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City Auditor

Laura Doud **Discusses** Oversight Of City Spending And Much More

By Samantha Mehlinger Senior Writer

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Pacific Gateway

Investment Network (Expanding Efforts To Local Employment Nee

By Samantha Menances Senior Writer

nemployment rates are dropping steadily and the economy has gained back some facting, but there are still many people - job seekers and business owners allier - who need aggistance meeting employment reseds.

In Long Beach and europending cities Signal Hill, Torrance and Lomita, that's where the Pacific Gateway Workforce Investment Network comes in.

Serving those four cities with about a \$15 million budget and 50. employees, Pacific Gateway is: tasked with meeting the needs of youth agas to 14 to 21, adults who have navar been employed or are underemployed, disfocated workers and the business community. The organization also serves other workforce investment networks and their boards, which were formed under the national Workforce Investment Act of

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lion worth of parking citations for the past few years. The report won the national Bronze Knighton Award from the Association of Local Government Auditors – the third time Doud's office was recognized with a Knighton Award.

Under Doud, the Office of the City Auditor has also been recognized for its website and is a member of several national organizations, including the Association of Local Government Auditors, the American Institute of Certified Public Accountants, the Association of Certified Fraud Examiners, and others. Including Doud, there are 18 staff members within the city auditor's office.

A Long Beach native, Doud is a graduate of Wilson High School, Long Beach City

College and California State University, Long Beach. After earning a degree in accounting, she began working for the city as a staff auditor in 1993. From 2003 to 2006, she served as a controller for the Water Replenishment District of Southern California. She has served as city auditor for the past eight years after first being elected in 2006 and reelected in 2010. In this year's election, she ran unopposed. Doud holds a law degree from Pacific Coast University School of Law and is a certified public accountant and a certified fraud examiner.

On a patio at the Hotel Maya overlooking the Long Beach skyline, Doud spoke to the Business Journal about her duties as auditor, the impact of her office's audits to city operations, her priorities for her third term, current issues on her radar and more.

LBBJ: How do you determine which audits to pursue?

Doud: That's a really good question. We have limited resources and there are a lot of big important issues facing our city, so we always want to be strategic on where we use our resources to basically give the tax-payers the biggest bang for their buck. The overarching things we think about when we decide to do an audit are the importance of it to the public, the relevance of it, making sure it will be valuable and useful, and that it could make a difference.

Those are things we look for, but we also get requests a lot. We get requests from the mayor. We get requests from city council. We get requests from city management. We get requests from the public. We are 100 percent open to all of those requests. Then

we sit down as a management team and decide what is most relevant, timely, critical and important, and what could have the biggest impact. That is kind of how we go about choosing and identifying the risks too, the risk potential, [and potential] loss of revenue. So there are a lot of factors that go into determining what audit we do. Can Liust back up for one minute?

LBBJ: Sure.

Doud: The charter has specific responsibilities for the city auditor. First and foremost is that we fulfill our charter responsibilities. We are responsible for the comprehensive annual financial audit. We do contract that out to KPMG [an audit, tax and advisory firm], but we oversee it. We are also required by the charter to audit the city's quarterly cash and investments. We are required to audit cash disbursements and cash receipts and garnishments. There are requirements such as the Prop H oil production tax audit. We're required to do that by ordinance. So, first and foremost are the charter responsibilities and then there are the ordinance-mandated audits. Third, we get fraud hotline calls that we take seriously. We have a fiduciary duty to follow up on those calls. With the other resources we have, we take requests from the public and from a number of sources.

LBBJ: How often do you get requests from people at city hall?

Doud: Not too often, but we do receive them. We're working with the mayor right now on our information and technology audit. City council in the past has asked us to look at the port. The port makes that transfer to Tidelands Fund, and we were asked to audit that. We were also asked to audit the harbor [commission] travel. That was a group request from council, the budget committee, the public and the media. We were getting questions from a lot of places. City management just recently asked us to audit the marina. We just finished two marina audits, one in cash controls and one on contract management. They are posted on our website. People can go to our website and pull them up and review them and see what we've done.

LBBJ: As you mentioned, your office has a hotline to report city fraud. Does that phone ring a lot?

Doud: We get a constant stream of calls. Some calls are more serious than others. One of the things we are working on is producing an annual report on our fraud hotline calls. We will have a report next year on that.

LBBJ: How have your audits effected changes in city operations?

Doud: I think it has really had a powerful impact and change in the city because we spend so much time in the planning phase of our audits, [and] because making a difference and making changes is probably one of the most important things to me. I am not here just to issue an audit report and get a headline or say, "I caught you doing something wrong," or to criticize or embarrass, or anything like that. One of the greatest rewards for me is to find improvements in how we can do things better. We don't waste a lot of time on things we don't think will make a difference. If we think we have an idea and we charge off on a path on an audit and then we find that halfway through it is not going to result in what we thought, we back off. We don't waste our

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Q&A WITH CITY AUDITOR LAURA DOUD

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time. Because we spend so much time in the planning process, we have come up with some really good audits, and I can give you a couple of examples.

The very first one we did was the oil production tax. We don't have enough time for me to go through the whole thing, but through our audit we did find the City of Long Beach was charging the lowest price per barrel on oil. It was a benchmark study which, as a result, ended up in a ballot measure. To get a tax increase, you need a two-thirds vote. And we got two-thirds percent of the vote. There had never been a tax increase voted on by the public before in the history of Long Beach. You can barely get two-thirds of the people to agree on apple pie, let alone a tax increase. But I think, with a lot of planning and preparation and collaborative work with the city, we were on to something very important. Since that vote, the city has collected over \$22 million it otherwise would not have had for police and fire. So when you talk about what kind of change has it had, it didn't just happen that one year. Because of our audit and oil production tax, every single year the city is receiving \$3.5 million to \$4 million more as a result, and it was specifically allocated for police and fire. Every year we can sustain approximately 12 more police officers, 12 more fire fighters, better equipment, better training. This is really a big deal in times of downsizing and budget cuts and revenue dropping. This was a huge shot in the arm for the city. I'm really proud of that.

We also audited the police department the first time the police department had been audited in over 12 years. At the time we started, the department had approximately \$12 million in overtime. We looked at why there was so much overtime and we came up with some recommendations, and as a result their overtime has decreased tremendously. It has had a significant impact on the budget because of the recommendations we made to help deployment and some recommendations in civilianization, [such as] taking the police officers who are in the office, putting them out on the streets and replacing them with civilians. So, as a result, there have been more cops on the streets and there has been less overtime. I think there were some really great recommendations that came out of that that have caused great change.

LBBJ: How much was the overtime reduced?

Doud: The next year I believe it had gone down to \$4 million. What it is today I am sorry, I don't know. But a year after our audit was issued, it went from \$12 million to \$4 million.

LBBJ: What year was that?

Doud: We issued it in 2007. So the fiscal year 2008 was \$4 million. I think there have been some significant other ones as well, like animal control. At the animal control [division of the Long Beach Parks, Recreation & Marine Department] there was a theft. There is a woman sitting in jail right now partially due to the work that our office did. That was a high profile case that I think really brought attention to segregation of duties — not to let the same person collect the cash, to record the cash and to make the bank deposit. You need to have segregation of duties. There needs to be better oversight, better accountability, better transparency. I

think it really caused some changes. I know within animal control it did.

Also the Alamitos Bay Marina. The city – a couple of years ago – was about to issue over \$90 million in debt to fund the \$96 million project at the marina. We started asking questions about how they were planning to finance the debt and they didn't really have a plan, so the city hired a financial consultant to figure out if they could afford this debt for this huge project and the financial consultant came back and said [the city] can't afford it. So it's a good thing we were asking the questions. They then went to a phased-in approach, to rehabilitate the portions they could afford.

LBBJ: Is that the dredging and rehabilitation project they are working on now?

Doud: Yes, at Alamitos Bay. It's by basin, and it is phased in as they can afford it. It really addressed the importance of having a plan and ensuring you could finance it before you put the city on the hook for it.

LBBJ: Have your recommendations on the various audits you've conducted been followed through on? If not, why?

Doud: Some have. Not all that we would have wanted. If not, why? Well, I think there are a couple reasons. One, we have experienced a recession. City revenues have gone down. Budget cuts have been real. City management has had a challenge with managing their resources and some of our audits recommend having a segregation of duties. They don't have the resources to hire more people to segregate



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it, or they have had to downsize staffing so there is not as much oversight. I know they have experienced some challenges there with decreased revenues and a limited budget. But, as we've talked about, a lot of our recommendations deal with antiquated software and information and technologies.

One particular one [city management] did follow throug on was the parking citations audit, where we found out there was over \$18 million in outstanding parking tickets and the system was so outdated, it didn't interface with the DMV. They had all this old data that was clogging up the system. They had no way of purging it. The software was so old and clogged and it didn't even produce proper reports to manage anything appropriately. So we took it to [city] council, and council did approve an investment to improve their system and software to increase their collection efforts. So that was a good thing that took place.

LBBJ: Do you typically find that when your recommendations aren't followed through on, it has to do with resources and funding?

Doud: Often times. One report that will be really important is going to be a summary of all of our recommendations and the implementation of our recommendations. There is a lot of work that goes into these reports. We take it seriously. We're required to abide by generally accepted government auditing standards and there is a high level of standard that all of our reports meet. They are solid reports, and they are bulletproof. They have not been challenged in any way. I feel very passionately about these recommendations being implemented, and there are not as many implemented as I would like. So we're planning to put a summary report together to show what has been recommended and what has been implemented.

LBBJ: How often do you repeat audits you have done in the past, or audits for the same departments?

Doud: Not very often. It's a big city. There is a lot going on constantly. We're trying to keep up with what's current and don't have a lot of extra resources to go back. There are some departments and things we haven't even gotten to yet. So I want to try to get to everything before repeating [audits].

LBBJ: If you were to repeat an audit, why would you do so?

Doud: We would go where the greatest risks are. Where are the greatest risks for loss of revenue and potential liability and fraud? We would keep our ears and eyes open at council meetings. We listen to council meetings, water commission meetings, read the agendas, read the newspapers. We're looking at all these things. So it would most likely be due to risk. Also, we follow the money. Where is the money, and also, what is important to the public?

LBBJ: Do you conduct, or have the freedom to conduct, audits of city agencies with non-General Fund budgets? For example, the harbor department, water department, airport.

Doud: Yes. We have done several audits of the harbor. We did the harbor transfer budget, and as a result there was another ballot measure. Since the 1980s, I think due to a vote from the public, the port had been making a transfer to the Tidelands



City Auditor Laura Doud has been a Long Beach resident all her life. As auditor, she is able to examine city departments, divisions, staff and elected officials, as well as certain agencies receiving city funding, to ensure public funds are being spent efficiently and effectively. One of her priorities for her third term is examining and issuing recommendations about how to address a systemic city issue of outdated technology. (Photograph by the Business Journal's Thomas McConville)

Fund on 10 percent of their net [revenue]. It created a lot of tension between the city and the port because of that term, "net."

There were a lot of questions about what was involved in that net. We were asked by city council and the port to look at it. The port was saying, "Look, we're not hiding anything." And the city was like, "Well, we want to make sure it's all transparent." And one of the things we found in that audit was that the port was actually netting their prior year transfer to come up with their base to get to their net and get to the next transfer amount. We didn't think that was right. Don't net the transfer out. That caused a ballot measure because we came to a disagreement. We recommended to get rid of net [revenue] and just go to gross [revenue]. Instead of 10 percent net, go to 5 percent gross. Then just take it off the top and they can run their business the way they need to. So now [with voter approval] the transfer is based on 5 percent of their gross.

As you know, we just did an audit of the harbor [commission] travel as well that has caused some change in their policy and transparency and accountability. It has been a good thing. We have also done an audit of the water department and looking at how they budget and what they base their rate changes on. We also are undergoing a contract audit right now on the airport. That will be issued probably within a month or two.

LBBJ: What about groups who work closely with the city and rely partially on city funding, such as the PBIDs, Downtown Long Beach Associates, Long Beach Transit and Convention & Visitors Bureau? Are you able to audit those groups?

Doud: Yeah, we are. They are not General Fund, but we are allowed to.

LBBJ: Have you ever audited any of those groups?

Doud: We haven't yet, no.

LBBJ: Will there be an audit of the port's capital improvement projects, such as the Gerald Desmond Bridge?

Doud: The Gerald Desmond Bridge is a massive project. It would be a huge undertaking. It is being funded by federal, state, county and port money. I think there will be a lot of auditors looking at it. And we're certainly keeping an eye on it, but as they are in process, we are not planning on going in at this time.

LBBJ: What would cause you to look at one of those projects?

Doud: I think if there was an allegation of misappropriation or inappropriate spending that surfaced and there was cause to believe that it could be [accurate]. Or if the public was requesting information they weren't able to get and there was a feeling of not being transparent.

LBBJ: You mentioned the port travel audit. Have you ever audited the travel expenditures of the mayor and city council?

Doud: We have not yet.

LBBJ: What would be a situation in which you would do that?

Doud: I think if there were allegations of some sort we would definitely put that as a top priority.

LBBJ: For instance, you said you audited the harbor commission travel expenditures because of media attention, public requests.

Doud: We got it from so many sources. That was a concern to the public and the media and a lot of people, so we felt it was appropriate to do that. If that became an issue [with the mayor or council], we would look at that as well.

LBBJ: Have you been approached by anyone at city hall to assist in the new civic center project?

Doud: Last Tuesday night [November

11] at their study session at Houghton Park, I believe [7th District] Councilmember Roberto Uranga mentioned that he would like the city auditor's office to have some sort of oversight role. We are definitely keeping our eyes wide open and listening and attending all of the hearings and listening to the public, because there is a lot of concern. It is a lot of money. It is a big project. It is a big decision. I don't have a vote, but I believe the auditor's role is to ensure that there is a fair process and that city leaders give the public an opportunity to vocalize or express their concerns and the things that are on their mind and what they would like to see. And, when they have questions about costs, that financial management provides those costs to them - what the city is paying now, what they project to pay and so forth. I think the city is doing a great job right now reaching out to the public and spending time in open public forums, going out to different parts of the city and talking about these things and listening to the public. They are doing a good job. I am just in an oversight [role] looking at the process and making sure, again, if there is information the public wants, just making sure they get it. If not, I would be of help in that area. If there were questions that weren't being answered, or financial questions, we could assist in that regard.

LBBJ: So right now you're just kind of keeping an eye on it?

Doud: And observing and watching and listening.

LBBJ: How might the falling price of crude oil impact the budget? Is that something you're taking a look at?

Doud: Yes. The city is budgeted at \$70 per barrel for their operating budget and then anything above and beyond \$70 a barrel is used for capital projects. If the price of oil did drop below \$70, which it hasn't yet, but it could, it could have real and serious risks

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to the budget and potentially city services. Not to mention the capital projects, right?

LBBJ: Do you think when they budgeted it they did so conservatively?

Doud: I think they did, because at the time it was close to \$100. It is continually dropping. The fact that they went to \$70 at a time it was pretty high... it is so volatile. Nobody knows the future. So I think that was a conservative approach.

LBBJ: We talked a little about this earlier. In several cases, your audits have revealed outdated or inefficient technology as a factor in inadequately managed funds or as a potential cause of future issues. In your view, is this a consistent issue throughout city departments?

Doud: Yes. It really is. As you have mentioned, almost every audit that we've looked at has [identified] outdated inefficient technology. The city appears to be doing a lot by hand, manually, that it could be doing with automation and technology. That's one of the reasons we've initiated this technology improvement audit. It's a systemic problem. Instead of just looking at it department by department, we're looking at a citywide issue and concern and taking inventory of all of the city's systems and addressing them citywide. And [we are] comparing them to what other cities are doing and with best practices on how we could best serve our constituents to improve technology. It is available; we just have to be smart about it.

It is changing rapidly. I mean technology is complicated. There is a lot to it. That is one of our greatest challenges that we face. Technology is one of the most important things to keep on top of. If our goal is to improve city government for our constituents, we have to put this as a priority. We have to keep current. We have to keep up to date on this. It's a big deal.

LBBJ: To what extent does it seem like much of the city's technology is outdated?

Doud: A lot of the software is outdated. We found that even some of the manufacturers of the software the city is using don't even service it any more. The reports that are being generated aren't always the most relevant reports. There are weaknesses we found in the reports being generated and in the functionality of the technology where it doesn't absolutely prevent people from going in and making edits and changes, and then not having a proper tracing or track of who edited what and why are all of these edits being made. It's things like that that we really need to strengthen the controls over to ensure that there isn't any funny business. When you're dealing with cash, too, you just have to have the strictest of controls in all regards.

We are planning on issuing a report to Mayor Garcia's new [technology and innovation] commission. We are going to be doing some really good work and I'm excited to have a report in the next few months and issue it publicly to his new commission and all who are interested.

LBBJ: What was the impetus for the Police & Fire Public Safety Dispatcher Overtime Audit?

Doud: It was a fraud hotline call. So we did a little bit of preliminary analysis on the call and we found that the overtime did seem to be significant, so we felt it was important to follow up and look into.

LBBJ: Can you share what the overtime

Doud: We don't really talk about our audits while they're in process, because we haven't given the department a chance to respond and they might have a good reason for it, and that wouldn't be fair.

LBBJ: What are your priorities for your third term as city auditor?

Doud: I've thought about this for a while. I can't think of anything more important right now than getting on top of the technology issue. I don't think that can be overemphasized enough, the importance and the significance [of that issue]. It's a big project. The report we're working on now is taking a lot of time. And when a report does come together and we issue it [in February or March], it's going to take a lot of effort from a lot of people to make this work. How do we make this work? How do we coordinate all of this system management so that it's no longer these silos in these departments working independently and not communicating with each other . . . that we're all on the same page, and that it is easy for the public to pay tickets or pay for services online and do a lot more online than they are now able to do?

Over the next four years, I believe I am going to be heavily involved and this is going to be on my mind a lot. How, as a government, we can be innovative just like private businesses are. They are constantly thinking of better ways to service their customer.

As the independent elected auditor, one of the things that makes my job work so well is that the public is my client. I work for the public and I have a responsibility to them to make government accessible, open, transparent, accountable, efficient and responsive, and I want to do a better job at that. I want to reach out to the public more and I want the public to reach out to us more. Are we meeting their needs? What is it that we can do better? What is it that you want that we're not providing?

LBBJ: Is there anything else you would like to discuss?

Doud: I'm so incredibly blessed to have the best staff I have ever had – the most professional, dedicated and committed to public service that I have ever had. They're outstanding. I am super grateful for them and their hard work because we have issued a number of really positive reports that have caused me to decide to issue the report on summarizing all of our recommendations and implementation. That is how strongly I feel about the importance of implementing these recommendations.

I have to give my staff the credit for being so dedicated and focused. It's not easy to put an audit together. You really have to be committed. We receive resistance some times, and sometimes it's not easy.

I'm really grateful for the trust the public has put in me. As an independent, elected officer of the City of Long Beach, that's a big deal. And to be the steward over the city's finances, to be the oversight – kind of like the independent check and balance, I am committed to it. We have a lot more work to do. I am looking forward to the next four years. I am really grateful to have a job where I look forward to waking up in the morning and going to it. To be involved and feel like we're making a small difference in some way, it's really a satisfying feeling.



