



**CITY OF LONG BEACH, CALIFORNIA**

Single Audit Reports

Year ended September 30, 2007

# CITY OF LONG BEACH, CALIFORNIA

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**Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Honorable Mayor and Members of the City Council  
City of Long Beach, California:

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 25, 2008. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Long Beach Transportation Company (discretely presented component unit of the City) as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as findings FS-07-01 to FS-07-06 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City of Long Beach, California's City Council and management, as well as federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

**KPMG LLP**

June 25, 2008



**KPMG LLP**  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

**Report on Compliance with Requirements Applicable to  
Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133**

The Honorable Mayor and Members of the City Council  
City of Long Beach, California:

**Compliance**

We have audited the compliance of the City of Long Beach, California (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement*, that are applicable to each of its major federal programs for the year ended September 30, 2007. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City of Long Beach, California complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as findings F-07-01 through F-07-04.

**Internal Control over Compliance**

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the

purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings F-07-01 through F-07-04 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. We did not consider any of the deficiencies described in the accompanying schedules of findings and questioned costs to be material weaknesses.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses, and accordingly, we express no opinion on them.

#### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of and for the year ended September 30, 2007, and have issued our report thereon dated June 25, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The supplementary information included in exhibits 2 through 4 is presented for purposes of additional analysis and is not a required part of the City's basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City of Long Beach, California's City Council and management, as well as federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 25, 2008

**CITY OF LONG BEACH**  
 Schedule of Federal Awards  
 Year ended September 30, 2007

| Federal grantor pass-through<br>agency program title | Federal<br>CFDA<br>number | Grant ID number       | Expenditures<br>charged to<br>grants |
|--|---------------------------|-----------------------|--------------------------------------|
| Department of Agriculture:                           |                           |                       |                                      |
| State Dept. of Health Services:                      |                           |                       |                                      |
| Women, Infants, and Children                         | 10.557                    | 05-45766              | \$ 3,702,646                         |
| Children Nutrition Network                           | 10.557                    | 05-45516              | 562,946                              |
| Total  | 10.557                    |                       | <u>4,265,592</u>                     |
| State Dept. of Education:                            |                           |                       |                                      |
| Summer Food Service                                  | 10.559                    | 19-81908V             | 233,119                              |
| Department of Commerce:                              |                           |                       |                                      |
| Economic Development Act                             | 11.307                    | 07-4 905046           | 144,507                              |
| Department of Defense:                               |                           |                       |                                      |
| Comm Eco Adjmt Plan Assist                           | 12.607                    | CL0699-07-01          | 125,164                              |
| Dept. of Housing and Urban Development:              |                           |                       |                                      |
| ** CDBG Entitlement Program                          | 14.218                    | B04-MC060522          | 182,637                              |
| ** CDBG Entitlement Program                          | 14.218                    | B05-MC060522          | 1,087,609                            |
| ** CDBG Entitlement Program                          | 14.218                    | B06-MC060522          | 8,573,063                            |
| Total  | 14.218                    |                       | <u>9,843,309</u>                     |
| Emergency Shelter                                    | 14.231                    | S05-MC060522          | 275,316                              |
| Emergency Shelter                                    | 14.231                    | S06-MC060522          | 252,388                              |
| Total  | 14.231                    |                       | <u>527,704</u>                       |
| ** Homeless Supportive Housing Program SHP99         | 14.235                    | CA16B90-6001,2,4,5    | 20,159                               |
| ** Homeless Supportive Housing Program SHP00         | 14.235                    | CA16B00-6002,3...11   | 17,870                               |
| ** Homeless Supportive Housing Program SHP01         | 14.235                    | CA16B10-6002,3,4..11  | 54,217                               |
| ** Homeless Supportive Housing Program SHP02         | 14.235                    | CA16B206-001,2, 3...8 | 269,617                              |
| ** Homeless Supportive Housing Program SHP03         | 14.235                    | CA16B306-001,2,3...14 | 766,755                              |
| ** Homeless Supportive Housing Program SHP04         | 14.235                    | CA16B406-001,2,3...24 | 916,044                              |
| ** Homeless Supportive Housing Program SHP05         | 14.235                    | CA16B506-001,2,3...30 | 2,605,805                            |
| Total  | 14.235                    |                       | <u>4,650,467</u>                     |
| Shelter Plus Care                                    | 14.238                    | CA16C96-0301          | 16,465                               |
| Shelter Plus Care                                    | 14.238                    | CA16C006-001          | 101,044                              |
| Shelter Plus Care                                    | 14.238                    | CA16C506-029          | 41,585                               |
| Shelter Plus Care                                    | 14.238                    | CA16C506-030          | 125,706                              |
| Shelter Plus Care                                    | 14.238                    | CA16C506-001          | 2,260                                |
| Shelter Plus Care                                    | 14.238                    | CA16C606-029          | 36,929                               |
| Shelter Plus Care                                    | 14.238                    | CA16C606-030          | 31,008                               |
| Shelter Plus Care                                    | 14.238                    | CA16C606-031          | 20,066                               |
| Total  | 14.238                    |                       | <u>375,063</u>                       |
| ** HOME Investment Partnership Program               | 14.239                    | M01-MC060518          | 312,323                              |
| ** HOME Investment Partnership Program               | 14.239                    | M02-MC060518          | 797,054                              |
| ** HOME Investment Partnership Program               | 14.239                    | M03-MC060518          | 2,515,405                            |
| ** HOME Investment Partnership Program               | 14.239                    | M04-MC060518          | 2,082,601                            |
| ** HOME Investment Partnership Program               | 14.239                    | M05-MC060518          | 771,892                              |
| ** HOME Investment Partnership Program               | 14.239                    | M06-MC060518          | 152,689                              |
| Total  | 14.239                    |                       | <u>6,631,964</u>                     |
| Housing Asst Program                                 | 14.182                    | CA068NCA019           | 478,443                              |
| Housing Asst Program                                 | 14.182                    | CA068NCA022           | 544,862                              |
| Total  | 14.182                    |                       | <u>1,023,305</u>                     |



**CITY OF LONG BEACH**  
 Schedule of Federal Awards  
 Year ended September 30, 2007

| Federal grantor pass-through<br>agency program title   | Federal<br>CFDA<br>number | Grant ID number    | Expenditures<br>charged to<br>grants |
|--|---------------------------|--------------------|--------------------------------------|
| Dept. Housing and Urban Development:                   |                           |                    |                                      |
| ** Housing Assist-Disaster Voucher                     | 14.871                    | CA068DV            | \$ 124,730                           |
| ** Housing Assistance Program – Vouchers               | 14.871                    | CA068VO            | 58,427,983                           |
| Total  | 14.871                    |                    | 58,552,713                           |
| Total HAP expenditures                                 |                           |                    | 59,576,018                           |
| Lead-based Paint Hazard Control Hsng                   | 14.900                    | CALHB0174-04       | 1,214,707                            |
| Healthy Homes Initiative                               | 14.901                    | CALHH0072-04       | 490,945                              |
| City of Los Angeles:                                   |                           |                    |                                      |
| HOPWA  | 14.241                    | 98256              | 261,121                              |
| Total  |                           |                    | 83,571,298                           |
| Department of the Interior:                            |                           |                    |                                      |
| Reclaimed Water System Expansion                       | 15.504                    | 00-FC-30-0051      | 233,398                              |
| Desalinatin Research and Development                   | 15.506                    | 02-FC-35-0053      | 925,029                              |
| State Parks Department:                                |                           |                    |                                      |
| Seaside Park Development                               | 15.916                    | 06-01554           | 700                                  |
| Department of Justice:                                 |                           |                    |                                      |
| Asset Forfeiture Program                               | 16.000                    | N/A                | 474,752                              |
| ** Urban Area Security Initiative Program (Port)       | 16.011                    | 2004-EU-T30046     | 2,456,619                            |
| Coverdell  | 16.560                    | 2005-DN-BX-0005    | 14,833                               |
| Byrne Discretionary                                    | 16.580                    | 2005-DD-BX-1166    | 13,792                               |
| COPS Technology Equipment                              | 16.710                    | 2004-CK-WX-0047    | 21,699                               |
| COPS Universal Hiring                                  | 16.726                    | 2002-UL-WX-0062    | 1,830,553                            |
| Edward Bryne JAG                                       | 16.738                    | 2005-DJ-BX-1190    | 121,117                              |
| Edward Bryne JAG                                       | 16.738                    | 2006-DJ-BX-0222    | 15,422                               |
| Total  | 16.738                    |                    | 136,539                              |
| Total  |                           |                    | 4,474,035                            |
| State Office of Emergency Services:                    |                           |                    |                                      |
| Domestic Preparedness Equipment                        | 16.007                    | 2003-035           | 248                                  |
| Department of Justice:                                 |                           |                    |                                      |
| State Office of Emergency Services:                    |                           |                    |                                      |
| Paul Coverdell Forensic Science Improvemen             | 16.742                    | CQ05 04 7240       | 14,944                               |
| Total  |                           |                    | 15,192                               |
| Long Beach Community College                           |                           |                    |                                      |
| Wagner Peyser Const Apprent Pathways                   | 17.207                    | R492684/CN 99637.6 | 17,541                               |
| State Employment Development Dept.:                    |                           |                    |                                      |
| Wagner Peyser Health Collaborative                     | 17.207                    | R588729            | 39,954                               |
| Total  | 17.207                    |                    | 57,495                               |
| Long Beach Community College                           |                           |                    |                                      |
| ** Workforce Investment Act (WIA) Const Apprenticeship |                           |                    |                                      |
| Pathways   | 17.258                    | R592666/CN 99637.6 | 86,633                               |
| State Employment Development Dept.:                    |                           |                    |                                      |
| South Bay Center for Counseling:                       |                           |                    |                                      |
| ** Petrochemical Career Pathways Prog                  | 17.258                    | R659710            | 61,208                               |

**CITY OF LONG BEACH**  
 Schedule of Federal Awards  
 Year ended September 30, 2007

| Federal grantor pass-through<br>agency program title                        | Federal<br>CFDA<br>number | Grant ID number        | Expenditures<br>charged to<br>grants |
|---|---------------------------|------------------------|--------------------------------------|
| Department of Labor:  |                           |                        |                                      |
| State Employment Development Dept.  |                           |                        |                                      |
| ** Workforce Investment Act (WIA) Title I Health Collaborative              | 17.258                    | R588729                | \$ 302,442                           |
| ** Workforce Investment Act (WIA) Title I Nursing Educ Capacity             | 17.258                    | R692480                | 406,289                              |
| ** Workforce Investment Act (WIA) Title I Adult Formul                      | 17.258                    | R692480                | 17,192                               |
| ** Workforce Investment Act (WIA) Title I Adult Formul                      | 17.258                    | R760328                | 2,192,926                            |
| ** Workforce Investment Act (WIA) Title I Adult Formul                      | 17.258                    | R865464                | 20,002                               |
| ** Workforce Investment Act (WIA) Harbor Worksource Ctr Adul                | 17.258                    | R865462                | 37,503                               |
| Total   | 17.258                    |                        | <u>2,976,354</u>                     |
| ** Workforce Investment Act (WIA) Title I Youth Formula                     | 17.259                    | R692480                | 72,073                               |
| ** Workforce Investment Act (WIA) Title I Youth Formul                      | 17.259                    | R760328                | 1,467,995                            |
| ** Workforce Investment Act (WIA) Title I Youth Formul                      | 17.259                    | R865464                | 9,999                                |
| Total   | 17.259                    |                        | <u>1,550,067</u>                     |
| ** Workforce Investment Act (WIA) Title I Dislocated Worker                 | 17.260                    | R692480                | 26,824                               |
| ** Workforce Investment Act (WIA) Hurricane Evacuees                        | 17.260                    | R692480                | 6,278                                |
| ** Workforce Investment Act (WIA) New Business Network                      | 17.260                    | R692480                | 254,128                              |
| ** Workforce Investment Act (WIA) Title I Dislocated Worker                 | 17.260                    | R760328                | 975,813                              |
| ** Workforce Investment Act (WIA) Title I Dislocated Worker                 | 17.260                    | R865464                | 7,528                                |
| ** Workforce Investment Act (WIA) Rapid Response                            | 17.260                    | R760328                | 265,936                              |
| ** Workforce Investment Act (WIA) Rapid Response                            | 17.260                    | R865464                | 63,969                               |
| ** Workforce Investment Act (WIA) Harbor Worksource Ctr<br>Dislocate Worker | 17.260                    | R865462                | 30,374                               |
| ** Workforce Investment Act (WIA) Port Opportunity 2                        | 17.260                    | R760328                | 98,450                               |
| Total   | 17.260                    |                        | <u>1,729,300</u>                     |
| Total WIA cluster   |                           |                        | <u>6,403,562</u>                     |
| Disability Program Navigation   | 17.261                    | R692480                | 39,101                               |
| Disability Program Navigation   | 17.261                    | R760328                | 94,581                               |
| Total   |                           |                        | <u>133,682</u>                       |
| Department of Transportation:   |                           |                        |                                      |
| ** FAA Airport Improvement Program  | 20.106                    | DTFA08-04-C-21734      | 62,018                               |
| ** FAA Airport Improvement Program  | 20.106                    | DTFA08-05-C-21946      | 4,766,410                            |
| ** FAA Airport Improvement Program  | 20.106                    | DTFA08-06-C-22070      | 6,923,054                            |
| ** FAA Airport Improvement Program  | 20.106                    | DTFA08-06-C-22016      | 240,531                              |
| ** FAA Airport Improvement Program  | 20.106                    | 3-06-0127-29           | 21,389                               |
| Total   | 20.106                    |                        | <u>12,013,402</u>                    |
| Port Security   | 20.401                    | DTMA1G02027            | 343,296                              |
| ** Port Security Program  | 20.420                    | DTSA20 30 G 01189      | 200,162                              |
| ** Port Security Program Round 2  | 20.420                    | DTSA20-03-G-01091      | 6,178,084                            |
| Total   | 20.420                    |                        | <u>6,378,246</u>                     |
| State Dept. of Transportation:  |                           |                        |                                      |
| ** Highway Planning and Construction Programs                               | 20.205                    | STPL 07-5108           | 8,636,493                            |
| County of Los Angeles – M.T.A.:   |                           |                        |                                      |
| Three-Car Train Improvement   | 20.500                    | F402-800201-CN-001/002 | 80,875                               |
| Caltrans:   |                           |                        |                                      |
| Caltrans-Preapprenticeship  | 20.516                    | 88A0027                | 302,197                              |
| State Office of Traffic Safety:   |                           |                        |                                      |
| Family Safety Initiative  | 20.600                    | OPO601                 | 200,975                              |
| Driving While Impaired Impact Proj  | 20.600                    | AL0670                 | 72,436                               |
| Sobriety Checkpoint   | 20.600                    | SC071914               | 40,977                               |
| Click it or Ticket  | 20.600                    | CT071927               | 72,534                               |
| LB Speeders Beware Program  | 20.600                    | PT0725                 | 96,839                               |
| Total   | 20.600                    |                        | <u>483,761</u>                       |

**CITY OF LONG BEACH**  
 Schedule of Federal Awards  
 Year ended September 30, 2007

| Federal grantor pass-through<br>agency program title   | Federal<br>CFDA<br>number | Grant ID number     | Expenditures<br>charged to<br>grants |
|--|---------------------------|---------------------|--------------------------------------|
| Department of Transportation:<br>State Office of Emergency Services:<br>Hazardous Material Emer Preparedness | 20.703                    | HMECA5033130        | \$ (4,125)                           |
| Department of Treasury:<br>Asset Forfeiture Program  | 21.XXX                    | N/A                 | 291,237                              |
| Environmental Protection Agency:<br>Studies, Investigation and Spcl Pur Grnt                                 | 66.606                    | XP-97993501-0       | 405                                  |
| Brownsfields Job Training  | 66.815                    | JT-96993901-0       | 38,287                               |
| State Dept of Health Services:<br>Beach Water Quality and Public Notification                                | 66.472                    | 05-45930            | 9,440                                |
| Beach Water Quality and Public Notification  | 66.472                    | 06-55292            | 16,982                               |
| Total  |                           |                     | <u>26,422</u>                        |
| Palos Verdes Shellfish Contamination   | 66.472                    | CLBPVS2-06          | 46,263                               |
| Palos Verdes Shellfish Contamination   | 66.472                    | CLBPVS2-07          | 25,030                               |
|  |                           |                     | <u>71,293</u>                        |
| Total  | 66.472                    |                     | <u>97,715</u>                        |
| Department of Energy:<br>Increasing Heavy Oil Reserves   | 81.089                    | DE-FC22-95BC14939   | 686,846                              |
| Department of Education:<br>State Debt of Education:<br>Evenstart Family Literacy                            | 84.213                    | 05-06-14331-G156-01 | 2,317                                |
| Evenstart Family Literacy  | 84.213                    | 06-07-14331-G156-01 | 186,230                              |
| Evenstart Family Literacy  |                           |                     | 25,309                               |
| Total  | 84.213                    |                     | <u>213,856</u>                       |
| Long Beach Unified School District:<br>21st Century Community Learning Center                                | 84.287                    | 07-14349-6472       | 393,581                              |
| Dept of Health and Human Services:<br>Metropolitan Medical Response Sys                                      | 9X.XXX                    | 233-03-0094         | 147,293                              |
| County of Los Angeles:<br>Bioterrorism Preparedness  | 93.283                    | H-701583            | 1,762,032                            |
| State Dept. of Health Services:<br>Childhood Lead Poisoning Prevention                                       | 93.197                    | 05-45143            | 278,208                              |
| Immunization Subvention  | 93.268                    | 05-45409            | 1                                    |
| Immunization Subvention  | 93.268                    | 06-55180            | 301,462                              |
| Total  | 93.268                    |                     | <u>301,463</u>                       |
| Pandemic Influenza   | 93.283                    | 5U90TP917012-07     | 173,109                              |
| Pandemic Influenza   | 93.283                    | 5U90TP917012-08     | 41,068                               |
| Total  | 93.283                    |                     | <u>214,177</u>                       |
| Childhood Health and Disability  | 93.778                    | CHDP-EPSDT          | 620,977                              |
| Medical Gateway  | 93.778                    | CHDP-EPSDT          | 283,770                              |
| OERU Children in Medical Health Plan   | 93.778                    | PH-000004           | 242,047                              |
| Children in Foster Care  | 93.778                    | HEPCFC-FY 05-07     | 158,026                              |
| Foster Care Match  | 93.778                    | CHDP-EPSDT 06-07    | 6,564                                |
| Foster Care Match  | 93.778                    | CHDP-EPSDT 07-08    | 519                                  |
| Total  |                           |                     | <u>7,083</u>                         |

**CITY OF LONG BEACH**  
Schedule of Federal Awards  
Year ended September 30, 2007

| Federal grantor pass-through<br>agency program title | Federal<br>CFDA<br>number | Grant ID number    | Expenditures<br>charged to<br>grants |
|--|---------------------------|--------------------|--------------------------------------|
| Dept of Health and Human Services:                   | 93.778                    | 07-38117           | \$ 421,848                           |
| State Dept. of Health Services:                      |                           |                    |                                      |
| Nursing MAA Claiming                                 |                           |                    |                                      |
| Nursing MAA Claiming                                 | 93.778                    | 08-35117           | 143,000                              |
| Total  |                           |                    | 564,848                              |
| Nursing TCM Claiming                                 | 93.778                    | 6105/06            | 12,243                               |
| Nursing TCM Claiming                                 | 93.778                    | 6106/07            | 117,837                              |
| Nursing TCM Claiming                                 | 93.778                    | 6107/08            | 129,000                              |
| Total  |                           |                    | 259,080                              |
| MAA / TCM Administration                             | 93.778                    | 04-35117           | 86,880                               |
| Total  | 93.778                    |                    | 2,222,711                            |
| Maternal and Child Health Svcs Allocation            | 93.994                    | 200560-MCH         | (194)                                |
| Maternal and Child Health Svcs Allocation            | 93.994                    | 200660-MCH         | 270,280                              |
| Maternal and Child Health Svcs Allocation            | 93.994                    | 200760-MCH         | 130,000                              |
| Total  |                           |                    | 400,086                              |
| MCH Black Infant Health                              | 93.994                    | 200560-BIH         | 40                                   |
| MCH Black Infant Health                              | 93.994                    | 200660-BIH         | 379,370                              |
| MCH Black Infant Health                              | 93.994                    | 200760-BIH         | 82,885                               |
| Total  |                           |                    | 462,295                              |
| Total  | 93.994                    |                    | 862,381                              |
| Early Intervention Project                           | 93.940                    | 04-35356 EIP 04-59 | 62,500                               |
| County of Los Angeles:                               |                           |                    |                                      |
| HIV/AIDS Education and Risk Reduction                | 93.940                    | H701036            | 177,185                              |
| Total  | 93.940                    |                    | 239,685                              |
| Family Support                                       | 93.556                    | 29755              | 29,509                               |
| Family Services / CNA                                | 93.556                    | 70906              | 22,872                               |
| Total  | 93.556                    |                    | 52,381                               |
| AIDS Case Management                                 | 93.915                    | H210813-6          | 219,252                              |
| AIDS EIP Outpatient Medical                          | 93.915                    | H209210-6          | 73,086                               |
| Total  | 93.915                    |                    | 292,338                              |
| Dept of Homeland Security:                           |                           |                    |                                      |
| Assistance to Firefighters                           | 97.044                    | EMW-2005-FG-19340  | 21,713                               |
| TSA Ports Grant Round 4                              | 97.056                    | HSTS04-04-G-GPS575 | 213,122                              |
| State Office of Homeland Security:                   |                           |                    |                                      |
| Enhancement of Emergency Operations                  | 97.004                    | 2004-GE-T4-0045    | 286,936                              |
| ** Urban Area Security Initiative Program Phase 2    | 97.008                    | 2003-EU-T3-0023    | 535,159                              |
| ** Urban Area Security Initiative Program Phase 3    | 97.008                    | 2004-TU-T4-0014    | 3,682,494                            |
| ** Urban Area Security Initiative Program Phase 4    | 97.008                    | 2005-15            | 4,782,349                            |
| Total  | 97.008                    |                    | 9,000,002                            |
| Metropolitan Medical Response System                 | 97.071                    | —                  | 220,741                              |
| Metropolitan Medical Response System                 | 97.071                    | —                  | 119,811                              |
| Total  | 97.071                    |                    | 340,552                              |
| State Homeland Security Grant                        | 97.073                    | —                  | 199,379                              |
| State Homeland Security Grant                        | 97.073                    | —                  | 323,719                              |
| Total  | 97.073                    |                    | 523,098                              |
| Law Enforcement Terrorism Prev'n Prgm                | 97.074                    | —                  | 139,937                              |
| State Office of Emergency Services:                  |                           |                    |                                      |
| Hazard Mitigation Pub Safety Bldg                    | 97.039                    | FEMA 1008 HMG 3132 | 97,573                               |

**CITY OF LONG BEACH**  
 Schedule of Federal Awards  
 Year ended September 30, 2007

| Federal grantor pass-through<br>agency program title | Federal<br>CFDA<br>number | Grant ID number   | Expenditures<br>charged to<br>grants |
|--|---------------------------|-------------------|--------------------------------------|
| Dept of Homeland Security:                           |                           |                   |                                      |
| State Office of Homeland Security:                   |                           |                   |                                      |
| Los Angeles County:                                  |                           |                   |                                      |
| Emergency Management                                 | 97.042                    | 2005-0015 2006-08 | \$ 24,497                            |
| Buffer Zone Protection Program                       | 97.078                    | 2005 GR T5 0068   | 134,559                              |
| Federal totals                                       |                           |                   | <u>\$ 148,168,255</u>                |

\*\* Denotes major program.

See accompanying notes to schedule of federal awards and independent auditors' report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. OMB Circular A-133

**CITY OF LONG BEACH, CALIFORNIA**

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2007

**(1) General**

The accompanying schedule of expenditures of federal awards presents the activity of all federal financial assistance programs of the City of Long Beach, California (the City). All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through to the City by other government agencies, has been included in the accompanying schedule. The City's reporting entity is defined in note 1 to the City's basic financial statements.

**(2) Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. Such basis of accounting is described in note 1 to the City's basic financial statements.

**(3) Relationship to Federal Financial Reports**

Total expenditure amounts reported in the accompanying schedule of expenditures of federal awards agree with the total expenditure amounts reported in the related federal financial reports.

**(4) Food Instruments/Vouchers**

Food instruments/vouchers expenditures represent the estimated value of the Women, Infants, and Children (WIC) food instruments as communicated by the State Department of Health Services distributed during the year. The food instruments/vouchers totaled \$18,279,196 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2007.

**(5) Payments to Subrecipients**

Of the federal expenditures presented in the schedule, the City provided federal awards to subrecipients as follows:

| <u>Program title</u>          | <u>CFDA number</u>     | <u>Amount provided to subrecipients</u> |
|-------------------------------|------------------------|---|
| Homeless Supportive Housing   | 14.235                 | \$ 3,686,457                            |
| Workforce Investment Act      | 17.258, 17.260, 17.259 | 1,225,081                               |
| Disability Program Navigation | 17.261                 | 112,905                                 |
| Wagner-Peyser                 | 17.207                 | 56,372                                  |
| Caltrans PreApprenticeship    | 20.516                 | 107,942                                 |
| Evanstart Family Literacy     | 84.213                 | 80,503                                  |
| Urban Area Security           | 97.008                 | 3,621,100                               |

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Findings and Questioned Costs

Year ended September 30, 2007

**(1) Summary of Auditors' Results**

**(a) Basic Financial Statements**

The type of auditors' report issued on the basic financial statements:

- Governmental Activities: **Unqualified opinion**
- Business-Type Activities: **Unqualified opinion**
- Each Major Fund: **Unqualified opinion**
- Aggregate Remaining Fund Information: **Unqualified opinion**
- Long Beach Transportation Company \*: **Unqualified opinion**

\* Other auditors audited the financial statements of the Long Beach Transportation Company (discretely presented component unit of the City of Long Beach) as described in our report on the City's financial statements.

Internal control over financial reporting:

- Significant deficiencies in internal control were disclosed by the audit of the basic financial statements: **Yes, see Findings FS-07-01 through FS-07-06**
- Material weaknesses identified in internal control over financial reporting: **None noted**

Noncompliance that is material to the basic financial statements: **None noted**

**(b) Federal Awards**

Internal control over major programs:

- Significant deficiencies in internal control over major programs that are not considered to be material weaknesses: **Yes, see Findings F-07-01 through F-07-04**
- Material weaknesses identified in internal control over major programs: **None noted**

The type of report issued on compliance for major programs:

- CDBG – Entitlement and Small Cities Cluster – Unqualified
- Homeless Supportive Housing Program – Unqualified
- HOME Investment Partnership Program – Unqualified
- Housing Assistance Program – Vouchers – Unqualified
- Urban Areas Security Initiative Program – Unqualified
- Workforce Investment Act (WIA) Cluster – Unqualified
- FAA Airport Improvement Program – Unqualified

## CITY OF LONG BEACH, CALIFORNIA

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

- Port Security – Unqualified
- Highway Planning and Construction Cluster – Unqualified

Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **Yes, see Findings F-07-01 through F-07-04**

The following programs have been identified as major programs:

- Department of Housing and Urban Development:
  - CFDA 14.218 – CDBG Entitlement Program
  - CFDA 14.235 – Homeless Supportive Housing Program
  - CFDA 14.239 – HOME Program
  - CFDA 14.871 – Housing Assistance Program – Vouchers
- Department of Justice:
  - CFDA 16.011 – Urban Areas Security Initiative Program (Port)
- Department of Labor:
  - Long Beach Community College
    - CFDA 17.258 – Workforce Investment Act (WIA) Construction Apprenticeship Pathways Program
  - State Employment Development Department (South Bay Center for Counseling)
    - CFDA 17.258 – Petrochemical Career Pathways Program
  - State Employment Development Department
    - CFDA 17.258, 17.259, 17.260 – Workforce Investment Act (WIA) Programs
- Department of Transportation:
  - CFDA 20.106 – FAA Airport Improvement Program
  - CFDA 20.420 – Port Security Program and Port Security Program Round 2
  - State Department of Transportation
    - CFDA 20.205 – Highway Planning and Construction Program
- Department of Homeland Security
  - State Office of Homeland Security
    - CFDA 97.008 – Urban Areas Security Initiative Program Phases 2, 3, and 4

Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **No.**



## CITY OF LONG BEACH, CALIFORNIA

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

#### (2) Findings Relating to the Basic Financial Statements Reported in Accordance with *Government Auditing Standards*

##### Findings FS-07-01 – Financial Reporting

###### *Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described below represent significant deficiencies in internal controls.

###### *Condition and Context*

The City does not have an effective process or controls in place to compile their financial statements and related disclosures in accordance with U.S. generally accepted accounting principals (GAAP). During our audit and review of the financial statements of the City, we noted errors in the presentation and disclosure of the financial statements. These include improper initial reporting and/or disclosure of the following:

###### **CAFR (Comprehensive Annual Financial Report)**

1. The City was unable to reconcile daily revenues recorded in the ESCOM system of \$2.9 million for facility reservations and other City-owned property reservations with data in the City's financial reporting system (FAMIS).
2. The City does not have written policies or procedures in place related to the annual review of the classification of net assets, resulting in the reclassification of \$16 million between net asset categories.
3. The City does not perform a formal evaluation to ensure that all non-GAAP policies are identified and quantified to ensure any related adjustments do not materially misstate the financial statements. During our audit we identified certain non-GAAP policies resulting in \$10.5 million in adjustments across all funds.
4. \$2.5 million in capital assets acquired or completed during the year were not recorded in the same period in which they were placed into service.
5. Management did not initially identify and correct \$4.8 million of transactions recorded in improper fiscal years as of September 30, 2007 for the General Capital Projects, Nonmajor Governmental, Gas, Water, Solid Waste, Tidelands and Tidelands Oil funds.
6. Management did not initially identify and correct \$27 million in classification errors for the Gas, Tidelands, Harbor and Nonmajor governmental funds. We note that the reclassifications have no impact on total net assets.

###### **Harbor Fund**

1. As part of the discussions with management, a question was raised related to the initial reporting of certain net assets. Management subsequently determined that the classification of net assets

## CITY OF LONG BEACH, CALIFORNIA

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

needed to be revised and management recorded a \$60 million reclassification entry to reduce invested in capital assets, net of related debt and increase net assets restricted for debt service due to the incorrect classification of commercial paper in net assets. We note that this is only a reclassification within the net asset section of the statement of net assets and has no impact on total net assets, assets, liabilities, net income, or cash flow.

2. Although properly presented in fiscal year 2006 financial statements and correctly classified in the first version of the financial statements we received from management, the Fund inadvertently classified \$21.6 million in 2000 series bond reserves as part of the cash pool restricted assets versus reserves held by fiscal agents. When this oversight was discovered, a reclassification entry was required to be made to properly reverse the reclassification in the current year. Again, this reclassification is within the restricted current asset section of the statement of net assets and has no impact on total net assets, assets, liabilities, net income, or cash flow.
3. Although properly presented in the general ledger, we noted \$9.6 million of environmental remediation liabilities were improperly classified as deferred credits and unearned revenues in the financial statements. This \$9.6 million is the current portion of the \$47.7 million environmental remediation liability that management recognized during the year ended September 30, 2007, which was the subject of extensive discussions we had with management. Since an environmental remediation category did not exist in the liability section of the statement of net assets and after discussions with management, a reclassification entry was made to properly present this balance separately on the financial statements. Again, this reclassification is within the current liability section of the statement of net assets and has no impact on total net assets, assets, liabilities, net income, or cash flow.

We also noted certain errors in the presentation of the Fund's financial statements. Management concluded that these reclassifications were not significant to the financial statements and ultimately determined not to record these reclassifications. The reclassifications were primarily related to the following:

4. A \$110.4 million entry was proposed to properly reclassify net assets that were not externally restricted as defined by Government Accounting Standards Board Statement No 34 (GASB 34), *Basic Financial Statements and Management's Discussion and Analysis for States Local Governments*, from restricted net assets to unrestricted net assets.
5. A \$158.1 million entry was proposed to properly reclassify assets that are not externally restricted as defined by GASB 34 from restricted assets to unrestricted.

#### **Schedule of Expenditures of Federal Awards (SEFA)**

1. The SEFA initially provided was understated by \$2.0 million for 10 programs and overstated by \$5.3 million for 7 programs. Management subsequently corrected all errors identified.

#### ***Cause***

The City has internal controls in place to ensure accurate, timely and compliant annual financial reporting. As the annual financial statement audit occurs concurrently with the preparation and development of the CAFR and Single Audit, there is a significant period of overlap between the two processes, resulting in

## **CITY OF LONG BEACH, CALIFORNIA**

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

certain reporting discrepancies that cannot be identified and corrected by the City prior to the audit taking place.

#### ***Effect or Potential Effect***

The current design of controls related to the recording of financial transactions may lead to certain instances of financial information that does not conform to U.S. GAAP.

#### ***Recommendation***

We recommend that management refines its internal controls to ensure the preparation of financial statements in accordance with U.S. GAAP.

#### ***Views of Responsible Officials***

The City has extensive controls in place over the accounting and reporting process to ensure that the financial statements are presented in accordance with generally accepted accounting principles (GAAP). With the City's review paralleling the external auditors' review not all corrections are reconciled prior to the audit review due strictly to time constraints. In addition, the City is continually working with departments in improving their department accounting procedures.

The City has reviewed these findings with KPMG and has addressed each finding as follows:

1. Financial Management has had meetings with the Parks, Recreation and Marine Department on their facility reservations and has engaged the City's former Chief Accountant to help rectify. The Parks, Recreation and Marine Department will strengthen its controls on the daily reconciliation of its revenue and supporting documentation.
2. The City's equity reserve classification include general purpose reserves for additions and betterments, reserve for capital projects, reserves for asset forfeiture, reserve for oil field abandonment, bond reserves and debt service reserves. The City feels these titles accurately reflect the purpose of the reserve, but do not specifically identify whether the reserve is internal at management's discretion, or whether reserve results from external restrictions. The City will add to the current titles in the general ledger accounts and/or the subsidiary accounts (within the general ledger account) to indicate whether restricted or unrestricted for easy identification. The City will also investigate if it is feasible to add a field in the subsidiary table that indicates restricted /unrestricted status.
3. Long Beach budgets cash inflows and outflows by fund and department ensuring City Council's approval on significant cash transactions. Enterprise funds budget on the modified accrual basis (this includes debt proceeds, principal payments and capital outlay for capital assets purchases and construction in progress activity). Governmental funds, accounted for on the modified accrual basis of accounting, also budget long-term advances between funds, land held for resale and long-term receivable transactions. Per GAAP, these transactions should only appear on the balance sheet. The City of Long Beach believes this policy ensures City Council is informed of all transactions that affect the financial integrity and cash flow position of the City and guarantees transparency to Long Beach citizens. As of fiscal year 2007, Financial Management removes these transactions on the income statement lead sheets to produce financial statements. If these transactions are not removed,

## CITY OF LONG BEACH, CALIFORNIA

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

then the accounting equation “prior income plus net income equals ending equity” will not balance. The City of Long Beach has always produced financial statements in this method. This method is well documented. In addition, prior year work papers are reviewed when producing current year lead sheets and significant differences are noted. The City of Long Beach finds it beneficial to continue budgeting major cash inflows and outflows. The City has four general ledger income and expense accounts that are designated for the recording of budgeting actuals. The City will continue recording actuals to these accounts to properly control variances between budgeted revenue and expenditures. In fiscal year 2008 the City will use non-budgeted revenue and expense general ledger accounts to eliminate these non-GAAP P&L transactions. When all revenue and expense accounts are combined the resulting income statement will adhere to GAAP and allow easy review and monitoring of interim financial statements.

Financial sections throughout the City encourage continuous education of accounting personnel. Management employees are members of Governmental Financial Officer Association (GFOA) and California Society of Municipal Financial Officers (CSFMO). Management always attends the GFOA update on current and upcoming GASB pronouncements.

The City is aware that the effective interest method is GAAP compliant but historically has used the straight-line method due to ease of computation and lack of materiality. In addition, the City has several stand-alone financial statements (the Harbor Fund, the Water and Sewer fund) which use the straight-line method. The City consistently uses these methods across funds. Starting in fiscal year 2008, the City will use the effective interest rate method on all new bonds issues. The City is also aware that fair market value of pooled cash and investments is required under GAAP. Annually the City compares fair market from historical cost and it has always been immaterial.

4. With the exception of the Harbor, Water and Gas departments, Financial Management reconciles capital outlay expenses with asset additions and prepares memos to departments requesting asset addition forms or an explanation of why expense should not be capitalized (i.e. large one-time expenditure that consists of multiple assets under the City threshold of \$5,000). In addition, Financial Management requires departments to perform an annual inventory count. Instructions are provided to the departments, which include searching for unrecorded assets. Construction projects are capitalized by the Capital Improvement Project section (CIP accounting) in Financial Management. (Harbor Water and Gas departments capitalize their own CIP). These projects are monitored and are capitalized when the majority of expenses have been paid. In addition, CIP accounting determines whether finished projects qualify for capitalization or are large on-going repair and maintenance projects. At times, however, the scope of the project changes or the project does not progress out of the planning stage either as a result of feasibility or budgetary constraints. In addition, a large portion of projects are improvements or maintenance of existing assets. FASB provides guidelines for the determination of whether significant improvements qualify for capitalization; however these guidelines require estimates by management as to whether improvements materially extend the asset’s life or increase the future economic benefit of the asset. This can be a gray area since repair and maintenance projects may only sustain and not necessarily extend an asset’s useful life. Financial Management will work with the Public Works Department in scheduling formal meetings to assist in the identification of projects as either construction in progress or repair and maintenance.

## CITY OF LONG BEACH, CALIFORNIA

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

Every asset entered in to the Fixed Asset Accounting System (FAACS) is given an acquisition date and estimated life. FAACS calculates depreciation to the date of acquisition regardless of the date entered into the system. The only potential misstatements that could occur are if the acquisition date is incorrect (total depreciation expense would be incorrect) or if project/asset is capitalized in the subsequent year following the date the asset was put in service (creating an understatement in one fiscal year and overstatement in the following year).

Financial Management will add verbiage in the year-end inventory memo regarding the capitalization of capital improvement projects and strengthen the wording related to the accuracy of the acquisition date. In addition Financial Management will take all steps deemed necessary to ensure assets are added to the system, prior to year end closing.

5. It is the policy of the City to record immaterial prior period entries in the year they are discovered. To restate equity is neither prudent nor desirable. In 1996, the Gas Department purchased equipment on behalf of the Community Development Department. The purchase was recorded as an expense on the Gas Department financials. This should have been recorded as an interest bearing long-term advance between funds. In 2007, Community Development repaid the advance, including accrued interest. This appears as miscellaneous revenue in the Gas Department's 2007 financials.

In respect to a timing difference for the Gas and Water Funds, utility revenue recognition has consistently lagged one month since meter reads by nature are for past service. The bill dates on these accounts reflect the end of the service period. The City believes thirteen months of revenue in fiscal year 2007 to realign revenue could mislead financial statement readers. In addition the difference of 12 months of revenue from September 2006 through August 2007 compared to October 2006 through September 2007 is immaterial.

6. For the \$27 million in classification errors, the City of Long Beach has several capital leases under a master lease agreement. Money is deposited with a fiscal agent and usually expended within a month after funding. The City records an increase to capital assets and an increase to long-term capital lease payable. Due to timing of funding that occurred late in the fiscal year, the City had not purchased approximately \$9 million in assets, yet had incurred the liability as of September 30, 2007. The City recorded unspent leases proceeds as an increase in a long term receivable due to the nature of the transaction. The City always considers substance over form when recording transactions. The form of the transaction is an increase in cash with fiscal agent (a current asset) offset by an increase in a capital lease payable (a long term liability). The substance of the transition, however, is that the cash with fiscal agent will be used to purchase a long-term asset. In fact the City is precluded from using proceeds for anything but the purchase of a long-term asset or the repayment of the lease principal. City's management does not believe that working capital (which indicates liquidity) or long-term fund balance of the internal service funds should be impacted by timing differences. KPMG's proposed entry to reclassify to restricted long-term cash might mislead financial statements readers, since cash by nature is considered current and highly liquid. In addition,

KPMG proposed a \$14 million reclass in the Transportation Special Revenue Fund from Public Works expenditures to capital improvements expenditures. These expenditures are for street projects of which the majority of which are repair and maintenance and are not capitalized. The

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Findings and Questioned Costs

Year ended September 30, 2007

reclass has no impact on the balance sheet or net income. The remaining reclass entries of \$4 million have no net impact on the recognition of net income or in major balance sheet categories. They included classification from restricted to unrestricted interest payable (both current) and reclassification within operating revenue in the Tidelands Fund.

***Harbor Fund***

We disagree with the auditors' assessment that the Department does not have effective processes or controls to ensure proper recording and disclosing transactions. The financial statements are continually reviewed internally and discussed with the auditors. It is a very rare occasion that an audit does not result in re-classifications for presentation purposes in the financial statements. We are proud of the fact that on our very first submission of the Department financial statements, all major classes were accurately presented. The table below shows our initially reported financial results and the audited results as published in our financial statements.

|                                       | <b>First financial<br/>statements<br/>submitted to<br/>Auditors</b> | <b>Audited<br/>financial<br/>statements</b> |
|---------------------------------------|---|---|
| Assets                                | \$ 3,387,730,889  | 3,387,730,889                               |
| Liabilities                           | 1,244,990,396   | 1,244,990,396                               |
| Net assets                            | 2,142,740,493   | 2,142,740,493                               |
| Net income                            | 160,594,640   | 160,594,640                                 |
| Increase in cash and cash equivalents | 117,585,408   | 117,585,408                                 |

Specifically to address the first three bulleted points raised by the auditors:

1. As the auditors noted, this is a reclassification within the net asset section and has no impact on any other section of the financial statements. This reclassification was found by management as a result of the continuous review of the financial statements. Several internal meetings were held to determine the proper treatment of this item and subsequently the reclassification was communicated to the auditors.
2. For years prior to 2006, KPMG audited financial statements showed the \$21.6 million 2000 series bond reserves as part of the cash pool. This reclassification was suggested by KPMG for the 2006 financial statements. The Department early on had correctly presented their \$21.6 million as held by fiscal agent for the 2007 financial statements. Subsequently, it was inadvertently reverted to the pre-2006 classification and included as part of the cash pool. All these classifications are for financial statements presentation only. As the auditors reported, the general ledger was correctly stated at all times.
3. The \$47.7 million environmental remediation liability as the biggest single issue of the audit that was the subject of many discussions with the auditors. Specifically, the \$9.6 million current liability portion of the environmental remediation liability was extensively tested and recalculated. Therefore, KPMG was aware of the issue and the amounts. Since the Department's financial statements did not have an environmental remediation liability line item, an existing

## **CITY OF LONG BEACH, CALIFORNIA**

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

current liability classification (deferred credit) was used as a place holder pending further discussions with KPMG as to classification. When that took place, the \$9.6 million was promptly re-classified as per KPMG's directions.

As for the second part of the auditor's comment with respect to restricted versus unrestricted classification, management simply disagrees with the auditor's interpretation of GASB 34:

4. For years subsequent to GASB 34 implementation by the City, the Department's KPMG audited financial statements presented ACTA contingency and the Gerald Desmond Bridge Port portion as restricted net assets. For the 2006 financial statements, KPMG changed their interpretation of GASB 34 and opined that these should be classified as unrestricted net assets. Management disagrees with KPMG's change in interpretation and is of the opinion that in order to accurately convey to the user of the Port's financial statements the amount of unrestricted net assets available, these should continue to be classified as restricted net assets. This is not only an accurate presentation but also a more conservative presentation, a usually preferred accounting method.
5. In addition, these 2007 financial statements mark the first time that KPMG suggested reclassification of the \$110.4 million from restricted to unrestricted assets. In prior years these assets were classified as restricted, with KPMG's concurrence. Again, this represents a departure from prior KPMG practices and management does not agree with the change in KPMG's evaluation of financial statements presentations.

#### **Schedule of Expenditures of Federal Awards (SEFA)**

1. The Schedule of Expenditures of Federal Awards (SEFA) is compiled and prepared in conjunction with the City's overall CAFR and audit. An extensive review is ongoing and as reconciliations are completed and adjusting transactions are made the SEFA is revised.

During the preparation of the fiscal year 2007 SEFA, staff did initiate some procedures that automated portions of the compilation of the schedule. Staff will investigate additional automation and strengthen initial reconciliations to assure the accuracy of the initial schedule.

## **CITY OF LONG BEACH, CALIFORNIA**

### Schedule of Findings and Questioned Costs

Year ended September 30, 2007

#### **Findings FS-07-02 – Lack of Information Technology Policies and Procedures**

##### ***Criteria***

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represents a significant deficiency in internal controls.

##### ***Condition and Context***

The City does not have formal Information Technology (IT) security and safeguarding policies and procedures. During our audit, we noted that the City has implemented procedures to address the issues surrounding information security, such as signing a confidentiality agreement upon commencing of employment. However, policies and procedures, while in existence and in practice for many years, are not formally documented.

Additionally, the City does not have formally documented policies and procedures related to systems and application change control. Based on our audit of the Human Resources System (Tesseract), we note that the system changes do follow an informal process and programming changes are documented into the program itself; however, formal documentation of appropriate approval, testing and user acceptance is not always obtained. Based on our audit of FAMIS, the Fixed Asset Accounting System (FAACS) and the Advanced Purchasing and Inventory Control System (ADPICS), we note that system patches and bug fixes performed by the Financial Systems Officer in the Department of Financial Management do follow a formal process and programming changes are documented. However, changes made by the Technology Services programmers for other changes, such as modifying custom reports, follow an informal documentation process and appropriate approval, testing, and user acceptance are not always obtained. Additionally, in the Utility Billing system, we note that the system changes are required to have Remedy tickets; however, we could not obtain evidence in all cases that changes moved into production had tickets as some could not be identified. The group supporting this system does follow an informal process; however, formal documentation of appropriate approval, testing, and user acceptance is not always obtained. There is no additional review by IT management prior to the change moving into production.

##### ***Cause***

The City has polices and procedures over its information technology security, systems and application change management. These polices and procedures were in full practice, however, were not consolidated into formal written manual until fiscal year 2008.

##### ***Effect or Potential Effect***

Lack of documented information security policies and procedures weaken the IT general control environment. With regards to change management, once a system is operational, further changes to the system are usually required to meet the business developing needs. Such changes should be subjected to controls as stringent as those used in the development or implementation of a new system. If there is little



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or no control over system changes, the benefits originally gained by controlling the system's implementation may be lost as subsequent changes are made.

#### ***Recommendation***

We recommend that management formalize the current procedures into policies and develop standard IT security and safeguarding policies, such as:

- Information Security Infrastructure Requirements
- Password-Based Access Control
- Password Protection
- Virus Protection
- Internet Web Site Controls
- Standard Network System Configuration
- Network System Administration
- Application Security Administration
- Firewall and Router Security
- Transmission of Data/Encryption
- Physical/Perimeter Security and Data Center Protection

Additionally, we recommend that management develop and implement formal IT change management policies, standards, and related procedures associated with system (e.g., infrastructure and configuration change) and application change control. Management should ensure that the new developments are understood and communicated to all IT and supporting City personnel. Adequate formal change management procedures should be designed and implemented to ensure that changes to the key financial systems are made in a controlled manner. Specifically, we recommend that the following controls be implemented and enforced:

- All change requests should be formally authorized and documented by appropriate management and business owner;
- Appropriate change management software should be utilized for the Tesseract application to support the migration of programming changes to the live environment;
- Changes that are made to the IT systems are tested, validated, and approved prior to implementation into the production environment. Test criteria should be documented and applied for all testing. This is to ensure that the changes will meet the user requirements and that the changes will not have a negative impact on any of the existing;
- User acceptance sign-off should be obtained and maintained before changes are migrated to the production environment;

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- Changes made to IT systems should be validated after promotion to production to confirm that the change did not impact the system functionality or data integrity and that unauthorized changes were not inadvertently or intentionally promoted;
- Access to migrate changes into production should be segregated from the responsibilities of program development. Only a limited number of personnel should have access to migrate changes to the production environment to ensure that this process is well controlled and only tested, authorized, and properly approved changes are migrated into production;
- Change procedures also be applied to both system and application configuration settings (e.g., tolerance setting such as check authorization limits; 3-way match; work flow flags to escalate for approval; and system configuration on hardware). Configuration settings are a key component of many information systems. Configuration settings frequently can impact the design and/or operating effectiveness of internal control over financial reporting;
- Emergency change provisions and controls are outlined to ensure that changes requiring immediate implementation are properly handled, allowing for timely change and no impact to systems and applications related to the financial reporting process; and
- Finally, we recommend that documentation of the activities above be maintained to strengthen the overall IT general control environment.

We recommend that these policies be formally communicated throughout the organization to users supporting and maintaining information systems and technology and are accessible and understandable to all persons. This ensures that management sets a clear direction and demonstrates support and commitment to information security through the issuance and maintenance of an information security policy. We recommend an annual review and update of the IT policies and procedures occur to integrate any new system, technology, and process improvements.

#### *View of Responsible Officials*

In fiscal year 2008, the City's Technology Services Department formalized its various security procedures in a comprehensive information technology security policy to guide those supporting and maintaining information systems, as well as those using the systems. This security policy was approved by the City Manager on April 22, 2008. Also in fiscal year 2008, the City's Technology Services department formalized its various change management policies in a comprehensive information technology change management policy to guide those supporting and maintaining the City's software applications.

The City's formal policies and procedures ensure the proper safeguarding of:

- Information Security Infrastructure Requirements
- Password-Based Access Control
- Password Protection
- Virus Protection
- Internet Web Site Controls
- Standard Network System Configuration

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- Network System Administration
- Application Security Administration
- Firewall and Router Security
- Transmission of Data/Encryption
- Physical/Perimeter Security and Data Center Protection

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#### **Findings FS-07-03 – Administrative Access – Inappropriate Administrative Access and Lack of Review over Appropriateness of User Access and Segregation of Duties within Certain Applications**

##### *Criteria*

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represents a significant deficiency in internal controls.

##### *Condition and Context*

We noted two users with excessive administration access: a Technical Support Officer and a System Support Specialist. In addition, Management does not have a control in place to ensure proper segregation of duties within Software Configuration and Library Manager (SCLM). We noted several programmers have SCLM access to promote changes to production causing a segregation of duties conflict. Access to SCLM should be limited to 2 – 3 individuals independent of any programming responsibilities. Furthermore, management does not currently have controls in place to periodically review and document the appropriateness of user access to the related applications, administrative access to Active Directory, Resource Access Control Facility (RACF), and SCLM.

##### *Cause*

**Access Review:** For more than ten years, the Technology Services Department has provided utility billing staff with system access to assist them in reviewing users' access to the Utility Billing System. However, over time, the reports have become more cumbersome, and have not been updated to reflect programming changes that impact on system access. As a result, the reports do not provide sufficient information for Utility Billing staff to properly verify and update access levels in the system

**Access Control:** Technology Services' current level of application support staff has precluded segregation of duties between the test and production environments within the SCLM application. Since SCLM is a tool that is not utilized for the City's primary financial systems (FAMIS, ADPICS, BPREP, FAACS), the lack of segregation of duties within the SCLM does not pose a significant internal control risk.

##### *Effect or Potential Effect*

Weaknesses in user access control may lead to situations where an employee has the ability to perpetrate an error or irregularity and to conceal the error or irregularity. Additionally, a lack of adequate security over user access in the business systems and improper segregation of duties can potentially expose the City to a variety of risks resulting from unauthorized manipulation of data as well as an unauthorized exercise of system functions.

##### *Recommendation*

We recommend that Administrative Access be restricted to users within the IT Department with a specific job need. Users with Administrator Access, making programming changes, and promoting those changes into production should be segregated. Periodic review of users with access to certain applications helps

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prevent unauthorized access. We recommend that the City implement a formal review, similar to the established procedures performed on the FAMIS system of Administrative Access to supporting applications, including Active Directory, SCLM, and RACF. Additionally, management should include the Data Center as part of the annual review or review data center access more frequently based on the rate of turnover. This review should be performed at least annually to ensure that inappropriate system access is detected and remediated. Similar to the FAMIS procedures, this review should be performed in conjunction with the IT Department and business owners. Evidence of review by business owners and the IT department should be documented, signed and dated, and maintained for audit purposes.

*View of Responsible Officials*

**Access Review:** For Utility Billing, the Technology Services Department will develop new, improved access control reports that Utility Billing staff can more readily use to verify and adjust user access. Only individuals whose job requires system administrator access will be allowed to have such access. Additionally, a yearly review of access levels to the system will be conducted, documented and signed off by the Utility Billing and the Technology Services Department support person.

Access to Active Directory, SCLM and RACF will also be reviewed and verified in a similar fashion and documented.

**Access Control:** The Technology Services Department applications support programming staff that have administrative access to systems use the access so they can move programming changes into the production environment. A policy change has been made to this process to require the Technology Services Operation's staff to make all moves into Production. New procedures for the operations organization have been developed. This is part of a larger change management control process that is being developed that at a high level, will include the following:

- Procedures that define the type of documentation needed for system changes;
- Approval required to process system changes;
- Appropriate testing (QA and User), and proof of testing;
- Appropriate signoff for each change prior to putting into production;
- Requirements for an internal TSD system that will track all change requests;
- Communication plan to business partners within the City notifying them of the internal change management system; and
- Deployment of the Process to all systems maintained by TSD.

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#### **Findings FS-07-04 – CAFR Closing Process**

##### ***Criteria***

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiencies described below represent a significant deficiency in internal controls.

##### ***Condition and Context***

During our audit, we identified that the CAFR's year-end closing process begins October 2007 and continues through April 2008. The City recorded over 350 closing entries totaling more than \$413 million. Several of the adjustments posted during the closing process reflected routine transactions, such as the recording of capital assets and expenditures that should have been recorded throughout the fiscal year.

Additionally, management's IT systems do not have the capability to generate financial statements, as a result, management uses excel spreadsheets to compile the GAAP financial statements. There is a significant amount of data that is manually entered on the excel spreadsheets, which increases the risk of data input error. An example of such errors that we identified, related to the Tidelands fund. Management incorrectly classified \$100 million in expenditures due to a manual input error. The reclassification error was subsequently corrected by management. Also as each of the excel files are maintained on a shared drive that the majority of Financial Management Department has access, management should strengthen internal controls to track any changes made to the financial data.

##### ***Cause***

The fiscal year 2006 audit was completed in July 2007, almost ten months after year-end closing. This has changed the landscape of audits for the City; no longer is a CAFR season (3 to 5 months), but a continuous CAFR for most of the fiscal year. In addition, there has been a dramatic change in auditing standards with SAS 112 that the Financial Management accounting section does not currently have sufficient staff to support. In addition to CAFR duties, all accounting staff have daily duties to complete (accounts payable and payroll checks need to be processed, 1099's W-2 and payroll taxes need to be filed, the financial systems need to be balanced, etc.). Two months is not enough time to prepare sufficiently for year-end, for a City this size with such complex financial reporting, thus the year-end closing process completed by the City happens concurrently with the annual audit.

##### ***Effect or Potential Effect***

The excessive duration of the closing process may reduce the reliability of real-time internal financial reporting as transactions are not recorded on a timely basis. In addition, the shared access to financial data and the degree of manually inputted financial data may lead to inaccurate financial statements.

##### ***Recommendation***

We recommend that the City consider modifying its year-end closing procedures so that access to posting entries be limited to a few employees within Financial Management and that each department's ability to

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post entries be removed after a reasonable period of time. Additionally, we recommend that routine transactions be recorded during the year on a timely basis and not at period end. The City's policy, should include the requirement to document the nature of the adjustments expected to be recorded and also include the requirement to have all adjustments recorded within 90 days after year-end. Further, we recommend that management strengthen their review of all manually inputted financial data for accuracy when compiling the CAFR. Lastly, we recommend the City strongly consider the implementation of an automated financial reporting system which would reduce the City's reliance on manual compilation to produce financial statements in accordance with U.S. GAAP.

***Views of Responsible Officials***

Financial Management has multiple year-end policies that are provided to the departments (including a year end manual and closing schedule) documenting the City year-end closing processes. The policies include contact information for any questions. The City is revising the year-end seminar given by Financial Management to the Departments to allow departmental staff the chance to ask questions in group setting and to give Financial Management the opportunity to stress the importance of adhering to year-end procedures.

Fund lead schedules are assigned to accounting staff responsible for balancing, identifying AJE's, posting, and reconciling to the financial system. Traditionally, all lead schedules are reviewed by another accountant, usually a Senior Accountant. With the annual audit spanning ten months of the fiscal year Financial Management is finalizing any reconciliations, adjusting entries and reports during the annual audit. In addition, Financial Management is in the process of changing the way revenue and expense is recorded (see response to FS07-01) to facilitate easy financial reporting and interim financial review. An extraordinarily excessive annual audit becomes counter productive in that the integrity, reliability and accuracy of daily operations and transactions are sacrificed during the ten month audit period.

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**Finding FS-07-05 – Air Quality Improvement Fund Reporting Requirements**

*Criteria*

California Assembly Bill No. 2766, SECTION 1. Chapter 7 District Fees To Implement The California Clean Air Act, § 44244.1 requires (a) any agency that receives fee revenues pursuant to Section 44243 or 44244 shall, at least once every two years, be subject to an audit of each program or project funded. The audit shall be conducted by an independent auditor selected by the south coast district in accordance with Division 2 (commencing with Section 1100) of the Public Contract Code. The district shall deduct any audit costs that will be incurred pursuant to this section prior to distributing fee revenues to cities, counties, or other agencies pursuant to Sections 44243 and 44244.

Implementation of AB2766 Subvention Fund Projects: A Resource Guide for Local Government Recipients of Motor Vehicle Registration Fee Revenues Fiscal Year 2007/2008. Financial Administration. 12. Audit of AB2766 Fee Revenues. The Audit Guidelines describe the financial and program reporting requirements for local governments. The AB2766 program legislation requires that each agency receiving motor vehicle registration fee revenues must submit:

- an annual program progress report and
- an annual audited financial statement of AB2766 funds.

These reports must be received by the Air Quality Management District no later than the first Friday in February of each year.

*Condition and Context*

During our procedures performed over the reporting requirement, the annual program progress report and audited financial statement of AB2766 funds were not filed with South Coast Air Quality Management District (SCAQMD) by February 1, 2008. No extension was filed.

*Cause*

Prior to fiscal year 2006, Financial Management did the lead schedule for the Air Quality Management District's (AQMD) financial statement which rolled into the City's CAFR. Historically the City Auditor's Office compiled and audited the financial statements. For fiscal year 2007, the City Auditor's Office intended KPMG to compile and audit AQMD's financials. Effective in fiscal year 2007 SAS 112 became effective; this auditing statement disallowed a dual role in compiling and auditing the same statements. In addition, SAS112 considers lack of internal compilation to be a significant deficiency. The responsibility of the AQMD's financials thus became the responsibility of Financial Management. Unfortunately AB2776's requirements were not communicated to Financial Management until well past the filing deadline.

*Effect or Potential Effect*

Timely reporting to SCAQMD is a requirement that local governments receiving funding must adhere to. Continued untimely reporting may jeopardize the receipt of funds.



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***Recommendation***

We recommend that the City submit the annual program progress report and annual audited financial statement of AB2766 funds are submitted by the first Friday in February of each year.

***Views of Responsible Officials***

For fiscal year 2008, Financial Management, will comply with the AB2776 filing deadline.

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**Findings FS-07-06 – Segregation of Duties at the Harbor Department**

***Criteria***

A significant deficiency in internal controls is the result of a deficiency in internal controls, or combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. We believe the control deficiency described above represents a significant deficiency in internal controls.

***Condition and Context***

The Department's access controls to create and post manual journal entries in the Financial Accounting Management Information System (FAMIS) are not designed properly. During our audit, we noted that three users had access to create and post manual journal entries, resulting in a segregation of duties conflict. Access for one of the users was corrected by management prior to September 30, 2007. Access for the remaining two users was not removed until November 2008.

***Cause***

The Department had not removed the access for the two remaining users prior to September 30, 2007.

***Effect or Potential Effect***

The ability for the same user to create and post manual journal entries can impact the reliability of information within FAMIS.

***Recommendation***

As noted above, access for one of the users was corrected in the current year and the Department removed the access in question to create entries for the two remaining users as of November 2008. We recommend that management perform periodic system access reviews in the future to ensure that system access granted to users does not result in a segregation of duties conflict.

***Views of Responsible Officials***

Because of limited resources, access to posting and approving of manual journal entries were not segregated in the system, however, they were segregated in practice. Journal entries were not created and approved by the same individual during the audit period. In the past, it was deemed that the flexibility of having the ability to do both, post and approve, was necessary in order to make sure the work is done. However, it was always understood that no one person is to do both tasks.

Management became aware of this issue in early FY 2007 and started discussion with Financial Management Department to segregate duties without compromising productivity. The discussion continued and finally in November of 2007, after being fully comfortable with the solution, Financial Management restricted access.

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Therefore, management was aware of the issue, searched for a solution that did not impact work flow, and resolved it in November 2007. KPMG's restatement of this issue is more of a historical perspective as the concern has been alleviated and no further action is needed.

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**(3) Summary of Current Year Findings and Recommendations Relating to Federal Awards**

**Finding F-07-01 – Cash Management**

*Program Information*

*Federal Program*

Homeless Supportive Housing Program (SH Program), CFDA No. 14.235

Workforce Investment Act Program (WIA Program), CFDA No. 17.258, 17.259, 17.260

Port Security Program (PS Program), CFDA No. 20.420

Urban Areas Security Initiative Program (UASI Program), CFDA No. 97.008

*Federal Grant Award Number and Grant Period*

SH Program

| <u>Federal grant number</u> | <u>Grant period</u>     | <u>Federal grant number</u> | <u>Grant period</u>     | <u>Location</u>           |
|-----------------------------|-------------------------|-----------------------------|-------------------------|---------------------------|
| CA16B506-003                | 10/1/2006 to 9/30/2007  | CA16B406-023                | 7/1/2006 to 1/31/2008   | Health and Human Services |
| CA16B506-005                | 4/1/2006 to 3/31/2007   | CA16B206-007                | 8/1/2004 to 7/31/2007   | Health and Human Services |
| CA16B606-006                | 4/1/2007 to 3/31/2008   | CA16B406-020                | 7/1/2006 to 6/30/2007   | Health and Human Services |
| CA16B506-007                | 11/1/2006 to 10/31/2007 | CA16B606-020                | 8/1/2007 to 7/31/2008   | Health and Human Services |
| CA16B106-009                | 11/1/2003 to 10/31/2006 | CA16B606-021                | 7/1/2007 to 6/30/2008   | Health and Human Services |
| CA16B206-001                | 1/1/2005 to 10/31/2008  | CA16B506-009                | 5/1/2006 to 4/30/2007   | Health and Human Services |
| CA16B206-002                | 1/1/2005 to 10/31/2008  | CA16B606-004                | 5/1/2007 to 4/30/2008   | Health and Human Services |
| CA16B306-002                | 11/1/2005 to 10/31/2007 | CA16B406-001                | 7/1/2006 to 6/30/2009   | Health and Human Services |
| CA16B506-024                | 9/1/2006 to 8/31/2007   | CA16B606-022                | 9/1/2007 to 8/31/2008   | Health and Human Services |
| CA16B506-026                | 4/1/2006 to 3/31/2007   | CA16B606-013                | 4/1/2007 to 3/31/2008   | Health and Human Services |
| CA16B606-025                | 9/1/2007 to 8/31/2008   | CA16B306-001                | 7/1/2005 to 6/30/2008   | Health and Human Services |
| CA16B606-026                | 4/1/2007 to 3/31/2008   | CA16B506-010                | 4/1/2006 to 3/31/2007   | Health and Human Services |
| CA16B406-022                | 11/1/2005 to 1/31/2007  | CA16B506-013                | 9/1/2006 to 8/31/2007   | Health and Human Services |
| CA16B606-014                | 2/1/2007 to 1/31/2008   | CA16B406-019                | 1/1/2006 to 12/31/2006  | Health and Human Services |
| CA16B306-014                | 6/1/2005 to 5/31/2007   | CA16B406-017                | 11/1/2005 to 10/31/2006 | Health and Human Services |
| CA16B506-017                | 6/1/2006 to 5/31/2007   | CA16B506-020                | 4/1/2006 to 3/31/2007   | Health and Human Services |
| CA16B606-017                | 6/1/2007 to 5/31/2008   | CA16B506-027                | 1/1/2007 to 12/31/2007  | Health and Human Services |
| CA16B606-018                | 6/1/2007 to 5/31/2008   | CA16B506-006                | 11/1/2006 to 10/31/2007 | Health and Human Services |
| CA16B006-007                | 6/1/2002 to 5/31/2007   | CA16B506-028                | 7/5/2006 to 6/30/2007   | Health and Human Services |
| CA16B406-018                | 10/1/2005 to 9/30/2007  | CA16B606-024                | 4/1/2007 to 3/31/2008   | Health and Human Services |
| CA16B406-021                | 1/1/2006 to 3/31/2007   | CA16B606-011                | 2/1/2007 to 1/31/2008   | Health and Human Services |
| CA16B606-028                | 4/1/2007 to 3/31/2008   | CA16B506-008                | 2/1/2006 to 1/31/2007   | Health and Human Services |

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| <u>Federal grant number</u> | <u>Grant period</u>     | <u>Federal grant number</u> | <u>Grant period</u>     | <u>Location</u>           |
|-----------------------------|-------------------------|-----------------------------|-------------------------|---------------------------|
| CA16B506-022                | 8/1/2006 to 7/31/2007   | CA16B906-010                | 2/1/2002 to 4/30/2007   | Health and Human Services |
| CA16B606-019                | 8/1/2007 to 7/31/2008   | CA16B506-014                | 4/1/2006 to 3/31/2007   | Health and Human Services |
| CA16B406-010                | 12/1/2005 to 11/30/2006 | CA16B606-023                | 6/1/2007 to 5/31/2008   | Health and Human Services |
| CA16B106-010                | 12/1/2003 to 11/30/2007 | CA16B006-004                | 11/1/2001 to 10/31/2006 | Health and Human Services |
| CA16B406-004                | 12/1/2005 to 11/30/2006 | CA16B306-003                | 12/1/2004 to 3/31/2007  | Health and Human Services |
| CA16B506-015                | 12/1/2006 to 11/30/2007 | CA16B506-002                | 6/1/2006 to 5/31/2007   | Health and Human Services |
| CA16B606-013                | 4/1/2007 to 3/31/2008   | CA16B606-009                | 9/1/2007 to 8/31/2008   | Health and Human Services |
| CA16B506-010                | 4/1/2006 to 3/31/2007   | CA16B606-002                | 4/1/2007 to 3/31/2008   | Health and Human Services |
| CA16B606-015                | 4/1/2007 to 3/31/2008   | CA16B506-004                | 9/1/2006 to 8/31/2007   | Health and Human Services |
| CA16B606-016                | 2/1/2007 to 3/31/2008   | CA16B606-005                | 6/1/2007 to 5/31/2008   | Health and Human Services |
| CA16B506-019                | 6/1/2006 to 5/31/2007   |                             |                         | Health and Human Services |

WIA Program

| <u>Federal grant number</u> | <u>Grant period</u> | <u>Location</u>              |
|-----------------------------|---------------------|------------------------------|
| R692480                     | 4/1/05 to 6/30/07   | Workforce Development Bureau |
| R760328                     | 4/1/06 to 6/30/08   | Workforce Development Bureau |
| R865464                     | 4/1/07 to 6/30/09   | Workforce Development Bureau |

PS Program

| <u>Federal grant number</u> | <u>Grant period</u>  | <u>Location</u> |
|-----------------------------|----------------------|-----------------|
| DTSA20-03-G-01091           | 7/17/03 to 7/31/2007 | Port            |

UASI Program

| <u>Federal grant number</u> | <u>Grant period</u>    | <u>Location</u> |
|-----------------------------|------------------------|-----------------|
| 2003-23, OES ID #037-43000  | 7/1/2003 to 12/31/2006 | Fire            |
| 2004-14, OES ID #037-43000  | 12/1/2003 to 2/28/2007 | Fire            |
| 2005-15, OES ID #037-43000  | 10/12/04 to 3/31/2008  | Fire            |

*Federal Agency*

U.S. Department of Housing and Urban Development – SH Program

U.S. Department of Labor – WIA Program

Transportation Security Administration (TSA) – PS Program

U.S. Department of Homeland Security – UASI Program

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*Pass-Through Agency*

State of California Employment Development Department – WIA Program

U.S. State Office of Homeland Security – UASI Program

***Specific Requirement***

TITLE 24 – HOUSING AND URBAN DEVELOPMENT, PART 85\_ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS, Subpart C\_Post-Award Requirements, Sec. 85.21, Payment, and

TITLE 29 – LABOR, PART 97\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE, AGREEMENTS TO STATE AND LOCAL GOVERNMENTS – Table of Contents, Subpart C\_Post-Award Requirements, Sec. 97.21 Payment.

TITLE 28 – JUDICIAL ADMINISTRATION, CHAPTER I – DEPARTMENT OF JUSTICE, PART 66\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C\_Post-Award Requirements, Sec. 66.21 Payments, and

TITLE 49 – TRANSPORTATION, Subtitle A – Office of the Secretary of Transportation, PART 18\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE, Subpart C\_Post-Award Requirements, Sec. 18.21 Payment:

- (a) Scope. This section prescribes the basic standard and the methods under which a federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.
- (b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205.
- (c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of the funds and their disbursement by the grantee or subgrantee.
- (d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met. Grantees and subgrantees may also be paid by reimbursement for any construction grant. Except as otherwise specified in regulation, federal agencies shall not use the percentage of completion method to pay construction grants. The grantee or subgrantee may use that method to pay its construction contractor, and if it does, the awarding agency's payments to the grantee or subgrantee will be based on the grantee's or subgrantee's actual rate of disbursement.
- (f) Effect of program income, refunds, and audit recoveries on payment.
  - (1) Grantees and subgrantees shall disburse repayments to and interest earned on a revolving fund before requesting additional cash payments for the same activity.

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- (2) Except as provided in paragraph (f)(1) of this section, grantees and subgrantees shall disburse program income, rebates, refunds, contract settlements, audit recoveries, and interest earned on such funds before requesting additional cash payments.
- (g) Withholding payments.
  - (1) Unless otherwise required by federal statute, awarding agencies shall not withhold payments for proper charges incurred by grantees or subgrantees unless:
    - (i) The grantee or subgrantee has failed to comply with grant award conditions or
    - (ii) The grantee or subgrantee is indebted to the United States.
  - (2) Cash withheld for failure to comply with grant award condition, but without suspension of the grant, shall be released to the grantee upon subsequent compliance. When a grant is suspended, payment adjustments will be made in accordance with Sec. 18.43(c).
  - (3) A federal agency shall not make payment to grantees for amounts that are withheld by grantees or subgrantees from payment to contractors to assure satisfactory completion of work. Payments shall be made by the federal agency when the grantees or subgrantees actually disburse the withheld funds to the contractors or to escrow accounts established to assure satisfactory completion of work.
    - (i) Interest earned on advances. Except for interest earned on advances of funds exempt under the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.) and the Indian Self-Determination Act (23 U.S.C. 450), grantees and subgrantees shall promptly, but at least quarterly, remit interest earned on advances to the federal agency. The grantee or subgrantee may keep interest amounts up to \$100 per year for administrative expenses.

***Condition and Context***

**SH Program**

The SH program is required to minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee. We selected 45 federal drawdowns from HUD and calculated the period of time between the receipt of funds from HUD and the City's disbursement to their subrecipients. We noted that management does not track the total advances for the grant. During our testwork, we noted 17 of the 45 selections were not remitted to subrecipients on a timely basis. Of our 17 selections, 2 were disbursed to the subrecipient between 25 to 45 days from the date the federal funds were received from HUD. In addition, none of the \$1,492 of interest earned for all of our 45 selections was remitted to HUD.

**WIA Program**

Of the 30 selections tested, 27 were on reimbursement and 3 were on advances. All drawdowns occurred within three to four days of cash needs, so it appears the City is properly minimizing the time elapsing between the drawdown and expenditure. However, the City does not have controls in place to track total advances and the interest earned on advances. Of the 3 advances in our sample, interest of \$21 was earned, but not remitted. The City was not able to calculate the interest on all individual drawdowns given the high

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volume of transactions during the fiscal year. However, it appears that the interest due to the federal agency would be expected to be greater than the \$100 maximum interest that the City is allowed to retain.

PS Program

The Port was advanced \$450,000 and \$2,400,000 in May 2004 for a portion of the PS program. The entire \$450,000 remained unspent as of September 30, 2007 due to pending litigation. Furthermore, due to approved changes in project specifications which resulted in project delays, \$494,000 of the \$2,400,000 advance remained unspent as of October 1, 2006. However, the \$494,000 was spent during the fiscal year ended September 30, 2007. The Port failed to remit interest to the State on the amounts advanced in accordance with OMB Circular A-133.

The remaining portion of the PS program is administered on a reimbursement basis for which the Port is required to pay expenditures prior to requesting reimbursement. Of the seven reimbursement invoices sampled for the PS program, one was paid four days after the date of the reimbursement request. However, the Port received reimbursement for the invoice after the funds were paid by the Port. As such, no interest was earned.

UASI Program

The City is required to minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee. We selected 26 (100%) of the transfers of funds from the State to the City of Long Beach and calculated the period of time between the receipt of funds from the State and the disbursement to a subrecipient. During our testwork, we noted 18 of the 26 selections were not remitted to the subrecipient on a timely basis. Of our selections, 17 were disbursed to the subrecipient between 18 to 97 days from the date the federal funds were received from the State. In addition, one selection has not been disbursed to the subrecipient as of June 25, 2008, greater than 250 days subsequent to the receipt of the federal funds.

*Questioned Costs*

SH Program

\$1,492 – Total interest earned for our 45 selections, but not remitted to the federal government. Interest earned on the remaining untested population is unknown.

WIA Program

\$21 – Total interest earned for our 3 advance selections, but not remitted to the federal government. Interest earned on the remaining untested population is unknown.

PS Program

\$30,804 – Total interest earned during the year but not remitted to the federal government

UASI Program

\$12,071 – Total interest earned during the year, but not remitted to the federal government.



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“Interest earned” was calculated based on the following formula: [(Interest rate for the month \* total federal advance)/total days in the month) \* number of days elapsing between the drawdown and disbursement].

***Cause and Effect***

SH Program

Management indicated that they were under a cash reimbursement basis as their subrecipients paid their vendors prior to drawdown request. However, as the City requests drawdowns prior to paying its sub-recipients, the City is operating under a cash advance basis.

WIA Program

Management indicated that they were under a cash reimbursement basis as they typically request funds after they are paid. However, the City is allowed to request funds prior to payment, as long as management minimizes the time elapsing between the federal drawdown and transfer of funds. Thus, the City is also operating under a cash advance basis. As the City was not aware that they followed both methods, they did not have proper procedures in place to track and pay interest earned.

PS Program

The Port maintains that oral authorization was granted by the Transportation Security Administration (TSA) to excuse the PS Program from remitting interest earned on advances as set forth by OMB Circular A-133. However, the agreement was not formally documented, nor was the Port able to provide evidence that the agreement exists.

The Port submits invoices to the City for payment to the vendor. However, a delay exists between the Port recording the expenses in FAMIS and the City’s payment of funds to the vendor due to additional levels of review at the City. Furthermore, the reimbursement policy maintained at the Port for the PS Program is to *incur* expenditures prior to requesting reimbursement rather than *pay* expenditures prior to reimbursement, as set forth in OMB Circular A-133

UASI Program

Management indicated that they were under a cash reimbursement basis as their sub-recipients paid their vendors prior to drawdown request. Management noted that delays have been experienced due to insufficient staffing to expedite the processing of payments to subrecipients. The delay of one of the payments is due to a subsequent discrepancy between the City and the sub-recipient. The delay and reasoning was communicated to both the State and the sub-recipient at the time of the discrepancy. Failure to pass through funds that have been drawn down by the City for valid expenditures incurred by a subrecipient will result in non-compliance with the federal regulations.

***Recommendation***

We recommend that the City and Port strengthen their internal control process to ensure that the delay between the transfer of funds and disbursement to the grantee or subgrantee is minimized. Further, the City and Port should strengthen policies and procedures for reimbursement grants to ensure expenditures are

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paid prior to requesting reimbursement. Lastly, we recommend that management enforce compliance with internal controls over tracking the interest earned on advanced funds. The City and Port should ensure they remit promptly but at least quarterly, interest earned on advances to the federal agency greater than \$100 per year.

***Views of Responsible Officials and Planned Corrective Actions***

The City has not and does not intentionally implement practices or policies that are inconsistent with OMB Circular A-133. The City's intent has been to maintain procedures that minimize the time elapsing between the disbursement of funds and transfer of funds.

City staff has done an analysis of the daily cash balance for the Homeless Supporting Housing Program, Workforce Investment Act Cluster and the Urban Area Security Initiative Program. The cash balances in the programs are negative throughout most of the year, therefore, interest is not earned by the programs during that time. The audit selection, done on a transaction basis, did not account for daily expenditures for these grants. Expenditures occur on a regular basis which have not been funded by the grantor. The City analysis shows that when a positive balance occurs it is for only a day or two and if more it is a result of a weekend or holiday. For positive cash balances beyond a few days, the payment process has been delayed due to staffing level or additional review measures taken to assure that no payments were disbursed inappropriately. In the case of the UASI grant the extended payment delay was communicated to the State and sub-recipient at the time of the discrepancy.

The City will strengthen its policies and procedures to ensure expenditures are paid prior to the requesting of reimbursement and interest is tracked and remitted when applicable. Staff of the respective grants has ceased all request reimbursements prior to the expenditure payment. In addition, staff is tracking the interest earned as applicable.

The two programs in which the Port received advances are part of the early rounds of the federal government grant program to provide funds for ports and harbors to implement or enhance security measures. Funds were provided by Agencies whose name and structure changed repeatedly due to the evolving nature of the national security program being developed by the federal government; as such, procedures and guidelines in many areas of the programs were not clearly defined, one of them being the refund of interest earnings on federal funds. The Port did earn interest on federal funds and was aware of the reimbursement requirements. The Port was advised that it could do one of two things: either reinvest the earnings into the program (this is a procedure historically accepted by the federal government) or record the earnings as income to its operating fund and, if requested, return the funds. The Port will, through its Grant Management representatives, identify the agency or agencies involved and prepare the proper remittances.

The Department's grant management staff will work with accounting staff to ensure expenditures are paid prior to request for reimbursement. Grant management staff will document the payment date for invoices prior to request for reimbursement. In addition, accounting and grant management staff will continue to work together to request reimbursements; the reimbursement process will provide a level of internal control that ensures payments have been made prior to drawing down funds.

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It is important to note, in this case, that the Port was not reimbursed until well after payment was made. Moreover, the Harbor Department considered the invoice a liability as soon as the invoice was entered into the financial system.

The City will coordinate with its outside auditors a mandatory training program to be completed by the end of the current fiscal year conducted appropriate for all employees involved in administering grants.

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**Finding F-07-02 – Davis Bacon**

***Program Information***

*Federal Program*

Highway Planning and Construction Program (HPC Program), CFDA No. 20.205

Port Security Program (PS Program), CFDA No. 20.420

Urban Areas Security Initiative Program (UASI Program), CFDA No. 16.011

*Federal Grant Award Number and Grant Period*

HPC Program

| <u>Federal grant number</u> | <u>Grant period</u>   | <u>Location</u> |
|-----------------------------|-----------------------|-----------------|
| DPM-0001 (002) – No. 022-M2 | 2/27/2006 to 7/1/2012 | Port            |

PS Program

| <u>Federal grant number</u> | <u>Grant period</u>  | <u>Location</u> |
|-----------------------------|----------------------|-----------------|
| DTSA20-03-G-01091           | 7/17/03 to 7/31/2007 | Port            |

UASI Program

| <u>Federal grant number</u> | <u>Grant period</u>     | <u>Location</u> |
|-----------------------------|-------------------------|-----------------|
| 2004-EU-T3-0046             | 12/1/2003 to 12/31/2007 | Port            |

*Federal Agency*

U.S. Department of Transportation – HPC

Transportation Security Administration (TSA) – PS

U.S. Department of Justice – UASI

*Pass-Through Agency*

California Department of Transportation (Caltrans) – HPC

***Specific Requirement***

TITLE 49 – TRANSPORTATION, Subtitle A – Office of the Secretary of Transportation, PART 18\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE, Subpart C\_Post-Award Requirements, Sec. 18.36 Procurement, and

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TITLE 28 – JUDICIAL ADMINISTRATION, CHAPTER I – DEPARTMENT OF JUSTICE (CONTINUED), PART 66\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE, Subpart C\_Post-Award Requirements, Sec. 66.36 Procurement:

- (i) Contract provisions. A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy.
- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)

TITLE 29 – LABOR, PART 5\_LABOR STANDARDS PROVISIONS APPLICABLE TO CONTRACTS COVERING, Subpart A\_Davis-Bacon and Related Acts Provisions and Procedures, Sec. 5.5 Contract provisions and related matters:

- (a) The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000, which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from federal funds or in accordance with guarantees of a federal agency or financed from funds obtained by pledge of any contract of a federal agency to make a loan, grant, or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in Sec. 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, provided, that such modifications are first approved by the Department of Labor):
  - (1) Minimum wages. (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor, which is attached hereto and made a part hereof, regardless of any contractual relationship, which may be alleged to exist between the contractor and such laborers and mechanics.
  - (3) Payrolls and basic records.
    - (i) Payrolls and basic records relating thereto shall be maintained by the contractor during the course of the work and preserved for a period of three years thereafter for all laborers and mechanics working at the site of the work (or under the United States Housing Act of 1937, or under the Housing Act of 1949, in the construction or development of the project).

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(ii)

- (A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under Sec. 5.5(a)(3)(i) of Regulations, 29 CFR part 5. This information may be submitted in any form desired. Optional Form WH-347 is available for this purpose and may be purchased from the Superintendent of Documents (Federal Stock Number 029-005-00014-1), U.S. Government Printing Office, Washington, DC 20402. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.
- (B) Each payroll submitted shall be accompanied by a "Statement of Compliance," signed by the contractor or subcontractor or his or her agent who pays or supervises the payment of the persons employed under the contract and shall certify the following:
  - (1) That the payroll for the payroll period contains the information required to be maintained under Sec. 5.5(a)(3)(i) of Regulations, 29 CFR part 5 and that such information is correct and complete;
  - (2) That each laborer or mechanic (including each helper, apprentice, and trainee) employed on the contract during the payroll period has been paid the full weekly wages earned, without rebate, either directly or indirectly, and that no deductions have been made either directly or indirectly from the full wages earned, other than permissible deductions as set forth in Regulations, 29 CFR part 3;
  - (3) That each laborer or mechanic has been paid not less than the applicable wage rates and fringe benefits or cash equivalents for the classification of work performed, as specified in the applicable wage determination incorporated into the contract.
- (C) The weekly submission of a properly executed certification set forth on the reverse side of Optional Form WH-347 shall satisfy the requirement for submission of the "Statement of Compliance" required by paragraph (a)(3)(ii)(B) of this section.

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#### *Condition and Context*

##### HPC Program

Under the Davis Bacon Act, the Port is required to obtain certified payrolls from each contractor for each week in which construction contract work is performed. The certified payrolls for 3 of the 30 weeks sampled were not obtained by the Port. However, certified payrolls for all 30 weeks were subsequently obtained for the audit.

##### PS Program

Under the Davis Bacon Act, the Port is required to obtain certified payrolls from each contractor for each week in which construction contract work is performed. The certified payrolls for 30 of the 30 weeks sampled were not obtained by the Port during the fiscal year. However, certified payrolls for all 30 weeks were subsequently obtained for the audit. Furthermore, the construction agreement does not contain a provision requiring the contractor to comply with prevailing wages as set by the Davis Bacon Act, including the submission of certified payrolls. The contract currently contains provisions that require the contractor to comply with prevailing wage rates, however it does not refer to the Davis Bacon Act nor does it require the contractor to submit certified payrolls.

##### UASI Program

Under the Davis Bacon Act, the Port is required to obtain certified payrolls from each contractor for each week in which construction contract work is performed. The certified payrolls for 15 of the 30 weeks sampled were not obtained by the Port during the fiscal year. However, certified payrolls for all 30 weeks were subsequently obtained for the audit. Furthermore, the construction agreement does not contain a provision requiring the contractor to comply with prevailing wages as set by the Davis Bacon Act, including the submission of certified payrolls. The contract currently contains provisions that require the contractor to comply with prevailing wage rates; however, it does not refer to the Davis Bacon Act nor does it require the contractor to submit certified payrolls.

#### *Questioned Costs*

None noted.

#### *Cause and Effect*

##### HPC Program

Management indicated that for most weeks, the certified payrolls were obtained, but had document retention issues related to the weeks noted above.

##### PS Program and UASI Program

Management indicated that they were not aware that the federal compliance requirement is to *physically obtain* a submitted payroll and statement of compliance each week. Instead, a clause is included in construction contracts that requires the contractors to maintain the certified payrolls and allows the Port to obtain them upon request. However, the Port did not request every certified payroll from the contractors

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during the fiscal year to monitor compliance. As such, the Port is not in compliance with the Davis Bacon Act requirements set forth by OMB Circular A-133.

#### ***Recommendation***

We recommend that the Port implement policies and procedures to collect certified payrolls and a statement of compliance from each contractor and subcontractor on a weekly basis. For weeks in which no work was performed, management should obtain a statement of nonperformance from the contractors and subcontractors currently working on federal projects. Lastly, management should revise the standard construction contract language to include required federal references to the Davis Bacon Act.

#### ***Views of Responsible Officials and Planned Corrective Actions***

The Harbor Department and City Attorney will work together to ensure compliance with the Davis Bacon Act. The Harbor Department will include adherence to the federal policy on all construction contracts federally funded with payroll expenditures over \$2,000, including the collection of weekly certified payrolls. The documentation will require staff to acknowledge receipt of certified payrolls and statements of compliance provided by contractors. All payrolls will coincide with applications for payments being submitted under the Department's normal payment schedule, which is currently monthly. These documents will be kept permanently with the contract files. Invoices will not be paid unless the proper certifications are received and documented by grant management or contract administration staff.

The City Attorney's office has amended the contract agreements to include a standard attachment for grant-funded projects. The attachment includes all OMB-mandated contract provisions, including adherence to the Davis Bacon Act. The Davis Bacon Act provision includes a statement regarding submission of weekly certified payrolls. The attachment is currently being used for all Federal-grant-funded contracts.

The City will coordinate with its outside auditors a mandatory training program to be completed by the end of the current fiscal year conducted appropriate for all employees involved in administering grants.



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**Finding F-07-03 – Equipment and Real Property Management Physical Inventory**

***Program Information***

*Federal Program*

Urban Areas Security Initiative Program, CFDA No. 97.008

*Federal Grant Award Number and Grant Period*

| <u>Federal grant number</u> | <u>Grant period</u>     | <u>Location</u> |
|-----------------------------|-------------------------|-----------------|
| 2003-23, OES ID #037-43000  | 7/1/2003 to 12/31/2006  | Fire            |
| 2004-14, OES ID #037-43000  | 12/1/2003 to 2/28/2007  | Fire            |
| 2005-15, OES ID #037-43000  | 10/12/2004 to 3/31/2008 | Fire            |

*Federal Agency*

U.S. Department of Homeland Security

*Pass-Through Agency*

U.S. State Office of Homeland Security

***Specific Requirement***

TITLE 28 – JUDICIAL ADMINISTRATION, CHAPTER I – DEPARTMENT OF JUSTICE, PART 66\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C\_Post-Award Requirements, Sec. 66.32:

- (d) Management requirements. Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:
  - (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of federal participation in the cost of the property, the location, use, and condition of the property, and any ultimate disposition data, including the date of disposal and sale price of the property.
  - (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

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***Condition and Context***

The City did not maintain adequate property records that included sufficient information to monitor equipment purchases with grant funds. During our inspection of equipment logs, pertinent fields such as serial number and/or City ID tag number were incomplete or inaccurate. While performing a physical inspection of 34 pieces of equipment, we observed 14 units that were not properly tagged with City identification numbers or logged into the property records maintained by the City.

***Questioned Costs***

None noted

***Cause and Effect***

Management indicated that it performed a physical inventory and tagged equipment during the year; however, it did not continue to maintain the accuracy of the equipment logs when new equipment was purchased.

***Recommendation***

We recommend that management implement an internal control process to ensure that property records of equipment acquired with federal funds are maintained accurately, and equipment is tagged correctly to maintain compliance with grant guidelines.

***Views of Responsible Officials and Planned Corrective Actions***

The City has not and does not intentionally implement practices or policies that are inconsistent with OMB Circular A-133. The City has conducted and will continue to conduct annual physical inventories to assure all equipment is tagged and appropriately logged. Financial Management will work with departments to assure equipment is tagged upon receipt and logged by location throughout the year.

The City will coordinate with its outside auditors a mandatory training program to be completed by the end of the current fiscal year conducted appropriate for all employees involved in administering grants.

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**Finding F-07-04 – Reporting**

***Program Information***

*Federal Program*

Urban Areas Security Initiative Program, CFDA Nos. 97.008 and 16.011

*Federal Grant Award Number and Grant Period*

| <u>Federal grant number</u> | <u>Grant period</u>     | <u>Location</u> |
|-----------------------------|-------------------------|-----------------|
| 2004-EU-T3-0046             | 12/1/2003 to 12/31/2007 | Port            |
| 2003-23, OES ID #037-43000  | 7/1/2003 to 12/31/2006  | Fire            |
| 2004-14, OES ID #037-43000  | 12/1/2003 to 2/28/2007  | Fire            |
| 2005-15, OES ID #037-43000  | 10/12/2004 to 3/31/2008 | Fire            |

*Federal Agency*

U.S. Department of Homeland Security and U.S. Department of Justice

*Pass-Through Agency*

U.S. State Office of Homeland Security

***Specific Requirement***

TITLE 28 – JUDICIAL ADMINISTRATION, CHAPTER I – DEPARTMENT OF JUSTICE, PART 66\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE AND LOCAL GOVERNMENTS, Subpart C\_Post-Award Requirements, Sec. 66.42 Retention and access requirements for records:

- (a) Applicability. (1) This section applies to all financial and programmatic records, supporting documents, statistical records, and other records of grantees or subgrantees that are:
  - (i) Required to be maintained by the terms of this part, program regulations, or the grant agreement or
  - (ii) Otherwise reasonably considered as pertinent to program regulations or the grant agreement.
- (b) Length of retention period. (1) Except as otherwise provided, records must be retained for three years from the starting date specified in paragraph (c) of this section.
- (c) Starting date of retention period – (1) General. When grant support is continued or renewed at annual or other intervals, the retention period for the records of each funding period starts on the day the grantee or subgrantee submits to the awarding agency its single or last expenditure report for that period. However, if grant support is continued or renewed quarterly, the retention period for each year’s records starts on the day the grantee submits its expenditure report for the last quarter of the federal fiscal year. In all other cases, the retention period starts on the day the grantee submits its

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final expenditure report. If an expenditure report has been waived, the retention period starts on the day the report would have been due.

Further, the Homeland Security Grant Program, *California Supplement to Federal Program Guidelines and Application Kit*, state, Subgrantees must prepare and submit performance reports to the state for the duration of the grant performance period, or until all grant activities are completed and the grant is formally closed. Subgrantees must complete a “Biannual Strategy Implementation Report (BSIR) using the Department of Health Services online Grant Management System, and may also be required to submit additional information and data requested by the State. Failure to submit performance reports could result in grant reduction, terminations or suspension.”

TITLE 28 – JUDICIAL ADMINISTRATION, CHAPTER I – DEPARTMENT OF JUSTICE, PART 66\_UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE, Subpart C\_Post-Award Requirements, Sec. 66.20 Standards for financial management systems., Financial Administration:

- (a) A state must expand and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to:
  - (1) Permit preparation of reports required by this part and the statutes authorizing the grant and
  - (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
- (b) The financial management systems of other grantees and subgrantees must meet the following standards:
  - (1) Financial reporting. Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.
  - (2) Accounting records. Grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.
  - (3) Internal control. Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

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#### ***Condition and Context***

The City is required to submit a BSIR semiannually for each grant award administered by the Fire Department under the UASI Program. We inspected a total of four BSIR reports, representing 100% of the applicable BSIR report population during the current year. However, management could not provide supporting documentation for amounts included within the reports to verify the accuracy of the information reported to the pass-through agency.

The City is also required to submit the SF-269 each quarter for the UASI Program administered by the Port of Long Beach. We inspected a total of one SF-269 quarterly report, with 7 lines of financial data, noting 2 lines were understated by \$20,326 each. The understated amounts were cumulative figures which were not consistent with the cumulative data per FAMIS (same cumulative figure reported in two locations, each error resulting in an understatement of \$20,326).

#### ***Questioned Costs***

None noted.

#### ***Cause and Effect***

Grants management at the Fire Department indicated that information and amounts on the BSIR federal reports were obtained from the various agencies under the program and then adjusted, when necessary, based on more recent and current information available at the time the report was made. These calculations and amounts were not documented or traceable to any worksheet or other supporting documentation maintained by the City. Failure to properly maintain underlying supporting documents, worksheets, and/or calculations to support reports submitted to the federal government may result in inaccurate federal reporting requirements.

Grants management at the Port of Long Beach further indicated that although all reports are reviewed prior to submission to the Department of Homeland Security, cumulative amounts reported on the SF-269 are not reviewed. While current period expense per the sampled report was properly reported, the cumulative balance did not agree to FAMIS. A current period error was made on a past report, resulting in an inaccurate cumulative balance in each of the subsequent reports.

#### ***Recommendation***

We recommend that the City strengthen its internal control process to ensure that underlying supporting documentation and/or supporting calculations for the program's reports are retained. We also recommend that during review of reports, management should ensure that all amounts reported agree to the underlying data.

#### ***Views of Responsible Officials and Planned Corrective Actions***

The Disaster Management Division's understanding of the BSIR report as stated in the program guidelines and application kit is a performance reporting mechanism for information to the granting agency not a final reporting mechanism. The BSIR was to report ongoing activity and budget, which were continually changing. All requests for reimbursement were reported separately and accurately balancing to the City's FAMIS System and the grant award. Starting with fiscal year 2008 the City is a sub-recipient to the Urban Area Security Initiative, thus no longer required to complete the BSIR.

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The City will work with the initiating departments to ensure for reports required by OMB Circular A-133 and the grant agreement reconcile to the underlying data; and the underlying supporting documentation and supporting calculations are retained.

Due to the ongoing nature of the projects funded by federal funds at the Port; the Financial Status Reports (SF269a) were prepared sometimes with preliminary information extracted from FAMIS, with the knowledge that such information would be subsequently adjusted and that the overall expenses, at the end of the project would be correctly stated. This process has evolved, and currently, it is a joint effort between Harbor Finance Division and the Harbor Grant Management Section of the Security Division. A procedure is in place to ensure that information presented in the SF269a is properly adjusted and it is of a final nature.

The Harbor Department grant management staff and Harbor Finance Division staff will work together to ensure that supporting documentation matches the figures reported on the SF269a. A procedure is in place whereby Harbor Finance Division staff provides monthly expenditure (FAMIS) reports to grant management staff. The reports are compared to the grant management staff's expenditure records, which are logged regularly in a spreadsheet. Any discrepancies are noted and discussed with Harbor Finance. When quarterly reports (SF269a) are created, the FAMIS reports are again reconciled with grant management staff's expenditure records to obtain an accurate figure for the report. This process provides internal controls on the reporting of expenditures in the FAMIS system and ensures that figures on quarterly reports reconcile with the supporting documentation (FAMIS reports).

The City will coordinate with its outside auditors a mandatory training program to be completed by the end of the current fiscal year conducted appropriate for all employees involved in administering grants.

**CITY OF LONG BEACH**

Asset Forfeiture Program

Statement of Program Receipts, Expenditures, and Changes in Fund Balance

Year ended September 30, 2007

(Unaudited)

|                                    | <b>U.S. Department</b>   |                           |                  |
|------------------------------------|--------------------------|---------------------------|------------------|
|                                    | <b>Justice<br/>funds</b> | <b>Treasury<br/>funds</b> | <b>Total</b>     |
| Fund balance at October 1, 2006    | \$ 567,601               | 767,330                   | 1,334,931        |
| Program receipts:                  |                          |                           |                  |
| Federal funds received             | 473,444                  | 84,251                    | 557,695          |
| Interest income accrued            | 35,758                   | 31,644                    | 67,402           |
| Total program receipts             | <u>509,202</u>           | <u>115,895</u>            | <u>625,097</u>   |
| Program expenditures:              |                          |                           |                  |
| Public safety                      | <u>474,752</u>           | <u>291,237</u>            | <u>765,989</u>   |
| Fund balance at September 30, 2007 | <u>\$ 602,051</u>        | <u>591,988</u>            | <u>1,194,039</u> |

See accompanying report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.

## CITY OF LONG BEACH

## Spousal Abuser Prosecution Program

Reconciliation of Financial Activity  
for all Grants with Activity

Years ended September 30, 2007, 2006, and 2005

(Unaudited)

|   | Cumulative | Grant activity |         |         |
|---|------------|----------------|---------|---------|
|   |            | FY 2007        | FY 2006 | FY 2005 |
| Grant award no. : 04 SA11F009:                    |            |                |         |         |
| Cash receipts                                     | \$ 43,557  | —              | 8,860   | 34,697  |
| Expenditures:                                     |            |                |         |         |
| To grant : Staff                                  | \$ 36,865  | —              | —       | 36,865  |
| Match : Staff                                     | 16,260     | —              | —       | 16,260  |
| Operational                                       | 203        | —              | —       | 203     |
| Total expenditure                                 | \$ 53,328  | —              | —       | 53,328  |
| Grant award no. : 05 SA12F009:                    |            |                |         |         |
| Cash receipts                                     | \$ 43,557  | —              | 43,557  | —       |
| Expenditures:                                     |            |                |         |         |
| To grant : Staff                                  | \$ 43,557  | —              | 29,885  | 13,672  |
| Match : Staff                                     | 25,623     | —              | 21,952  | 3,671   |
| Operational                                       | 360        | —              | 292     | 68      |
| Total expenditure                                 | \$ 69,540  | —              | 52,129  | 17,411  |
| Grant award no. : 06 SA13F009:                    |            |                |         |         |
| Cash receipts                                     | \$ 56,623  | 56,623         | —       | —       |
| Expenditures:                                     |            |                |         |         |
| To grant : Staff                                  | \$ 43,557  | 30,218         | 13,339  | —       |
| Match : Staff                                     | 29,229     | 26,126         | 3,103   | —       |
| Operational                                       | 279        | 279            | —       | —       |
| Total expenditure                                 | \$ 73,065  | 56,623         | 16,442  | —       |
| Grant award no. : 07 SA14F009:                    |            |                |         |         |
| Cash receipts                                     | \$ 19,398  | 19,398         | —       | —       |
| Expenditures:                                     |            |                |         |         |
| To grant : Staff                                  | \$ 15,617  | 15,617         | —       | —       |
| Match : Staff                                     | 3,688      | 3,688          | —       | —       |
| Operational                                       | 93         | 93             | —       | —       |
| Total expenditure                                 | \$ 19,398  | 19,398         | —       | —       |
| Total city expenditures for<br>program in FY 2007 |            | \$ 76,021      |         |         |

See accompanying report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133.



**CITY OF LONG BEACH**

State of California, Business, Transportation, and Housing Agency  
Office of Traffic Safety

Schedule of Revenue and Expenditures

Years ended September 30, 2007, 2006, and 2005

(Unaudited)

Grant title : Long Beach Family Safety Initiative  
Grant no : CB0403  
Grant award : \$330,000

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 166,876        | —                     | —              | 166,876        |
| Cash receipts         | 203,036           | —                     | 49,525         | 153,511        |
| Receivable (deferred) | \$ (36,160)       | —                     | (49,525)       | 13,365         |

Grant title : Long Beach Family Safety Initiative  
Grant no : OP0601  
Grant award : \$376099

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 332,095        | 200,975               | 131,120        | —              |
| Cash receipts         | 282,734           | 242,973               | 39,761         | —              |
| Receivable (deferred) | \$ 49,361         | (41,998)              | 91,359         | —              |

Grant title :Sobriety Checkpoint  
Grant no : AM05087  
Grant award : \$35460

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 35,460         | —                     | 11,554         | 23,906         |
| Cash receipts         | 35,460            | —                     | 35,460         | —              |
| Receivable (deferred) | \$ —              | —                     | (23,906)       | 23,906         |

Grant title : Pedestrian Countdown  
Grant no : PS0507  
Grant award : \$70,000

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 69,821         | —                     | 69,821         | —              |
| Cash receipts         | 69,821            | —                     | 69,821         | —              |
| Receivable (deferred) | \$ —              | —                     | —              | —              |

**CITY OF LONG BEACH**

State of California, Business, Transportation, and Housing Agency  
Office of Traffic Safety

Schedule of Revenue and Expenditures

Years ended September 30, 2007, 2006, and 2005

(Unaudited)

Grant title : Interagency Bicycle &  
Pedestrian Safety  
Grant no : PS0506  
Grant award : \$355,638

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 355,638        | —                     | 326,593        | 29,045         |
| Cash receipts         | 355,638           | 290,572               | 53,290         | 11,776         |
| Receivable (deferred) | \$ —              | (290,572)             | 273,303        | 17,269         |

Grant title : Driving While Impaired  
Impact Project  
Grant no : AL0670  
Grant award : \$283,901

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 181,552        | 72,436                | 109,116        | —              |
| Cash receipts         | 143,040           | 73,068                | 69,972         | —              |
| Receivable (deferred) | \$ 38,512         | (632)                 | 39,144         | —              |

Grant title : Seatbelt Compliance  
Campaign  
Grant no : IN61929  
Grant award : \$89,995

|                       | <b>Cumulative</b> | <b>Grant activity</b> |                |                |
|-----------------------|-------------------|-----------------------|----------------|----------------|
|                       |                   | <b>FY 2007</b>        | <b>FY 2006</b> | <b>FY 2005</b> |
| Total expenditures    | \$ 72,219         | —                     | 72,219         | —              |
| Cash receipts         | 72,219            | —                     | 72,219         | —              |
| Receivable (deferred) | \$ —              | —                     | —              | —              |

**CITY OF LONG BEACH**

State of California, Business, Transportation, and Housing Agency  
Office of Traffic Safety

Schedule of Revenue and Expenditures

Years ended September 30, 2007, 2006, and 2005

(Unaudited)

Grant title : Sobriety Checkpoint  
Grant no : SC071914  
Grant award : \$41,010

|                       | <b>Cumulative</b> | <b>FY 2007</b> | <b>Grant activity</b> |                |
|-----------------------|-------------------|----------------|-----------------------|----------------|
|                       |                   |                | <b>FY 2006</b>        | <b>FY 2005</b> |
| Total expenditures    | \$ 40,977         | 40,977         | —                     | —              |
| Cash receipts         | 13,550            | 13,550         | —                     | —              |
| Receivable (deferred) | \$ 27,427         | 27,427         | —                     | —              |

Grant title : Click it or Ticket  
Impact Project  
Grant no : CT071927  
Grant award : \$89,998

|                       | <b>Cumulative</b> | <b>FY 2007</b> | <b>Grant activity</b> |                |
|-----------------------|-------------------|----------------|-----------------------|----------------|
|                       |                   |                | <b>FY 2006</b>        | <b>FY 2005</b> |
| Total expenditures    | \$ 72,534         | 72,534         | —                     | —              |
| Cash receipts         | —                 | —              | —                     | —              |
| Receivable (deferred) | \$ 72,534         | 72,534         | —                     | —              |

Grant Title : Long Beach Speeders  
Beware  
Grant no : PT0725  
Grant award : \$474,222

|                       | <b>Cumulative</b> | <b>FY 2007</b> | <b>Grant activity</b> |                |
|-----------------------|-------------------|----------------|-----------------------|----------------|
|                       |                   |                | <b>FY 2006</b>        | <b>FY 2005</b> |
| Total expenditures    | \$ 96,839         | 96,839         | —                     | —              |
| Cash receipts         | 81,655            | 81,655         | —                     | —              |
| Receivable (deferred) | \$ 15,184         | 15,184         | —                     | —              |

See accompanying report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133