 7 days a week with each call answered by a trained interviewer. This Office has a fiduciary duty to adequately investigate all allegations to determine the validity of the claim. In the next year, the Office is planning to publish its first Annual Hotline Report which will detail calls received and the results of the subsequent investigations with anonymity protected.

## BENCHMARKING STUDIES

There is always an interest in assessing how our City services

compare to our peers. Benchmarking studies allow us to compare services, financial information and performance results with other similar programs in addition to best practices and industry guidelines. These reports provide valuable information about innovation and new ways to improve government.

## REQUIRED FINANCIAL AUDITS

The City Charter and Federal government require an annual audit of the City's basic financial statements and federal grant awards. Due to the size of this project, we engage the services of an outside auditing firm to perform the work. Results are published in the City's Comprehensive Annual Financial Report and Single Audit Report. The City Charter also requires a quarterly verification of the City's cash and investments which are published in separate audit reports.

## DISBURSEMENT REVIEW

The City Charter requires the Office of the City Auditor to review all disbursements of City funds, including the approval of wire transfers. Disbursements are reviewed to ensure payments are timely, authorized, and documented. In FY 2014, the Office reviewed 49,500 checks totaling \$926 million and 1,100 wires totaling \$2.8 billion.

## WAGE GARNISHMENTS

The Office administers all City employee wage garnishments. During FY 2014, the Office managed 200 active garnishment files and over 1000 inactive cases. Garnishments

## OFFICE OF CITY AUDITOR MEETS HIGHEST STANDARDS

The U.S. Government Accountability Office (GAO) establishes professional standards for conducting audits in government. Those standards require audit organizations, such as our Office, to undergo an external peer review at least once every three years. A Peer Review determines whether an audit organization's quality control system is suitably designed and is in place and operating effectively. The Peer Review also provides assurance that an audit organization is following its established policies and procedures and applicable auditing standards.

The Association of Local Government Auditors (ALGA) established a Peer Review Program over 20 years ago to assist audit organizations in meeting the profession's peer review requirements. In July 2012, the City Auditor's Office underwent a triennial peer review for the three year period from 2009 – 2011. The results of the review show this Office has achieved the highest standards of performance for the profession.

"Passing the review is a great honor for the City of Long Beach," stated City Auditor Laura Doud. "I am pleased our Office has continued to achieve the highest standard of audit work. I remain committed to continuous improvement in our Office as we strive to provide the most efficient and effective City government possible for our residents."

are collected by over 15 agencies, each with different rules and regulations.





# Audit Process



The Office of the City Auditor adheres to the Generally Accepted Government Auditing Standards (GAGAS) as published by the Government Accountability Office. GAGAS provides quality control standards for financial and performance audits to ensure the independence and objectivity of the audit function. Work performed in compliance with GAGAS leads to improved government, better decision-making and oversight, effective and efficient operations, and accountability for resources and results.

This Office views the audit process as a collaborative effort with the auditee that provides opportunities to work together to improve government for the City of Long Beach and its residents. Key components of the audit process generally include:

## PLANNING

Once an audit area is selected, the scope of work is refined through research of pertinent information and conversation with applicable staff. Risk, duration, available resources and overall complexities of the project are identified to establish the parameters and boundaries of the audit. Once this preliminary work is completed, audit objectives are set and a comprehensive work plan is developed.

## FIELDWORK

During this portion of the process, the Office collects data that is applicable to the audit objectives. This data is tested and analyzed to provide

supporting evidence to assess whether the audit objectives have been met. Fieldwork can encompass a variety of tasks from database testing to surveillance.

## REPORTING

Once fieldwork is complete, a draft audit report is prepared that summarizes the evidence found. A quality control review is performed on the draft report to ensure the findings are adequately documented and the work meets GAGAS standards. The draft report is reviewed and discussed with the auditee to ensure there are no factual inaccuracies.

## COMMUNICATION

A critical component of a successful audit is constant communication between the audit staff and the auditee. Throughout the process, there is on-going communication to ensure all parties have clarity of the process, expectations, and timelines.

- After notifying the auditee of our intentions, an entrance conference is held to communicate the audit objectives, meet audit staff, and answer questions.
- During fieldwork, the auditee is kept current of issues identified to ensure information gathered is accurate.
- Once the draft report is completed, an exit conference is initiated to go over the details of the report and listen to auditee's perspectives and concerns. The auditee is then given the opportunity to provide management comments, which are attached to the report.

## CORE PRINCIPLES

The work of the Office of the City Auditor is guided by the following set of core principles:

### INDEPENDENCE, OBJECTIVITY AND INTEGRITY

The Office embraces the fundamental principle that all auditors perform their work with independence, objectivity and integrity. Auditors must remain free from personal, external and organizational impairments to that principle, both in fact and in appearance.

### PROFESSIONAL JUDGMENT

Good professional judgment should be displayed in all aspects of the auditors' responsibilities beginning with the initiation of the audit to reporting results using the highest standards of quality control.

### COMPETENCE

The Office requires all auditors engage in continuing education in order to maintain and expand their level of competence and to meet the requirements of the Peer Review.

### QUALITY CONTROL

The top priority of the Office is to ensure the work performed is of the highest level of compliance with professional standards, policies and procedures.

- A final report is made available to all interested parties and the public by distributing it through a variety of methods and posting to the Office's website.



# Development of Annual Work Plan



The development of the Annual Work Plan begins with setting specific objectives the Office desires to accomplish in the next one to two years. These objectives must meet all the responsibilities of the Office while focusing on producing valuable information, analysis and operational improvements. The **six objectives** driving the 2015 Annual Work Plan are:

## 1. INCREASING AWARENESS AND ENGAGEMENT WITH THE PUBLIC

We will enhance communication efforts with the Public to ensure they receive adequate and timely information about the work of this Office and that we listen and respond to current issues and concerns. We will be considering ways to enhance our communications and increase interaction with the Public.

## 2. IDENTIFICATION OF AUDITS THROUGH RISK AND IMPACT ASSESSMENTS

The Office uses several different criteria to identify which projects pose the greatest risk to City operations and respond to those issues which are an immediate concern to the Public.

## 3. BENCHMARKING REPORTS ON KEY CITY ISSUES

The Office will provide reports that compare City operations to best practices and other similar cities without pre-determined outcomes, giving City management, elected officials and the public valuable information about City successes and opportunities for improvement.

## 4. MAXIMIZE THE VALUE OF THE FRAUD HOTLINE

The Fraud Hotline allows interested parties to report City fraud, waste and abuse to our Office anonymously. It is our fiduciary responsibility to ensure that all information received through the hotline is adequately investigated and appropriate action is taken. Our focus will be enhancing communication with callers and reporting hotline related information to the Public.

## 5. ENHANCE INTERNAL PROCESSES TO CONTINUALLY MEET HIGHEST QUALITY STANDARDS

This Office continually strives to identify internal improvement opportunities to ensure we are meeting the highest possible standards. We consistently analyze processes, keep current on industry practices and provide valuable training to staff.

## 6. MEET CITY CHARTER AND MUNICIPAL CODE OBLIGATIONS

There are several responsibilities assigned to this Office through the City Charter and Municipal Code. When allocating resources, these obligations are a top priority.

The Annual Work Plan is a flexible and dynamic tool that can be amended throughout the year to reflect changing City risks and priorities, such as urgent Hotline calls or audit requests. The Office's audit resources are limited, and it is not likely that all projects outlined in this Work Plan will be initiated. Projects that are not completed in 2015 will be

## CRITERIA FOR PROJECT SELECTION

The Office used a risk-based approach to prioritizing and selecting projects. Risks are identified through a list of criteria that focus on financial, operational and public interest issues. The criteria includes, but is not limited to:

- Financial materiality
- Urgency or timing of issue
- Scope of audit
- Audit history
- Other auditing authorities
- Public exposure or interest
- Complexity of transactions
- Management accountability
- Reoccurring issues
- Status of the existing internal control system
- Technology age and usage
- Public health or safety
- Recent fraud incidents
- Recent or pending litigation
- Potential effect on other operations

considered for inclusion in next year's Annual Work Plan.





# Projects by Objective



The Office of the City Auditor has selected the following projects for consideration and prioritization in 2015. The projects are organized by objective:

## 1. INCREASING AWARENESS AND ENGAGEMENT WITH THE PUBLIC

### • ANNUAL REPORTING

Introduce new annual reporting to provide the public with additional information about the work conducted by the Office and its effect upon City operations. In addition to the 2015 Annual Work Plan, the Office will issue an Annual Accomplishments Report and a status of all audit findings.

### • NEW REPORT FORMATS

Improve written report presentation through new formats. The Office is also considering the use of other media such as video clips and alerts.

### • PUBLIC EVENTS

Attendance at community events where staff will distribute information about the Office, answer questions and listen to public concerns.

### • PUBLIC SURVEYS

Assess the possibility of issuing surveys targeting specific subjects, districts, neighborhoods or constituents to obtain feedback and learn the interests of the public.

## 2. IDENTIFICATION OF AUDITS THROUGH RISK AND IMPACT ASSESSMENTS

### • LIMITED SCOPE AUDITS

Using this audit approach, we will identify areas where repetitive problems exist. Audits are planned using concise, limited audit work plans that can be quickly enacted. For 2015, limited scope audits are being considered for contract oversight and cash and revenue collection.

### • INFORMATION TECHNOLOGY MANAGEMENT AND GOVERNANCE

We will assess the progress of the City to implement the recommendations outlined in the City's 2005 Information Technology Optimization Study and the City's current position in effectively providing IT governance and processes that enable the City to achieve operational goals.

### • PUBLIC WORKS PROCUREMENT PROCESS

After receipt of numerous hotline calls on issues surrounding the procurement process, we will analyze the bidding, award and payment process for contracts originating in the Department of Public Works.

## 2015 WORK PLAN HIGHLIGHTS

- INCREASED REPORTING OF OFFICE ACTIVITIES
- FOCUS ON THE CITY'S USE OF TECHNOLOGY
- ANALYZE THE RELATIONSHIP OF FRAUD AND AN ETHICAL ENVIRONMENT
- OBTAINING MORE PUBLIC FEEDBACK
- CONTINUED PERFORMANCE AUDITING OF SIGNIFICANT FINANCIAL PROGRAMS

### • FIREBOATS PROCUREMENT WITHIN THE HARBOR DEPARTMENT

The Harbor Department's procurement for the building of new fireboats has experienced delays and cost overruns. We will review the contracts and change orders associated with this project for reasonableness and proper oversight.

(Con't)





# Projects by Objective

- **FOOD FACILITY INSPECTION PROGRAM WITHIN HEALTH AND HUMAN SERVICES DEPARTMENT**

Analyzing the permit and inspection process for food handlers and related fees and collection efforts. This audit will include review of related data systems, account tracking and process efficiency and fee collection of over \$2 million annually.

- **LANDSCAPE MAINTENANCE CONTRACT WITHIN THE PARKS, RECREATION AND MARINE DEPARTMENT**

This is a large contract where the services provided are highly visible to the public. Numerous hotline calls have been received over the years regarding the work of the contractor and the City's oversight of the contract.

- **SANITARY SEWER MAINTENANCE WITHIN THE WATER DEPARTMENT**

Over \$15 million per year is spent on the operation and maintenance of the City's sewer systems. This program has not been audited under the current City Auditor's administration. The audit would examine the department's sewer system management plan (SSMP).

- **ENERGY EFFICIENCY EFFORTS**

The City spends \$14 million on average for electricity each year. The City is required to reduce electricity usage in future years. This audit would evaluate the City's

efforts to accomplish this goal, current reduction statistics, and future reduction plans.

### 3. BENCHMARKING REPORTS ON KEY CITY ISSUES

- **E-GOVERNMENT BEST PRACTICES**

This report will document the City's current e-government solutions to facilitate constituent services and interaction and explore digital technology best practices that enhance City services and communication to the public. The results will assist the Mayor's Office with its efforts to optimize the City's use of technology to better engage and serve constituents.

- **LIBRARY SERVICES WITHIN THE LIBRARY DEPARTMENT**

We will benchmark the City's library services and related expenditures and revenues against the operations of other city libraries. This report will provide a comparison of services and innovations occurring within the industry.

- **VACATED BUILDINGS WITHIN DEVELOPMENT SERVICES DEPARTMENT**

The Office will review the City's inventorying and monitoring of vacated buildings and the relationship on neighborhood crime and blight. The review will also assess the elimination of RDA and any contributing effects it may have had on neighborhoods and City practices.

- **RAPID MEDIC DEPLOYMENT WITHIN THE FIRE DEPARTMENT**

The City has implemented a two-year pilot program on changing the way the Fire Department delivers service. There are contradicting facts about the success of the program and the impact on the public's safety. This report would focus on statistics before and after implementation of the new model.

- **CIVIL SERVICE HIRING PROCESSES WITHIN THE CIVIL SERVICE DEPARTMENT**

Timely and efficient hiring processes will be critical for the City in upcoming years as more baby boomers retire. This report would focus on the hiring process in comparison with other government agencies, relationship with Human Resource processes, and departments' assessment of services provided.

### 4. MAXIMIZE THE VALUE OF THE FRAUD HOTLINE

- **REVIEW EFFECTIVENESS OF HOTLINE NETWORK ADMINISTRATOR**

The fraud hotline is currently administered by a third party that provides 24 hour coverage. Working closely with the administrator, we will focus on how the amount and quality of information received from callers can be enhanced.

(Con't)



# Projects by Objective

- **ANNUAL HOTLINE REPORT**

The 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.

- **DEVELOPMENT OF A MOBILE APP**

Many cities are now using mobile Apps to distribute and receive information to the public. We believe there is an opportunity for the Office to take advantage of this technology for fraud reporting.

- **FRAUD AND ETHICS**

It is proven that the amount and type of fraud is directly connected to the ethical environment of an organization. Our Office will review a variety of issues concerning ethics and the handling of fraud throughout the City. Areas under consideration are review of existing policies and procedures for reporting and handling fraud, identification of training to assist departments in understanding fraud and related internal controls, and performing an ethical climate assessment which surveys employees on their view of ethics in the workplace.

## 5. ENHANCE INTERNAL PROCESSES TO CONTINUALLY MEET HIGHEST QUALITY STANDARDS

- **PARTICIPATION IN A TRIENNIAL PEER REVIEW**

Every three years, this Office participates in an industry-sponsored Peer Review which determines whether an audit organization's quality control system is operating effectively and per industry standards. Our next Peer Review is scheduled for Spring 2015.

- **IMPROVING THE AUDIT PROCESS**

We continually look for opportunities to improve internal processes and gain the most value with our available resources. We continually engage staff to identify areas where greater efficiency may be possible.

- **ENHANCED TRAINING MANUALS**

We will enhance training manuals for internal staff to increase knowledge and standardize training efforts.

## 6. MEET CITY CHARTER AND MUNICIPAL CODE OBLIGATIONS

- **REQUIRED FINANCIAL AND REGULATORY REPORTING**

The Office oversees several financial audits handled by outside auditing firms. This includes the audit of the City's annual financial statements and Single Audit, Quarterly Cash and Investment reports, GANN agreed-upon procedures report, and the annual financial statements of the Los Cerritos Wetlands. In addition, we periodically obtain outside firms to look at User Utility Tax and Transient Occupancy Tax compliance. Internally, we audit the revenues and expenditures associated with Proposition H's Oil Production Tax.

- **DISBURSEMENT REVIEW**

The City Charter requires this Office to review all disbursements of City funds, which includes final approval of all wire transfers. Disbursements are reviewed to ensure payments are timely, authorized and documented.

- **WAGE GARNISHMENTS**

This Office administers all City employee wage garnishments through a complex process that must comply with unique regulations required by each garnishing agency.





# Projects in Progress



The following audits are currently underway with reports expected to be finalized in early 2015:

## AIRPORT PARKING GARAGE AUDIT

The audit evaluates whether current agreement terms, including the cost, quantity and quality of services provided, are competitive with current market conditions. The audit will also review the operator's performance and compliance with contract terms and the effectiveness of the city's contract administration responsibilities.

## AUTO LIEN SALES OPERATIONS AUDIT

Reviews the adequacy of financial-related practices and internal controls involved in the City's vehicle impound lien sales operations. The audit will determine whether revenues from lien sales were collected, recorded and deposited accurately and in a timely manner.

## BOARD-UP SERVICES CONTRACT AUDIT

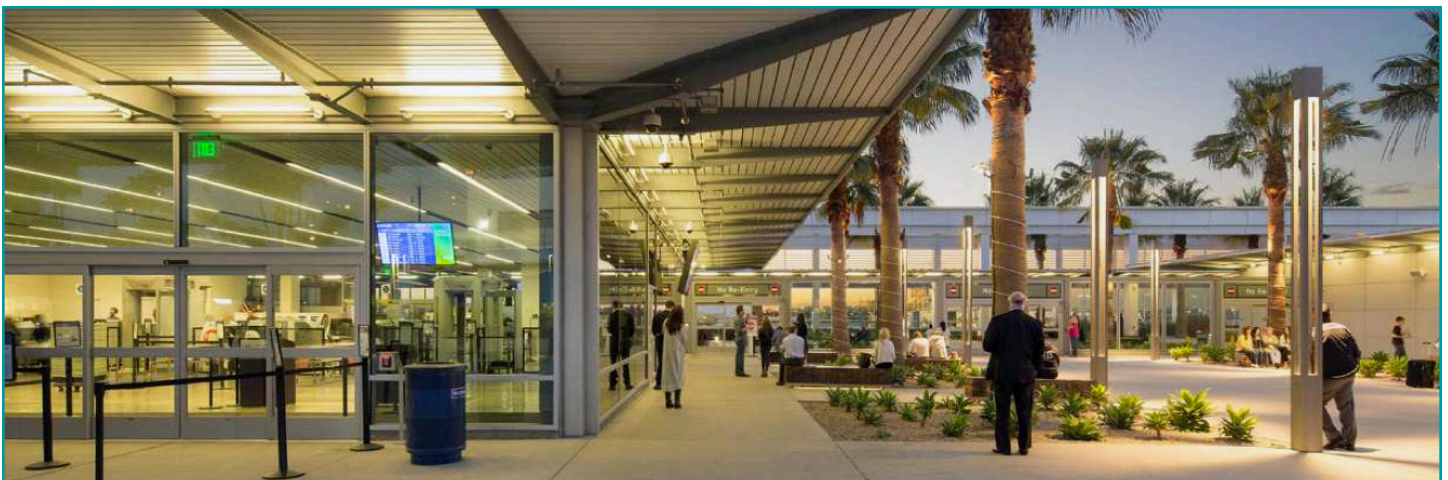
In response to a hotline call, this audit will determine whether the City's contract for board-up services is reasonable and contract oversight is sufficient.

## POLICE AND FIRE PUBLIC SAFETY DISPATCHER AUDIT

In response to a hotline call, this audit will report on the Police and Fire Department's internal controls and staffing practices for managing dispatch communications overtime and special pay compensation.

## UNDERGROUND STORAGE TANK (UST) COMPLIANCE PROGRAM AUDIT

As requested by the Department of Financial Management, we will assess whether the City has developed an effective process to ensure compliance with the UST Compliance Program.





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