



**OFFICE OF THE CITY AUDITOR**  
Long Beach, California

LAURA L. DOUD, CPA  
City Auditor

November 19, 2010

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

On September 21, 2010, the City Council approved a contract extension with KPMG to perform the annual audit of the City's financial records for fiscal years 2010 and 2011. The fieldwork for the audit is now underway.

The recently issued Statement on Auditing Standards (SAS) No. 114 requires the auditor to communicate certain significant matters related to the annual audit with those charged with governance, which for a government entity would be the elected body.

The attached correspondence discusses the audit's scope, timing and reporting responsibilities. It is hoped this communication will clarify the auditor's role and the nature of the reports they will issue.

Should you have any questions, please feel free to contact our office.

Respectfully,

LAURA L. DOUD, CPA  
CITY AUDITOR

Attachment

Cc: Lori Ann Farrell, Director of Financial Management  
Stephen Hannah, City Controller, Financial Management Department



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November 15, 2010

City Council  
City of Long Beach, California  
333 West Ocean Boulevard  
Long Beach, California 90802

Ladies and Gentlemen:

We have been engaged to audit the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of September 30, 2010 and for the year then ended. Under our professional standards, we are providing you with the following information related to the planned conduct of our audit. We also have been engaged to audit the following entities as of and for the year end September 30, 2010 as part of the City's annual audit:

- The Long Beach Airport
- The Long Beach Airport- Passenger Facility Charges
- Aquarium of the Pacific
- The Harbor Department
- The Redevelopment Agency
- The Housing Development Company
- The Water Department

#### **Our Planned Scope and Timing of the Audit**

We have held several meetings with management to discuss the significant components of the 2010 audit. These discussions related to testwork over the following audit areas:

- Cash, Cash Equivalents and Investments
- Property Taxes
- Derivative Instruments
- Long-Term Debt
- Pollution Remediation Obligations
- Pension & OPEB obligations



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We are responsible for forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the City Council are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we will plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or the City Council of their responsibilities.

In addition, in planning and performing our audit of the financial statements, we will also consider internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we will not express an opinion on the effectiveness of the City's internal control.

At the completion of the audit, we will also report to the City Council on the following matters:

- Our responsibilities under professional standards
- Other information in documents containing audited financial statements
- Accounting practices and alternative treatments
  - Significant accounting policies
  - Unusual Transactions
  - Qualitative aspects of accounting practices
- Management judgments and accounting estimates
- Uncorrected and corrected misstatements
- Disagreements with Management
- Management's consultation with other accountants
- Significant issues discussed, or subject to correspondence, with management
  - Major issues discussed with management prior to retention
  - Going concern
  - Material written communications



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- Significant difficulties encountered during the audit
- Other significant findings or issues

We will start the financial statement fieldwork on November 1, 2010 and will last approximately 5 months with the ultimate goal of presenting the results of our audit to the City Council in April 2011.

This letter to the City Council is intended solely for the information and use of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Christopher B. Ray'. The signature is written in a cursive, flowing style.

Christopher B. Ray  
*Partner*