



Date: August 15, 2014

To: Patrick H. West, City Manager *PH West*

From: John Gross, Director of Financial Management *[Signature]*

For: Members of the Budget Oversight Committee

Subject: **Financial Controls Bureau, Financial Management Department**

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This background information on the Financial Controls Bureau (FCB) in the Department of Financial Management was requested by the Budget Oversight Committee (BOC) and is provided for that purpose.

The FCB is a new operation created for the purpose of improving financial controls and financial management in the City. As Chief Financial Officer (CFO) for the City, one of my initial (and continuing) assessments of Long Beach finances is that financial controls are not as good as they should be. The causes are likely many, including a financial system that critically needs replacing (and is being replaced), but the essence of the issue is likely the relentless focus by the City on productivity, services to residents, and cost cutting over many years. While those efforts have had a substantial impact on maintaining a high service level to citizens, they have lessened the emphasis on financial management and controls. That is because financial management and controls typically require staff and costs that do not directly result in putting police on the street or getting streets paved or park grass cut. Financial management and controls are a typical casualty of budget cuts when there is a strong focus on cost cutting, whether it is in a government or a corporate environment. Obviously, a weakening of financial management and controls can lead to financial mistakes and losses whether it be from errors or from purposeful actions such as theft or misappropriation. As the CFO of the City, I cannot, and do not, recommend that financial controls, including emergency processes, remain as they are. The Financial Controls Bureau is a cost effective approach to solving the problem.

The FCB is intended as an innovative approach to addressing the issue by using a small (and therefore relatively low cost) group to help address this situation by kick-starting a general emphasis to improve financial controls. The FCB assists departments, including Financial Management, in reviewing and improving financial controls and processes and associated training.

This FCB function is very different from the internal audit functions performed by the City Auditor. One key distinction is that the FCB performs no audits, while the City Auditor does. Another key distinction is that the FCB develops controls and financial management processes, while the City Auditor does not. In fact, professional standards for auditors would prohibit internal auditors from developing controls and financial management processes – auditors cannot audit their own work. In summary, the FCB and the City Auditor

have different functions but they individually and collectively improve the City's financial operations. The City Auditor and Financial Management strive to work collaboratively in that effort. A goal of the FCB is to improve financial controls and processes so that they are effective and efficient and do not have significant audit findings when an audit occurs. A goal of an internal audit function, such as that performed by the City Auditor, is to identify any control weaknesses that should be addressed.

During this year, two financial control and management needs came to the forefront. This year we began a massive project to install a Citywide financial/HR system. This project presents huge financial control issues and opportunities. In addition, it became apparent that there was a need for improved financial controls and processes with regard to emergency situations such as an earthquake. As a result, the FCB is being oriented toward addressing the financial management and control issues of the new system and to ensuring we have appropriate financial processes in an emergency situation. We are also looking at some small and budget-neutral organizational changes to the Financial Management Department that would further strengthen the FCB operation.

The FCB was initially staffed in 2014 with a manager. The manager, as is normal, is responsible for hiring the other two people in the FCB. However, before that hiring could occur, the manager was temporarily transferred to another department to address a vacancy. In the next month, the FCB manager position will probably become vacant as the current manager permanently moves to that department. As a result, we expect to be recruiting for the Bureau Manager position within the next couple of months and staffing the rest of the operation shortly thereafter.

JG RJ  
K\EXEC\JOHN GROSS\TFF RE FINANCIAL CONTROLS BUREAU.DOCX

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