



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

# C-12

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August 18, 2015

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

## RECOMMENDATION:

Receive and file the Separately Issued Financial Statements, the Federal Single Audit, and the Auditor's Communication with Those Charged with Governance for the Fiscal Year ended September 30, 2014. (Citywide)

## DISCUSSION

### **Separately Issued Financial Reports and Statements**

Certain City funds, joint powers authorities, and other subsidiary entities are also required to submit audited annual financial statements under separate cover. The Aquarium of the Pacific audited financial statements are enclosed and are issued annually to meet distinct legal and financial requirements.

### **Federal Single Audit**

Also attached is the Federal Single Audit required by the Federal Office of Management and Budget (OMB) for municipalities receiving over \$500,000 annually in federal funds. The Federal Single Audit, covering five major programs, as well as all American Recovery and Reinvestment Act (ARRA) grant funds, resulted in one finding in the Surface Transportation program, one material weakness and zero dollars in questioned costs. A finding represents any lack of compliance with OMB grant operating and/or reporting requirements. The findings are reported whether they are significant or not. A finding may also identify an amount of questioned costs that could, but are not likely to, result in the repayment of amounts to the granting agencies. In general, this is an improvement over the audit of the previous fiscal year that resulted in two findings and \$891,723 in questioned costs.

The City has taken steps to address these findings. The Surface Transportation program finding was annotated in the FY 2013 single audit and, due to the timing related to when an audit report is issued, the finding could not be resolved in time to prevent it from occurring in a subsequent year.

### **The Auditor's Communications with Those Charged with Governance**

The City's external auditor (KPMG) is required to prepare and submit the Auditor's Communication with Those Charged with Governance in accordance with the Statement of Auditing Standards 114 (SAS 114). "Those charged with governance" refers to the person or persons responsible for the strategic direction of the entity and the obligations relative to the accountability of such entity, including oversight of the financial reporting process. KPMG is required to communicate with those charged with governance those matters related to the financial statement audit that are, in KPMG's professional judgment, significant and relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

### **Management Letter**

KPMG has also provided a separately issued Management Letter that provides comments, findings and recommendations related to internal controls, as well as other operational matters. No findings or material weaknesses were identified. City management has reviewed KPMG's recommendations and Management's response to each recommendation is included in the letter.

### **TIMING CONSIDERATIONS**

Action on this item is not time critical.

### **FISCAL IMPACT**

There is no fiscal or local job impact associated with this action.

### **SUGGESTED ACTION:**

Approve recommendation.

Respectfully submitted,



STEPHEN W. HANNAH  
CITY CONTROLLER



JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:



PATRICK H. WEST  
CITY MANAGER

JG:SWH  
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### **ATTACHMENTS:**

AQUARIUM OF THE PACIFIC FINANCIAL STATEMENTS  
THE FEDERAL SINGLE AUDIT  
THE AUDITOR'S COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE  
COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) MANAGEMENT LETTER



**AQUARIUM OF THE PACIFIC**

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)



KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

## Independent Auditors' Report

The Board of Directors  
Aquarium of the Pacific:

We have audited the accompanying financial statements of the Aquarium of the Pacific, which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Aquarium of the Pacific as of December 31, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

Irvine, California  
April 29, 2015

**AQUARIUM OF THE PACIFIC**  
Statements of Financial Position  
December 31, 2014 and 2013

	2014			2013				
Assets	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Cash and cash equivalents	\$ 3,170,915	7,523,511	398,332	11,092,758	2,294,425	6,605,111	396,632	9,296,168
Accounts receivable, net of allowance for doubtful accounts of \$207,203 and \$319,326 in 2014 and 2013, respectively (note 3)	832,470	—	—	832,470	531,422	—	—	531,422
Contributions receivable, net (note 4)	58,656	2,880,830	—	2,939,486	100,598	2,350,526	—	2,451,124
Prepaid expenses and other	369,173	—	—	369,173	410,764	—	—	410,764
Gift store inventory	515,032	—	—	515,032	417,220	—	—	417,220
Property and equipment, net (note 5)	20,864,669	3,060,431	—	23,925,100	20,763,356	1,256,948	—	22,020,304
Total assets	\$ 25,810,915	13,464,772	398,332	39,674,019	24,517,785	10,212,585	396,632	35,127,002
Liabilities and Net Assets								
Accounts payable	2,908,059	—	—	2,908,059	2,373,470	—	—	2,373,470
Accrued liabilities	1,940,100	—	—	1,940,100	1,510,607	—	—	1,510,607
Deferred revenue	638,355	—	—	638,355	608,600	—	—	608,600
Total liabilities	5,486,514	—	—	5,486,514	4,492,677	—	—	4,492,677
Net assets:								
Unrestricted	20,324,401	—	—	20,324,401	20,025,108	—	—	20,025,108
Temporarily restricted (note 7)	—	13,464,772	—	13,464,772	—	10,212,585	—	10,212,585
Permanently restricted (notes 8 and 9)	—	—	398,332	398,332	—	—	396,632	396,632
Total net assets	20,324,401	13,464,772	398,332	34,187,505	20,025,108	10,212,585	396,632	30,634,325
Commitments and contingencies (note 6)								
Total liabilities and net assets	\$ 25,810,915	13,464,772	398,332	39,674,019	24,517,785	10,212,585	396,632	35,127,002

See accompanying notes to financial statements.

# AQUARIUM OF THE PACIFIC

## Statements of Activities

Years ended December 31, 2014 and 2013

	2014			2013				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Operating revenues:								
Admissions	\$ 17,745,896	—	—	17,745,896	17,122,783	—	—	17,122,783
Memberships	4,211,438	—	—	4,211,438	3,821,204	—	—	3,821,204
Educational programs	1,050,831	—	—	1,050,831	1,097,576	—	—	1,097,576
Gift store	4,103,958	—	—	4,103,958	3,792,937	—	—	3,792,937
Contributions	1,665,619	5,660,784	1,700	7,328,103	1,843,212	5,672,165	5,723	7,521,100
Ancillary	763,240	—	—	763,240	692,710	—	—	692,710
Food service	632,630	—	—	632,630	624,010	—	—	624,010
Fund-raising events	478,238	—	—	478,238	468,953	—	—	468,953
Donated goods and services	639,304	—	—	639,304	608,556	—	—	608,556
Other	211,074	8,351	—	219,425	254,840	8,337	—	263,177
Net assets released from restriction for operations	2,416,948	(2,416,948)	—	—	5,587,537	(5,587,537)	—	—
Total operating revenues	33,919,176	3,252,187	1,700	37,173,063	35,914,318	92,965	5,723	36,013,006
Operating expenses:								
Husbandry and facilities	7,592,779	—	—	7,592,779	7,170,194	—	—	7,170,194
Education, interpretation, and outreach	3,112,307	—	—	3,112,307	3,272,623	—	—	3,272,623
Guest services	4,839,399	—	—	4,839,399	4,138,041	—	—	4,138,041
Gift store	3,084,359	—	—	3,084,359	2,866,554	—	—	2,866,554
Development and membership	2,489,202	—	—	2,489,202	2,336,958	—	—	2,336,958
Marketing	4,199,760	—	—	4,199,760	4,315,535	—	—	4,315,535
Human resources	931,530	—	—	931,530	837,508	—	—	837,508
Finance and administration	2,242,267	—	—	2,242,267	2,738,118	—	—	2,738,118
Total operating expenses before other changes	28,491,603	—	—	28,491,603	27,675,531	—	—	27,675,531
Earnings from operations before other changes	5,427,573	3,252,187	1,700	8,681,460	8,238,787	92,965	5,723	8,337,475
Other operating expenses – other changes:								
Net rent to the City of Long Beach (note 3)	(2,186,903)	—	—	(2,186,903)	(3,528,000)	—	—	(3,528,000)
Amounts transferred to bond-related reserves (note 3)	—	—	—	—	(297,450)	—	—	(297,450)
Depreciation and amortization	(2,941,377)	—	—	(2,941,377)	(2,912,990)	—	—	(2,912,990)
Change in net assets	299,293	3,252,187	1,700	3,553,180	1,500,347	92,965	5,723	1,599,035
Net assets at beginning of year	20,025,108	10,212,585	396,632	30,634,325	18,524,761	10,119,620	390,909	29,035,290
Net assets at end of year	\$ 20,324,401	13,464,772	398,332	34,187,505	20,025,108	10,212,585	396,632	30,634,325

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**  
Statement of Functional Expenses  
Year ended December 31, 2014

	Program services				Support services			
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Gift store	Development and membership	Marketing	Human resources	Finance and administration
	\$ 3,943,007	2,045,805	3,395,332	998,133	1,126,774	1,090,370	627,163	1,187,772
Salaries, taxes, and benefits	—	—	—	1,809,206	—	—	—	—
Cost of goods sold	58,709	67,612	68,894	24,014	1,000	1,211	631	56,087
Insurance	447,765	—	51,186	8,489	44	—	408	8,145
Permits, maintenance, and construction	22,421	67,584	81,547	95,712	53,996	46,328	67,014	156,675
Occupancy	1,532,320	—	—	4,457	—	—	—	—
Utilities	382,867	—	—	—	—	—	—	—
Husbandry/animals and collecting	250,523	681,206	365,054	10,319	624,028	277,547	150,784	183,498
Services	844,984	170,090	511,813	62,334	161,275	30,549	41,338	133,374
Supplies and other expendables	19,620	6,249	10,146	5,661	140,414	75,328	2,104	264,400
Postage, shipping, and courier	13,958	1,816	81,808	5,078	32,975	5,007	6,197	376,357
Information technology and telecommunications	255	17,738	365	—	173,205	354,107	1,182	3,323
Printing and publishing	—	6,067	291	—	7,761	1,976,905	509	5,190
Advertising, promotions, and public relations	76,350	48,140	23,925	2,380	15,756	9,000	34,200	27,191
Travel, meals, and training	—	—	249,038	58,576	151,974	333,408	—	246,616
Other	—	—	—	—	—	—	—	—
Operating expenses before other changes	7,592,779	3,112,307	4,839,399	3,084,359	2,489,202	4,199,760	931,530	2,242,267
Commitments and contingencies (note 6)	796,898	638,641	677,738	42,872	—	5,207	12,150	13,397
Net rent to the City of Long Beach (note 3)	1,425,856	293,869	557,545	8,779	7,525	18,813	7,525	621,465
Depreciation and amortization	9,815,533	4,044,817	6,074,682	3,136,010	2,496,727	4,223,780	951,205	2,877,129
Total operating expenses	\$ 9,815,533	\$ 4,044,817	\$ 6,074,682	\$ 3,136,010	\$ 2,496,727	\$ 4,223,780	\$ 951,205	\$ 2,877,129

See accompanying notes to financial statements.

**AQUARIUM OF THE PACIFIC**  
Statement of Functional Expenses  
Year ended December 31, 2013

	Program services				Support services			
	Husbandry and facilities	Education, interpretation, and outreach	Guest services	Gift store	Development and membership	Marketing	Human resources	Finance and administration
								Total
Salaries, taxes, and benefits	\$ 3,722,732	1,848,593	2,936,420	936,513	1,141,079	1,087,937	596,021	1,250,367
Cost of goods sold	—	—	—	1,670,331	—	—	—	13,519,662
Insurance	68,709	82,215	81,789	27,749	1,075	1,303	679	1,670,331
Permits, maintenance, and construction	453,613	11,115	23,429	9,858	128	—	15	333,937
Occupancy	13,407	57,618	56,323	89,080	48,879	45,019	61,598	508,185
Utilities	1,443,996	—	—	4,522	—	—	—	10,027
Husbandry/animals and collecting	431,580	—	—	—	—	—	—	526,117
Services	178,086	941,850	281,693	11,528	532,745	275,782	117,987	1,448,518
Supplies and other expendables	763,153	201,262	427,043	51,950	146,966	44,620	21,458	431,580
Postage, shipping, and courier	29,087	7,261	8,537	6,514	136,420	86,819	2,355	2,531,411
Information technology and telecommunications	12,424	2,730	58,929	1,678	27,924	6,006	1,907	1,781,112
Printing and publishing	419	35,239	473	—	100,064	339,580	51	278,513
Advertising, promotions, and public relations	154	22,897	75	—	6,883	2,161,904	150	188,439
Travel, meals, and training	52,834	61,843	17,210	2,035	30,114	9,409	35,287	39,165
Write-off of parking receivable	—	—	—	—	—	—	—	7,351
Loss on disposal of fixed assets	—	—	—	—	—	—	—	18,026
Other	—	—	246,120	54,796	164,681	257,156	—	333,608
Commitments Operating expenses before other changes	7,170,194	3,272,623	4,138,041	2,866,554	2,336,958	4,315,535	837,508	238,095
Other operating expenses – other changes:								110,509
Net rent to the City of Long Beach (note 3)	1,285,588	1,030,281	1,093,353	69,162	—	8,401	19,601	2,738,118
Amounts transferred to bond-related reserves (note 3)	108,390	86,864	92,182	5,831	—	708	1,653	21,614
Depreciation and amortization	1,472,146	256,728	547,427	9,333	7,999	19,998	7,999	1,822
Total operating expenses	\$ 10,036,318	4,646,496	5,871,003	2,950,880	2,344,957	4,344,642	866,761	591,360
								3,352,914
								34,413,971

See accompanying notes to financial statements.



# AQUARIUM OF THE PACIFIC

## Statements of Cash Flows

Years ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Change in net assets	\$ 3,553,180	1,599,035
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,941,377	2,912,990
Loss on disposal of fixed assets	—	238,095
Contributions restricted for long-term purposes	(3,356,204)	(5,120,486)
Decrease (increase) in assets:		
Accounts receivable, net	(301,048)	1,678,348
Contributions receivable	(488,362)	1,371,862
Prepaid expenses	41,591	44,257
Gift store inventory	(97,812)	(47,239)
Other assets	—	25,407
Increase (decrease) in liabilities:		
Accounts payable	534,589	(535,532)
Accrued liabilities	429,493	161,557
Deferred revenue	29,755	110,099
Net cash provided by operating activities	3,286,559	2,438,393
Net cash used in investing activity – purchases of property and equipment	(4,846,173)	(5,208,170)
Commitments and contingencies (note 6) restricted for long-term purposes	3,356,204	5,120,486
Net increase in cash and cash equivalents	1,796,590	2,350,709
Cash and cash equivalents, beginning of year	9,296,168	6,945,459
Cash and cash equivalents, end of year	\$ <u>11,092,758</u>	<u>9,296,168</u>

See accompanying notes to financial statements.

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

#### (1) Description of Business

##### *Organization and Business Activity*

The Aquarium of the Pacific (the Corporation) is a California not-for-profit benefit corporation, originally formed in October 1992 as the Genesis Long Beach Aquarium Corporation. Under its articles of incorporation, the Corporation was organized for the benefit of the general public to promote educational, scientific, and charitable purposes relative to the design, construction, and subsequent operation of a public aquarium and educational sea life exhibit facility in the City of Long Beach (the City). The Corporation's sole objective is to manage the operations of the Aquarium of the Pacific (the Aquarium).

The Aquarium is located at the waterfront of downtown Long Beach, California. The mission of the Aquarium is to instill a sense of wonder, respect, and stewardship for the Pacific Ocean, its inhabitants, and ecosystems.

#### (2) Summary of Significant Accounting Policies

##### *(a) Basis of Presentation*

The accompanying financial statements depict the financial condition, results of operations, and cash flows of the Corporation and do not include any accounts maintained by the City that may be related to the operations of the Corporation (note 3).

The Corporation follows the requirements of Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. This standard requires the Corporation to report information regarding its financial position and change in net assets into the following classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that require the Corporation to use or expend the assets as specified. When donor restrictions expire, that is, when the purpose restriction is fulfilled or the time restriction expires, the net assets are reclassified from temporarily restricted to unrestricted.
- Permanently restricted net assets include gifts subject to donor-imposed stipulations that the Corporation maintain them permanently. Generally, the donors of these assets permit the Corporation to use all or part of the income earned on these assets.

##### *(b) Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

## **AQUARIUM OF THE PACIFIC**

### **Notes to Financial Statements**

**December 31, 2014 and 2013**

**(c) *Cash Equivalents***

For purposes of the statements of cash flows, the Corporation considers all unrestricted highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

**(d) *Gift Store Inventory***

Inventories are valued based on average costs and at the lower of cost or market value.

**(e) *Live Animal Inventory***

The costs of purchasing or collecting live animals are expensed as incurred.

**(f) *Contributions Receivable***

Contributions receivable, less an appropriate allowance for estimated uncollectible amounts, are recorded at their estimated net realizable value. Contributions that are expected to be collected in future years are recorded as contributions receivable at the present value of their estimated cash flows. The Corporation discounts contributions that are expected to be collected after one year using credit-adjusted rates in accordance with ASC Topic 820. Conditional promises to give are not included as support revenue until the conditions are substantially met.

**(g) *Property and Equipment***

Buildings and equipment are recorded at cost and are depreciated using the straight-line method over the following estimated useful lives: buildings – 27.5 years, and equipment, furniture, and fixtures – 3 to 7 years. Leasehold improvements are amortized over the shorter of the period of the lease or the estimated useful life. Expenditures for repairs and maintenance are charged to expense as incurred.

**(h) *Revenue Recognition***

The Corporation records earned revenues on an accrual basis. In addition, the Corporation records as revenue the following types of contributions when they are received unconditionally at their estimated fair value: cash, promises to give (pledges), and gifts of long-lived and other assets. Conditional contributions are recognized as revenue when the conditions on which they depend have been substantially met.

The Corporation records the sale of its consignment tickets as deferred revenue. Revenue is recognized in the period in which the tickets are redeemed for admission.

**(i) *Temporarily Restricted Contributions***

The Corporation records contributions as temporarily restricted if they are received with donor restrictions that limit their use either through purpose or time restrictions. Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, rather than when the assets are received. The gifts are reported as temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when a purpose restriction is fulfilled or a time restriction ends, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions restricted for the acquisition of long-lived assets

## **AQUARIUM OF THE PACIFIC**

### **Notes to Financial Statements**

December 31, 2014 and 2013

are reported as temporarily restricted net assets until such time as the long-lived assets are placed in service by the Corporation.

**(j) *Donated Goods and Services***

The Corporation records various types of in-kind support, including donated professional services and supplies. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills and are provided by individuals possessing those skills that would typically need to be purchased if not provided by donation or receipt of operating goods or services that would otherwise require additional cash expenditures. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as donated goods and services are offset by like amounts included in expenses or property and equipment as appropriate. The Corporation recognized \$474,393 and \$457,717 of contributed services in the accompanying financial statements for the years ended December 31, 2014 and 2013, respectively.

A substantial number of unpaid volunteers have made significant contributions of their time that does not meet the two recognition criteria described above. Accordingly, the value of this donated time is not reflected in the accompanying financial statements.

**(k) *Functional Allocation of Expenses***

The costs of providing the Aquarium's programs and the Corporation's administration have been summarized on a functional basis in the statements of functional expenses. Accordingly, costs have been allocated among the programs and supporting services benefited. Additionally, the development and membership expenses included as supporting services in the accompanying statements of functional expenses include the Corporation's fund-raising expenses that amount to \$285,079 and \$328,661 for the years ended December 31, 2014 and 2013, respectively.

**(l) *Income Taxes***

The Corporation is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from federal and state income taxes on related income pursuant to Section 501(a) of the Code and Section 23701d of the California Revenue and Taxation Code and is generally not subject to federal or state income taxes. However, the Corporation is subject to income taxes on any net income that is derived from a trade or business regularly carried on, and not in furtherance of the purpose for which it was granted exemption. No income tax provision has been recorded as the net income, if any, from any unrelated trade or business and, in the opinion of management, is not material to the financial statements taken as a whole.

The Corporation has adopted the provisions of ASC Topic 740, *Income Taxes*, related to accounting for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation requires that the entity account for and disclose in the financial statements the impact of a tax position if that position will more likely than not be substantiated upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The Corporation has evaluated the financial statement impact of tax positions

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

taken or expected to be taken and determined it has no uncertain tax positions that would require tax assets or liabilities to be recorded in accordance with accounting guidance.

The Corporation files income tax returns in the U.S. federal jurisdiction and State of California. With few exceptions, the Corporation is no longer subject to income tax examinations by U.S. federal income tax authorities for the years before 2009 and State of California tax authorities before 2008.

***(m) Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of***

The Corporation reviews property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of the property and equipment may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds fair value of the asset. During the years ended December 31, 2014 and 2013, there were no events or changes in circumstances indicating that the carrying amount of property and equipment may not be recoverable.

**(3) Business Activity**

In October 1995, the Corporation sold \$117,545,000 in tax-exempt long-term bonds to the general public, guaranteed by specific funds (Tidelands and Hotel tax) of the City, to finance the construction of a 156,000-square-foot world-class aquarium. In October 1995, the Corporation also entered into a ground lease with the City. In May 1997, the City and the Corporation terminated a portion of the October 1995 ground lease between the Corporation and the City described as the "Parking Parcel." The City agreed to construct, operate, and maintain a public parking facility. The Corporation transferred the sum of \$1,500,000 to be applied toward the construction of such public parking facility. The City further agreed during the term of the lease to pay to the Corporation an annual amount of any net revenues not to exceed \$1,500,000. The Aquarium opened to the general public in June 1998.

In April 2001, the parking agreement between the City and Corporation was included in a new lease between the City and the Corporation extending the term of the agreement to fiscal year 2031 (2001 Parking Agreement). In May 2001, the City finalized an agreement whereby the Corporation's outstanding tax-exempt debt would be defeased from funds generated by the sale of \$129,520,000 of Lease Revenue Refunding Bonds (Aquarium of the Pacific Project), Series 2001 (Series 2001 Refunding Bonds), issued by the Long Beach Bond Finance Authority (the Authority). In March 2012, the Long Beach Bond Finance Authority 2013 Refunding Revenue Bonds (Aquarium of the Pacific Project) (the Series 2012 Bonds) were issued by the Long Beach Bond Finance Authority (the Authority) to (a) refund all of the outstanding Long Beach Bond Finance Authority Lease Revenue Refunding Bonds (Aquarium of the Pacific Project) Series 2001, (b) fund a reserve fund for the Series 2012 Bonds and (c) pay for costs of issuance of the Series 2012 Bonds. The purchase price of the Bonds was \$113,730,033 (representing the principal amount of the Bonds of the \$102,580,000, plus an original issue premium of \$11,595,462 and less an underwriters' discount of \$445,429).

Pursuant to the May 2001 agreement, a public/private partnership between the City and the Corporation was formed under a formal operating arrangement approved by the City Council of the City and the Corporation's board of directors, whereby the Aquarium's operations are carried out by the Corporation. Under the terms

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

of this agreement, the City assumed ownership of all physical plant assets at that time and also assumed responsibility for the Corporation's then-outstanding long-term indebtedness. Assets comprising investments held by trustee, capital assets, certain other assets, and net bonds payable were transferred to the City to be accounted for in the City's Tidelands Operating Fund, a nonexpendable trust fund of the City. The remaining net assets, including asset acquisitions subsequent to May 2001, remain with the Corporation. The Corporation operates as a separate 501(c)(3) not-for-profit organization with a separate independent board of directors.

On March 1, 2006, an "Implementation Agreement" was entered into between the Corporation and the Authority, which clarified costs of operations within the definitions, included in the 2001 Series Bond Indenture and certain operating policies and procedures between the entities and also incorporated the 2001 Parking Agreement. Included in the agreement is a stabilized rent payment to the City of \$3,528,000, net of revenue-sharing arrangements for operating funds available after operating expenses including operating capital, rent, and parking operations. Further, operating capital expenditure levels and parking garage revenue assumptions were predefined through 2031, and certain other review and control mechanisms were codified. Depending on the net revenues generated by the Corporation as defined in the 2001 Series Bond Indenture, amounts are due either to or from the City's bond-related reserves at the end of each year.

On January 24, 2014, an Amendment to Implementation Agreement was made and entered by and between the Corporation and the Authority. In the amendment, the City's obligation under the Implementation Agreement and any other document (including but not limited to, the Parking Agreement, the Indenture, and Lease Agreement) to pay to the Corporation any parking garage revenue was fully extinguished and canceled. The stabilized rent payment to the City in each fiscal year was reduced from \$3,528,000 to \$2,154,000. Further, operating capital expenditure levels, and certain other review and control mechanisms were restated.

Unrestricted funds relating to the Aquarium's operations are held by the City's designated trustee. Formal procedures are in place to deposit operating receipts and withdraw reimbursements for operating expenses, including operating capital, from these trustee-maintained accounts. Restricted funds generated by the Corporation's fund-raising activities, including grants and donations from private and public sources, remain the property of, and are held separately by, the Corporation.

#### (4) Contributions Receivable

As of December 31, 2014 and 2013, contributions receivable are expected to be received as follows:

	<u>2014</u>	<u>2013</u>
Within one year	\$ 1,003,902	1,120,877
Within two to five years	2,364,069	1,828,949
	<u>3,367,971</u>	<u>2,949,826</u>
Less discount at 7.25% to reflect contributions receivable at present value	<u>(428,485)</u>	<u>(498,702)</u>
Contributions receivable, net	<u>\$ 2,939,486</u>	<u>2,451,124</u>

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2014 and 2013

### (5) Property and Equipment

A summary of the Corporation's property and equipment at December 31, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Building	\$ 16,841,779	16,841,779
Leasehold improvements	24,712	24,712
Furniture and fixtures	4,927,888	4,375,090
Equipment	17,399,826	14,811,739
Construction in progress	3,349,488	1,827,468
Total	42,543,693	37,880,788
Less accumulated depreciation	<u>(18,618,593)</u>	<u>(15,860,484)</u>
Property and equipment, net	<u>\$ 23,925,100</u>	<u>22,020,304</u>

### (6) Commitments and Contingencies

#### (a) Operating Leases

The Corporation leases various office space and equipment under noncancelable operating leases.

Future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year are as follows:

<u>Year ending December 31:</u>	
2015	\$ 542,761
2016	479,376
2017	231,419
2018	168,522
2019	150,000
Thereafter	450,000
	<u>\$ 2,022,078</u>

Office, warehouse, and equipment leases aggregating \$540,246 and \$537,079 were paid during the years ended December 31, 2014 and 2013, respectively.

#### (b) Professional Liability Coverage

The Corporation is insured for professional and general liability claims on a claims-made basis up to \$20,000,000, with certain sublimits, through the Special Liability Insurance Program, a California public entity sponsored insurance pool. The deductible amount is \$1,000 per claim, except \$5,000 for auto liability, and is expensed as incurred. Management believes the deductibles to be immaterial and insurance adequate to cover losses incurred.

## AQUARIUM OF THE PACIFIC

### Notes to Financial Statements

December 31, 2014 and 2013

**(c) Litigation**

The Corporation is involved in litigation arising in the normal course of business. Management believes they are adequately insured for potential losses that may arise related to such litigation.

**(7) Temporarily Restricted Net Assets**

Temporarily restricted net assets as of December 31, 2014 and 2013 consist of the following:

	<u>2014</u>	<u>2013</u>
Marketing	\$ 242	242
Scholarships	301,519	341,354
Equipment and construction	12,628,630	8,981,065
Education and conservation projects	534,381	889,924
	<u>\$ 13,464,772</u>	<u>10,212,585</u>

**(8) Permanently Restricted Net Assets**

Permanently restricted net assets as of December 31, 2014 and 2013 consist of \$398,332 and \$396,632, respectively, related to endowment activities.

**(9) Endowment**

FASB ASC Subtopic 958-205, *Presentation of Financial Statements for Not-for-Profit Entities*, provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and provides improved disclosures about an organization's endowment funds.

The Corporation's endowment consists of five donor-restricted funds primarily established to support scholarships. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

**(a) Interpretation of Relevant Law**

The board of directors of the Corporation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with



## **AQUARIUM OF THE PACIFIC**

### **Notes to Financial Statements**

December 31, 2014 and 2013

UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Corporation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Corporation
7. The investment policies of the Corporation.

**(b) *Return Objectives and Risk Parameters***

The Corporation has adopted investment and prudent spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the corpus of the endowed assets. This policy shall provide for safety of principal when taking into consideration the current and expected market conditions. The overall rate-of-return objective for the endowment is a risk-free rate of return, or less than 1%. This objective was determined given the recent volatility in the equity and debt markets. Once the board of directors or its finance committee determines that a higher rate of return is worth the risk, the investments will be held in money market accounts.

**(c) *Investment Strategy***

Consistent with the investment and prudent spending policies stated above, the investment strategy is as follows:

1. Preservation of capital: to seek to minimize the probability of loss of principal over the investment horizon of the portfolio relative to the market
2. Long-term growth of capital: to seek long-term growth of principal
3. Preservation of purchasing power: to seek returns in excess of the rate of inflation over the long-term investment horizon of the portfolio relative to the market.

**(d) *Spending Policy***

The Corporation has a policy of appropriating for distribution each year only 80% of the net returns generated over the previous 12 months from its investments and endowment. In establishing this policy, the board of directors considered the size of the investment and endowment balance so that it could grow through new gifts and investment return.

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2014 and 2013

Endowment net asset composition by type of fund as of December 31, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	25,158	398,332	423,490
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>25,158</u>	<u>398,332</u>	<u>423,490</u>

Changes in endowment net assets for the fiscal year ended December 31, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	24,876	396,632	421,508
Investment return:				
Investment income	—	431	—	431
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	431	—	431
Contributions	—	—	1,700	1,700
Appropriation for endowment spending	—	(149)	—	(149)
Net assets, end of year	<u>\$ —</u>	<u>25,158</u>	<u>398,332</u>	<u>423,490</u>

Endowment net asset composition by type of fund as of December 31, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowments	\$ —	24,876	396,632	421,508
Board-designated endowments	—	—	—	—
Total	<u>\$ —</u>	<u>24,876</u>	<u>396,632</u>	<u>421,508</u>

# AQUARIUM OF THE PACIFIC

## Notes to Financial Statements

December 31, 2014 and 2013

Changes in endowment net assets for the fiscal year ended December 31, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, beginning of year	\$ —	24,534	390,909	415,443
Investment return:				
Investment income	—	430	—	430
Net depreciation (realized and unrealized)	—	—	—	—
Total investment return	—	430	—	430
Contributions	—	—	5,723	5,723
Appropriation for endowment spending	—	(88)	—	(88)
Net assets, end of year	\$ —	24,876	396,632	421,508

### (10) Retirement Plan

The Corporation offers a 457 plan covering substantially all employees. For the years ended December 31, 2014 and 2013, participants in the plan could make contributions up to Internal Revenue Service maximums. The Corporation contributes an additional amount equal to 25% of the first 4% of each participant's plan contribution, once the participant has reached 500 hours of service. Total contributions to the plan, including employer match, may not exceed \$17,500 for the years ended December 31, 2014 and 2013. Participants are 100% vested in all plan contributions plus actual earnings thereon. The Corporation's contribution was \$67,577 and \$53,869 for the years ended December 31, 2014 and 2013, respectively.

### (11) Subsequent Events

Subsequent events have been evaluated through April 29, 2015, which is the date the financial statements were issued.



**CITY OF LONG BEACH, CALIFORNIA**

Single Audit Reports

Year ended September 30, 2014

(With Independent Auditors' Reports Thereon)

## CITY OF LONG BEACH, CALIFORNIA

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20 Pacifica  
Irvine, CA 92618-3391

**Independent Auditors' 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 City Council  
City of Long Beach, California:

We have audited, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 27, 2015. Another auditor audited the financial statements of the discretely presented component unit, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors testing of internal controls over financial reporting or compliance with other matters that are reported on separately by that auditor.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item FS 2014-001 to be a material weakness.



### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 Response to Findings**

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs as item FS 2014-001. The City's response were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on the response.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Irvine, California  
March 27, 2015



KPMG LLP  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

**Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations***

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

**Report on Compliance for Each Major Federal Program**

We have audited the City of Long Beach, California's (the City's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended September 30, 2014. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

The City's financial statements include the operations of the Long Beach Transportation Company, a discretely presented component unit, which received \$8,910,032 in federal awards, which is not included in the schedule of expenditures of federal awards for the year ended September 30, 2014. Our audit, described below, did not include the operations of the discretely presented component unit because Long Beach Transportation Company engaged other auditors to perform an audit in accordance with OMB Circular A-133.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified and modified audit opinions on compliance. However, our audit does not provide a legal determination of the City's compliance.





### ***Basis for Qualified Opinion on Surface Transportation – Discretionary Grants for Capital Investment***

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 20.932, ARRA - Surface Transportation – Discretionary Grants for Capital Investment, as described in finding number SA 2014-001 for Reporting. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

### ***Qualified Opinion on Surface Transportation – Discretionary Grants for Capital Investment***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 20.932, ARRA - Surface Transportation – Discretionary Grants for Capital Investment Program for the year ended September 30, 2014.

### ***Unmodified Opinion on Each of the Other Major Federal Programs***

In our opinion, the City of Long Beach, California complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended September 30, 2014.

### ***Other Matter***

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention



by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item SA 2014-001 to be a material weakness.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

#### **Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated March 27, 2015, which contained unmodified opinions on those financial statements. Our report included a reference to another auditor who audited the City's discretely presented component unit. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

**KPMG LLP**

Irvine, California  
June 26, 2015

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b>Department of Agriculture Food and Nutrition Service:</b>			
Passed through the State of California Department of Health Services:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10440	\$ 4,582,595
<b>Passed through the State of California Department of Education:</b>			
Summer Food Service Program for Children	10.559	19-81908V	370,603
<b>Passed through the State of California Department of Health Services:</b>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	11-10227	(1,627)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)	10.561	13-20015	970,588
Total State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP) (10.561)			968,961
Total Department of Agriculture Food and Nutrition Service			5,922,159
<b>Department of Commerce Economic Development Administration:</b>			
<b>Direct:</b>			
Economic Adjustment Assistance			919,440
Total Department of Commerce Economic Development Administration	11.307	07-49-05046	\$ 919,440
<b>Department of Housing and Urban Development:</b>			
<b>Direct:</b>			
Community Development Block Grant/Entitlement Grants	14.218	B-12-MC-06-0522	6,041,348
Community Development Block Grant/Entitlement Grants	14.218	B-13-MC-06-0522	1,378,713
			7,420,061
Community Development Block Grant/Entitlement Grants – NSP1	14.218	B-08-MN-06-0511	749,864
Community Development Block Grant/Entitlement Grants – NSP3	14.218	B-11-MN-06-0511	599,329
Total Community Development Block Grant/Entitlement Grants Cluster (14.218)			8,769,254
Emergency Solutions Grant Program	14.231	S-10-MC-06-0522	6,744
Emergency Solutions Grant Program	14.231	E-11-MC-06-0522	3,736
Emergency Solutions Grant Program	14.231	E-12-MC-06-0522	214,511
Emergency Solutions Grant Program	14.231	E-13-MC-06-0522	313,162
Total Emergency Solutions Grant Program (14.231)			538,153
Supportive Housing Program SHP11	14.235	CA06B9D061104	82,585
Shelter Plus Care	14.238	CA0932C9D061102	6,175
Shelter Plus Care	14.238	CA1014C9D061000	60,060
Shelter Plus Care	14.238	CA1132C9D061100	58,497
Total Shelter Plus Care (14.238)			124,732
Home Investment Partnerships Program	14.239	M-10-MC-06-0518	1,505,004
Home Investment Partnerships Program	14.239	M-11-MC-06-0518	464,229
Home Investment Partnerships Program	14.239	M-12-MC-06-0518	124,960
Home Investment Partnerships Program	14.239	M-13-MC-06-0518	1,332,472
Total Home Investment Partnerships Program (14.239)			3,426,665

**Department of Housing and Urban Development (continued):**

Passed through the City of Los Angeles:

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
Housing Opportunities for Persons with AIDS (HOPWA)	14.241	98236	\$ 717,340
<b>Direct:</b>			
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-09-SP-CA-0144	354
ARRA - Neighborhood Stabilization Program - NSF2	14.256	B-09-CN-CA-0045	332,197
Continuum of Care Program - SHP12	14.267	CAXXXXL9D06120X	4,216,798
Continuum of Care Program - CoC 2013	14.267	CA0000U9D061301	1,570,201
Continuum of Care Program	14.267	CA0646L9D061205	346,890
Continuum of Care Program	14.267	CA0646L9D061306	99,711
Continuum of Care Program	14.267	CA0647L9D061205	115,954
Continuum of Care Program	14.267	CA0647U9D061306	134,302
Continuum of Care Program	14.267	CA0932L9D061203	69,889
Total Continuum of Care Program (14.267)			6,553,745
General Research and Technology Activity	14.506	H-21652RG	2,799
Section 8 Housing Choice Vouchers	14.871	CA068VO	71,720,900
Lead-based Paint Hazard Control in Privately-Owned Housing	14.900	CALHB0514-12	754,325
Total Department of Housing and Urban Development			\$ 93,023,049
<b>Department of the Interior Bureau of Reclamation:</b>			
<b>Direct:</b>			
Water Reclaim and Reuse Program -- Reclaimed Water Expansion	15.504	R00AC35051	48,597
<b>Research and Development Cluster:</b>			
<b>Department of the Interior Bureau of Reclamation:</b>			
<b>Direct:</b>			
Water Desalination Research and Development Program	15.506	R02AC35053	29,073
Total Department of the Interior Bureau of Reclamation			77,670
<b>Department of Justice :</b>			
<b>Direct:</b>			
Asset Forfeiture	16.000	N/A	869,477
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	2012 DN BX K003	40,495
Bulletproof Vest Partnership Program	16.607	N/A	13,398
Public Safety Partnership and Community Policing Grants -- Child Sexual Predator Program	16.710	2011-CS-WX-0004	58,767
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2011-DJ-BX-2746	19,013
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2012-DJ-BX-0802	200,278
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2013-DJ-BX-0987	39,654
Total Edward Byrne Memorial Justice Assistance Grant Program (16.738)			258,945
<b>Department of Justice (continued):</b>			
<b>Passed through the State of California Office of Emergency Services:</b>			
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ13 09 7240	\$ 6,900
Total Department of Justice			\$ 1,247,982
<b>Department of Labor:</b>			
<b>Direct:</b>			
H-1B Job Training Grants	17.268	HG-22609-12-60-A-6	386,486

**CITY OF LONG BEACH, CALIFORNIA**

**Schedule of Expenditures of Federal Awards**

Year ended September 30, 2014

<b>Federal grantor/pass-through agency/program title</b>	<b>Catalog of federal domestic assistance number</b>	<b>Federal grantor/pass-through entity identifying number</b>	<b>Federal disbursements/expenditures</b>
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through El Camino College:</b>			
H-1B Job Training Grants	17.268	6109.3	3,707
H-1B Job Training Grants	17.268	710728	41,472
<b>Total H-1B Job Training Grants (17.268)</b>			<b>431,665</b>
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) National Emergency Grants	17.277	K491023	62,676
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) National Emergency Grants -- Multi-Sector National Emergency Grant	17.277	C-122203	156,126
<b>Passed through the South Bay Workforce Investment Board, Inc.:</b>			
Workforce Investment Act (WIA) National Emergency Grants	17.277	EM-22035-11-60-A-6/11-W128	136,163
<b>Total Workforce Investment Act (WIA) National Emergency Grants (17.277)</b>			<b>354,965</b>
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) Title I Adult Program	17.258	K386302	13,925
Workforce Investment Act (WIA) Title I Adult Program	17.258	K491023	1,929,008
Workforce Investment Act (WIA) Title I Adult Program	17.258	K594766	141,711
<b>Total Workforce Investment Act (WIA) Title I Adult Program</b>			<b>2,084,644</b>
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the County of Orange:</b>			
Workforce Investment Act (WIA) Title I Adult Program -- Vet Assistance Employment Program Adult	17.258	13-28-629342	75,539
<b>Passed through the State of California Employment Development Department:</b>			
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) Title I Adult Program -- Disability Employment Initiative	17.258	C-122914	4,211
Workforce Investment Act (WIA) Title I Adult Program -- Harbor Worksource Ctr	17.258	C-121276	(65)
Workforce Investment Act (WIA) Title I Adult Program -- Harbor Worksource Ctr	17.258	C-122914	348,436
Workforce Investment Act (WIA) Title I Adult Program -- Harbor Worksource Ctr	17.258	C-124397	106,632
<b>Total Workforce Investment Act (WIA) Title I Adult Program -- Harbor Worksource Ctr</b>			<b>459,214</b>
<b>Total WIA Adult Program (17.258)</b>			<b>2,619,397</b>
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) Title I Youth Activities	17.259	K386302	323,972
Workforce Investment Act (WIA) Title I Youth Activities	17.259	K491023	1,540,970
<b>Total WIA Youth Activities (17.259)</b>			<b>1,864,942</b>
<b>Department of Labor (continued):</b>			
<b>Passed through the State of California Employment Development Department:</b>			
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants	17.278	K386302	\$ 10,117
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants	17.278	K491023	1,632,751
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants	17.278	K594766	220,708
<b>Total Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants</b>			<b>1,863,576</b>
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants -- Rapid Response	17.278	K491023	348,983
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants -- Rapid Response	17.278	K594766	54,614

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Lay Off Aversion	17.278	KS94766	403,597
<b>Passed through the State of California Employment Development Department:</b>			24,735
<b>Passed through the City of Los Angeles:</b>			
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Lay Off Aversion	17.278	C-121290 Amnd-1	30,911
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Lay Off Aversion Dislocated Worker (Rapid Response)	17.278	C-121290 Amnd-1	53,725
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Harbor Worksource Ctr DW	17.278	C-121276	(110)
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Harbor Worksource Ctr DW	17.278	C-122914	272,100
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Harbor Worksource Ctr DW	17.278	C-124397	82,180
<b>Passed through the County of Orange:</b>			354,170
Workforce Investment Act (WIA) Title I Dislocated Worker Formula Grants – Vet Assistance Employment Program DW-3	17.278	13-28-629342	85,361
Total WIA Dislocated Worker Formula Grants (17.278)			2,816,075
Total WIA cluster (17.258, 17.259, and 17.278)			7,300,414
Total Department of Labor			\$ 8,087,044
<b>Department of Transportation:</b>			
<b>Direct:</b>			
Airport Improvement Program	20.106	AIP 3-06-0127-032-2009	\$ 151,820
Airport Improvement Program	20.106	AIP 3-06-0127-033-2009	670,335
Airport Improvement Program	20.106	AIP 3-06-0127-035-2010	1
Airport Improvement Program	20.106	AIP 3-06-0127-036-2011	55,626
Airport Improvement Program	20.106	AIP 3-06-0127-037-2011	1,060,250
Airport Improvement Program	20.106	AIP 3-06-0127-038-2011	189,818
Airport Improvement Program	20.106	AIP 3-06-0127-039-2012	2,678,898
Airport Improvement Program	20.106	AIP 3-06-0127-040-2013	5,439,022
Total Airport Improvement Program (20.106)			10,245,770
<b>Passed through the State of California Department of Transportation:</b>			
Highway Planning and Construction	20.205	ACNH 7101 (807)	43,415,105
Highway Planning and Construction	20.205	BHLS-5108 (155)	20,000
Highway Planning and Construction	20.205	BHLS-5108 (156)	20,000
Highway Planning and Construction	20.205	BHLS-5108 (157)	20,000
Highway Planning and Construction	20.205	BHLS-5108 (137)	7,747,966
Highway Planning and Construction	20.205	CML-5108 (125)	4,691
Highway Planning and Construction	20.205	CML-5108 (159)	1,000
Highway Planning and Construction	20.205	PNRSLN-5108 (116)	112,623
<b>Department of Transportation (continued):</b>			
<b>Passed through the State of California Department of Transportation:</b>			
Highway Planning and Construction	20.205	RPSTPL-5108 (153)	\$ 3,242
Highway Planning and Construction	20.205	STPL-5108 (140)	738,258
Highway Planning and Construction	20.205	STPL-5108 (142)	170,255
Highway Planning and Construction	20.205	STPL-5108 (144)	2,658
Highway Planning and Construction	20.205	STPL-5108 (145)	3,704
Highway Planning and Construction	20.205	STPL-5108 (146)	8,769

**CITY OF LONG BEACH, CALIFORNIA**  
Schedule of Expenditures of Federal Awards  
Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures
Highway Planning and Construction	20.205	SFPL-5108 (147)	58,992
Highway Planning and Construction – Safe Routes to School	20.205	SRTSNI-5108(149)	52,327,263
Highway Planning and Construction – Caltrans-Preapprenticeship	20.205	88A0082	154,647
Total Highway Planning and Construction Programs (20.205)			3,513
Passed through the State of California Office of Traffic Safety:			52,485,423
State and Community Highway Safety	20.600	PTI4120	136,841
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PTI4120	60,822
Passed through the State of California Office of Emergency Services:			
Passed through the Regents of the University of California School of Public Health, Berkeley:			
Minimum Penalties for Repeat Offenders for Driving While Intoxicated – Sobriety checkpoint	20.608	SCI4234	117,391
Total Highway Safety Cluster (20.600 and 20.608)			178,213
Passed through the State of California Office of Traffic Safety:			315,054
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	CAL OES# 037-43000	2,443
Direct:			
ARRA – Surface Transportation-Discretionary Grants for Capital Investment	20.932	DTMAIG12001	6,380,139
Total Department of Transportation			\$ 69,428,829
National Endowment for the Humanities:			
Passed through California Council for the Humanities:			
Promotion of the Humanities Federal/State Partnership	45.129	CAR11-29	\$ 192
Promotion of the Humanities Federal/State Partnership	45.129	CAR13-68	1,353
Total Promotion of the Humanities Federal/State Partnership (45.129)			1,545
Promotion of the Humanities We the People	45.168	CAR11-29	21
Total National Endowment for the Humanities			\$ 1,566
Environmental Protection Agency:			
Direct:			
National Clean Diesel Emissions Reduction Program	66.039	00T66601	191,569
National Clean Diesel Emissions Reduction Program	66.039	00T95701	875,000
Total National Clean Diesel Emissions Reduction Program (66.039)			1,066,569
Passed through the State of California Department of Health Services:			
Beach Monitoring and Notification Program Implementation	66.472	12-040-250	25,000
Environmental Protection Agency (continued):			
Direct:			
ARRA – Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	V-99T06101-0	\$ 5,655
Total Environmental Protection Agency			1,097,224
Department of Energy:			
Direct:			
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)			(1,646)

**CITY OF LONG BEACH, CALIFORNIA**

**Schedule of Expenditures of Federal Awards**

Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal assistance number	Federal grantor/pass-through entity identifying number	Federal disbursements/expenditures
<b>Total Department of Energy</b>	81.128	DE-EE0000866	(1,646)
<b>Department of Health &amp; Human Services:</b>			
<b>Direct</b>			
Food and Drug Administration – Research	93.103	G-SP-1401-00409	3,000
<b>Passed through the County of Los Angeles</b>			
Public Health Emergency Preparedness	93.069	PH-002224	940,702
<b>Passed through the State of California Department of Health Services:</b>			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	MOU	129,133
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	11-10545	203,571
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	14-10023	65,000
<b>Total Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children (93.197)</b>	93.268	13-20297	268,571
<b>Immunization Cooperative Agreements</b>			
<b>Passed through the County of Los Angeles:</b>			
PPHF – Community Transformation Grants and National Dissemination and Support for Community Transformation Grants – financed solely by Prevention and Public Health Funds	93.531	PH-002196	129,999
Promoting Safe and Stable Families	93.556	31035	30,358
Promoting Safe and Stable Families	93.556	04-025-14	102,920
Promoting Safe and Stable Families	93.556	05-027-10	46,395
Promoting Safe and Stable Families	93.556	05-028-5	82,662
<b>Total Promoting Safe and Stable Families (93.556)</b>			262,335
<b>Passed through the State of California Department of Health Services:</b>			
<b>Passed through the County of Los Angeles Department of Public Social Services:</b>			
Temporary Assistance for Needy Families – Calworks Transitional Subsidized Emp Pro	93.558	13-W180	103,978
<b>Passed through the City of Hawthorne/South Bay Workforce Investment Board:</b>			
Temporary Assistance for Needy Families – Los Angeles County Summer Youth Calworks	93.558	IA1101	1,787
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs PRG I PY 13-14	93.558	IA0214	144,984
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs PRG II PY 14-15 CALWORKS	93.558	IA0314	303,986
Temporary Assistance for Needy Families – Los Angeles County Youth Jobs PRG II PY 14-15 FOSTER	93.558	IA0314	20,040
<b>Total TANF Cluster (93.558)</b>			574,775
<b>Department of Health &amp; Human Services (continued):</b>			
<b>Passed through the State of California Department of Health Services:</b>			
Medical Assistance Program – Childhood, Health and Disability	93.778	V#002713-00	\$ 536,653
Medical Assistance Program – Medical Gateway	93.778	V#002713-00	11,102
Medical Assistance Program – MAA/ TCM Administration	93.778	09-86022-A01	44,413
Medical Assistance Program – MAA/ TCM Administration	93.778	14-90021	4,000
Medical Assistance Program – Nursing MAA Claiming	93.778	09-86022-A01	208,097
Medical Assistance Program – Nursing MAA Claiming	93.778	14-90021	100,000
Medical Assistance Program – Nursing TCM Claiming	93.778	61-1318	102,158



**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
Total Medical Assistance Program (93.778)			1,006,423
HIV Emergency Relief Project Grants – AIDS/HIV Benefits Specialty	93.914	H-210813-14	73,691
<b>Passed through the County of Los Angeles:</b>			
HIV Emergency Relief Project Grants – AIDS EIP Outpatient Medical	93.914	PH002425	155,827
HIV Emergency Relief Project Grants – Medical Outpatient Services	93.914	PH002425	(3,999)
HIV Emergency Relief Project Grants – Medical Care Coordination	93.914	PH002431	395,358
Total HIV Emergency Relief Project Grants (93.914)			620,877
<b>Passed through the State of California Department of Health Services:</b>			
HIV Prevention Activities-Health Department Based – AIDS Surveillance	93.940	13-20134	277,593
HIV Prevention Activities-Health Department Based – Care Coordination	93.940	13-20055	856,273
HIV Prevention Activities-Health Department Based – Counseling and Testing	93.940	07-65057	(3,894)
HIV Prevention Activities-Health Department Based – Counseling and Testing	93.940	13-20259	493,370
			489,476
HIV Prevention Activities-Health Department Based – Outreach/Prevention for HIV Positive (Bridge)	93.940	13-20055	115,436
Total HIV Prevention Activities-Health Department Based (93.940)			1,738,778
Maternal and Child Health Services Block Grant to the States	93.994	201260-MCH	(1)
Maternal and Child Health Services Block Grant to the States	93.994	201360-MCH	126,532
Maternal and Child Health Services Block Grant to the States	93.994	201460-MCH	82,201
			208,732
Maternal and Child Health Services Block Grant to the States – Black Infant Health	93.994	201360-BIH	220,889
Maternal and Child Health Services Block Grant to the States – Black Infant Health	93.994	201460-BIH	79,106
			299,995
Total Maternal and Child Health Services Block Grant to the States (93.994)			508,727
Total Department of Health & Human Services			\$ 6,390,696
<b>Department of Homeland Security:</b>			
<b>Direct:</b>			
Emergency Food and Shelter National Board Program	97.024	LRO ID 069500-379 (phase 31)	14,000

**CITY OF LONG BEACH, CALIFORNIA**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2014

Federal grantor/pass-through agency/program title	Catalog of federal domestic assistance number	Federal grantor/ pass-through entity identifying number	Federal disbursements/ expenditures
<b>Department of Homeland Security (continued):</b>			
Passed through the State of California – California Office of Emergency Services:			
Passed through the County of Los Angeles:			
Emergency Management Performance Grant	97.042	2013-0047	\$ 58,000
<b>Direct:</b>			
Port Security Grant Program	97.056	EMW-2012-PU-00131-S01	1,750,039
Port Security Grant Program	97.056	EMW-2013-PU-00522	160,242
Port Security Grant Program	97.056	EMW-2012-PU-00190	175,544
Port Security Grant Program	97.056	EMW-2012-PU-00208	64,274
Port Security Grant Program	97.056	EMW-2013-PU-00250	39,722
Port Security Grant Program	97.056	EMW-2013-PU-00096	19,417
<b>Passed through the Marine Exchange of Los Angeles – Long Beach Harbor:</b>			
Port Security Grant Program	97.056	2009-PU-T9-K020	15,639,038
Port Security Grant Program	97.056	2010-PU-T0-K004	1,186,334
Port Security Grant Program	97.056	EMW-2011-PU-K00001	1,004,465
<b>Passed through City of Los Angeles Harbor Dept:</b>			
Port Security Grant Program	97.056	2008-GB-T8-K014	(7,440)
<b>Passed through Marine Exchange of Southern California</b>			
Port Security Grant Program	97.056	2009-PU-T9-K020	274,667
Port Security Grant Program	97.056	2010-PU-T0-K004	(8,465)
Port Security Grant Program	97.056	EMW-2011-PU-00001	5,096,284
Total Port Security Grant Program (97.056)			<u>25,394,121</u>
<b>Federal</b>			
<b>Passed through the State of California – California Office of Emergency Services:</b>			
Passed through the County of Los Angeles:			
Homeland Security Grant Program – MMRS/SHSP	97.067	2010-0085	30,657
Homeland Security Grant Program – MMRS/SHSP	97.067	2011-SS-0077	199,176
			229,833
<b>Passed through the State of California – California Office of Emergency Services:</b>			
Passed through the City of Los Angeles:			
Homeland Security Grant Program – UASI	97.067	2010-0085	(47,055)
Homeland Security Grant Program – UASI	97.067	2011-SS-077	3,044,344
Homeland Security Grant Program – UASI	97.067	2012-00123	2,671,197
Homeland Security Grant Program – UASI	97.067	2013-00110	585,871
			<u>6,254,357</u>
Total Homeland Security Grant Program (97.067)			<u>6,484,190</u>
Total Department of Homeland Security			<u>31,950,311</u>
Total Federal Expenditures			<u>\$ 218,144,324</u>

See accompanying notes to schedule of expenditures of federal awards and the Independent Auditors' Report on Federal Compliance for Each Major Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

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

### **Notes to Schedule of Expenditures of Federal Awards**

Year ended September 30, 2014

**(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) 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 Schedule does not include federal expenditures of \$8,910,032 for the year ended September 30, 2014 of the Long Beach Transportation Company (LBTC), a discretely presented component unit of the City, as LBTC engaged other auditors to perform audits in accordance with OMB Circular A-133. The City's reporting entity is defined in note 1 to the City's basic financial statements.

**(2) Basis of Accounting**

The accompanying Schedule is presented using the modified accrual basis of accounting. Such basis of accounting is described in note 2 to the City's basic financial statements.

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

Amounts reported in the accompanying Schedule agree in all material respects with the amounts reported in the related federal financial reports.

**(4) Community-Based Loan Programs**

Total loans outstanding under the Community Development Block Grants (CDBG) – Entitlement Grants Cluster, Home Investment Partnerships Program, and the Neighborhood Stabilization Program were \$4,614,535, \$67,424,274, and \$11,193,185 at September 30, 2014, respectively. The amounts included in the accompanying Schedule consist of loans advanced to eligible participants of the programs and other administrative costs for the year ended September 30, 2014. Program income of \$817,140 generated from the rental rehabilitation grants were used for eligible purposes under other affordable housing activities. There were no continuing compliance requirements noted for this income, and therefore, these loans have been excluded from the Schedule.

**(5) Food Instruments/Vouchers**

Food instruments/vouchers expenditures represent the estimated value of the Special Supplemental Nutrition Program for Women, Infants, and Children food instruments as communicated by the State Department of Health Services distributed during the year. The food instruments/vouchers totaled \$17,771,175 but do not represent cash expenditures in the City's basic financial statements for the year ended September 30, 2014.

**CITY OF LONG BEACH, CALIFORNIA**  
Notes to Schedule of Expenditures of Federal Awards  
Year ended September 30, 2014

**(6) Payments to Subrecipients**

Included in the Schedule are the following amounts passed through to subrecipients:

<u>Program title</u>	<u>CFDA numbers</u>	<u>Amount provided to subrecipients</u>
Supportive Housing Program	14.235	\$ 101,366
Continuum of Care Program	14.267	4,641,329
H-1B Job Training Grants	17.268	229,659
Workforce Investment Act Cluster	17.258, 17.259, and 17.278	655,304
Workforce Investment Act National Emergency	17.277	50,321
National Clean Diesel Emissions Reduction Program	66.039	1,066,569

**CITY OF LONG BEACH, CALIFORNIA**

**Summary of Findings and Questioned Costs**

**Year Ended September 30, 2014**

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

***Basic Financial Statements***

(a) The type of report on the basic financial statements:

- Governmental activities: **Unmodified**
- Business-type activities: **Unmodified**
- Each major fund: **Unmodified**
- Aggregate remaining fund information: **Unmodified**
- Discretely presented component unit (Long Beach Transportation Company\*): **Unmodified**

\* Another auditor audited the financial statements of the Long Beach Transportation Company as described in our report on the City of Long Beach's financial statements.

(b) Internal control over financial reporting:

- Material weakness(es) identified: **Yes, see item FS 2014-001**
- Significant deficiencies identified that are not considered to be material weaknesses: **No**

(c) Noncompliance that is material to the basic financial statements: **No**

***Federal Awards***

(d) Internal control over major programs:

- Material weaknesses identified: **Yes, see items SA 2014-001**
- Significant deficiencies identified that are not considered to be material weaknesses: **No**

(e) The type of report issued on compliance for major programs: **We have issued an unmodified opinion on compliance related to each major program, with the exception of ARRA – Surface Transportation – Discretionary Grants for Capital Investment, CFDA number 20.932 for which we have issued a qualified opinion.**

(f) Any audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: **Yes. See item SA 2014-001**

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

(h) Major programs:

- Section 8 Housing Choice Vouchers, CFDA number 14.871
- ARRA – Surface Transportation – Discretionary Grants for Capital Investment, CFDA number 20.932
- Home Investment Partnerships Program, CFDA number 14.239

**CITY OF LONG BEACH, CALIFORNIA**

Summary of Findings and Questioned Costs

Year Ended September 30, 2014

- Continuum of Care Program, CFDA 14.267
  - Port Security Grant Program, CFDA 97.056
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: No

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

### **Summary of Findings and Questioned Costs**

**Year Ended September 30, 2014**

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

##### **FS 2014-001 – Capital Asset Expenditures**

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

During our auditing procedures over capital grants and the related receivables, we noted that the Harbor Department of the City of Long Beach (the Department), recognized approximately \$74 million in nonoperating capital grant revenue during the year ended September 30, 2014, related to Gerald Desmond Bridge (Bridge) expenditures that were made during the year ended September 30, 2013. Expenditures made by the Department for the construction of the \$1.3 billion Bridge are being reimbursed, in part, by government contracts. The types of construction activities that are allowed to be reimbursed are included in the various contracts.

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

In accordance with Governmental Accounting Standards Board Statement No. 33 (GASB 33), recipients of grants should recognize receivables and revenues, when all of the following applicable eligibility requirements are met:

- (a) The recipient has the characteristics specified by the provider;
- (b) The time period when use of the resources is required or first permitted has begun;
- (c) The recipient has incurred allowable costs; and
- (d) The recipient has complied with any specific actions that the provider has stipulated are mandatory in order for the recipient to qualify for resources.

Based on our testwork, the \$74 million in allowable costs identified were incurred and eligible for reimbursement and revenue recognition during 2013, as all of the above eligibility requirements were satisfied by the Department when the allowable costs were incurred for the reimbursable construction activities in 2013.

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

Based on our discussions with management, the Department has recently began Bridge construction and is receiving reimbursement under the various government contracts and did not yet have policies and procedures in place that would ensure that revenue was reported in the proper period. After a turnover in key accounting personnel, during 2013, the Department identified that grant revenues for eligible incurred expenditures had not been recognized timely. Such amounts were reported in 2014 as nonoperating capital grant revenue. As a result, nonoperating capital grant revenue was misstated in amounts totaling approximately \$74 million.

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

We recommend that the Department perform a detailed analysis at the inception of each grant funded project to determine the appropriate accounting treatment for all expenditures incurred and revenue earned. A guide

**CITY OF LONG BEACH, CALIFORNIA**

**Summary of Findings and Questioned Costs**

**Year Ended September 30, 2014**

could be developed to assist in identifying the proper treatment on a contract by contract basis. In addition, procedures could be put in place to perform a cut-off analysis before closing the accounting records at the end of the reporting periods. These steps, and others, could provide for more consistency and accuracy in the reporting of grant revenue.

***Views of Responsible Officials***

We agree with the comment and recommendation. The turnover in accounting personnel, coupled with a large increase in the volume of expenditures and reimbursements related to Bridge construction activities, caused the Department to fall behind in recognizing revenue. We are currently in the process of putting policies and procedures in place over accounting for all of the various funding sources for the Bridge and our other ongoing projects to ensure that all allowable expenditures are both billed timely and recognized as revenue in the proper period.



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

### **Summary of Findings and Questioned Costs**

Year Ended September 30, 2014

#### **(3) Findings and Questioned Costs Relating to Federal Awards**

##### **SA 2014-001 Reporting**

##### ***Program Information***

##### ***Federal Program***

ARRA – Surface Transportation – Discretionary Grants for Capital Investment, CFDA # 20.932

##### ***Federal Grant Award Number and Grant Period***

DTMA1G12001; 2011 to 2014

##### ***Federal Agency***

Department of Transportation

##### ***Pass-Through Agency***

N/A

##### ***Specific Requirements***

GRANT AGREEMENT UNDER THE FULL-YEAR CONTINUING APPROPRIATIONS, 2011, (DIVISION B OF THE DEPARTMENT OF DEFENSE AND FULL-YEAR CONTINUING APPROPRIATIONS ACT, 2011 (PUB. L.112-10, APR. 15, 2011)), FOR THE NATIONAL INFRASTRUCTURE INVESTMENTS DISCRETIONARY GRANT PROGRAM (FY 2011 TIGER DISCRETIONARY GRANTS) PORT OF LONG BEACH GREEN PORT GATEWAY: TRACK REALIGNMENT AT OCEAN BOULEVARD, PIER F SUPPORT YARD, AND PIER G METRO.

#### **Section 3.2 Federal Financial, Project Progress and Monitoring Reports**

Consistent with the purposes of the TIGER Discretionary Grant Program, to ensure accountability and transparency in Government spending, the Grantee shall submit quarterly progress reports and the Federal Financial Report (SF-425) to the contacts designated by the Government in Section 3.5, as set forth in Exhibit H, Quarterly Progress Reports: Format and Content, to the Government on a quarterly basis, beginning on the 20th of the first month of the calendar year quarter following the execution of the Agreement, and on the 20th of the first month of each calendar year quarter thereafter until completion of the Project. The initial report shall include a detailed description, and, where appropriate, drawings, of the items funded.

#### **Section 3.3 Annual Budget Review and Program Plan**

The Grantee shall submit an Annual Budget Review and Program Plan to the Government via e-mail 60 days prior to the end of each Agreement year. The Annual Budget Review and Program Plan shall provide a detailed schedule of activities, estimate of specific performance objectives, include forecasted expenditures, and schedule of milestones for the upcoming Agreement year. If there are no proposed deviations from the approved Estimated Project Budget, the Annual Budget Review shall contain a statement stating such. The Grantee will meet with the Government to discuss the Annual Budget Review and Program Plan. If there is an actual or projected project cost increase, the annual submittal should include a written plan for providing

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

### **Summary of Findings and Questioned Costs**

**Year Ended September 30, 2014**

additional sources of funding to cover the project budget shortfall or supporting documentation of committed funds to cover the cost increase.

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

During our internal control testing over the review of the reports, we were unable to obtain evidence that a review was performed over the quarterly financial reports or the quarterly progress reports for the quarters ended December 31, 2013, June 30, 2014 and September 30, 2014. In our testing of the reporting requirements, the quarterly financial reports for the quarters ended December 31, 2013 and March 31, 2014 reported that the federal charges related to the program were significantly less than the actual federal charges, which were subsequently corrected and resubmitted on September 19, 2014. Based on our review, we noted that the total federal charges for the quarters ended December 31, 2013 and March 31, 2014 were \$5,524,561 and \$6,687,891, respectively, while the amounts reported in the originally submitted report were \$0 and \$1,147,157, respectively. As a result of these errors, the amounts reported as the Port's share of the projects were understated when the reports were submitted for those two quarters.

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

None noted

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

There do not appear to be adequate controls in place to ensure that the reports required for the program are reviewed and are submitted accurately which resulted in inaccurate information being reported for the quarters noted above.

#### ***Recommendation***

We recommend that management formally document the reviews performed over the required reporting. We also recommend that management enhance current policies to ensure that the data used to compile the required reports is accurate.

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

The Port of Long Beach (Port) has not and will not intentionally file quarterly reports inaccurately to the United States Department of Maritime Administration (MARAD) for the Pier F and Ocean Boulevard Track Realignment Project.

The Port has documentation that the four quarterly project progress reports were circulated within the project team for review, comment and approval. As the auditor noted there is no evidence of an approval prior to submission for three out of four quarterly project progress reports. The director who was responsible for the approval has since left the Port and current staff does not have any records he may have had of his approval.

The audit finding notes that the original Quarterly Financial Status Reports ending December 31, 2013 and March 31, 2014 were not filed correctly. Due to reporting clarifications, the estimates on the original reports in question were discussed with MARAD officials prior to submittal. The Port and MARAD revised the reported estimated federal costs to actual federal costs as was agreed upon during fiscal year 2014.

**CITY OF LONG BEACH, CALIFORNIA**

**Summary of Findings and Questioned Costs**

**Year Ended September 30, 2014**

As the auditor noted, the reports were corrected and resubmitted on September 19, 2014. In addition, the Quarterly Financial Status Reports for the final two quarters of fiscal year 2014 were filed with actual costs and the finding was cleared by the end of fiscal year 2014.

The Port is currently in the process of developing a grant manual. This manual will help ensure internal controls and the maintaining of proper documentation of any review and approval. Once completed the manual will be distributed to all grant program managers.



KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

March 27, 2015

City Council  
City of Long Beach  
333 West Ocean Blvd.  
Long Beach, California 90081

Ladies and Gentlemen:

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), for the year ended September 30, 2014, and have issued our report thereon dated March 27, 2015. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weaknesses.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As reported in the independent auditors' 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* issued separately, we consider deficiencies over the reporting of capital asset expenditures at the Harbor Department of the City to be a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit, which are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

#### **Non-GAAP Policies**

##### *Observation*

During our audit, we reviewed the City's internal control process in place to identify new non-GAAP policies and quantify the impact of new and existing non-GAAP policies to the financial statements. We noted that the City does not have a formal process in place to identify new non-GAAP policies. Furthermore, the City does not perform an analysis during the year to quantify the impact of the new and existing non-GAAP policies to the year-end financial statements. As a result of the procedures performed, we noted the City did not quantify the impact of the following non-GAAP policies:

- Recognition of revenue for several revenue sharing agreements in the year subsequent to the when the exchange transaction has taken place.
- Transfers of completed construction projects are not made timely to the appropriate depreciable asset category when the asset is substantially completed and in use.

##### *Recommendation*

We recommend that the City enhance its internal controls related to the documentation and calculation of the impact of non-GAAP policies to ensure that adopted policies do not result in a material misstatement of the financial statements.



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#### *Managements Response*

The City accepts KPMG's recommendation. The City continues to correct its non-GAAP policies. The City recognizes the necessity and, in conformance with the recommendations of KPMG, will continue to update our policies and procedures to ensure the recognition of revenue for revenue sharing agreements in the year when the exchange transaction has taken place. The City will continue its efforts to ensure that depreciable assets are recorded when they are placed into service. Finally, The City will seek to perform an analysis during the year to quantify the impact of the new and existing non-GAAP policies to the year-end financial statements.

#### **Automated Application Control – Payroll Transactions**

##### *Observation*

During our testwork over access to update and modify payroll benefits, we noted that ten (10) users had inappropriate access.

##### *Effect (or Potential Effect)*

The inappropriate access to update and modify payroll benefits could result in unauthorized changes to employee payroll and benefits information, and increases the risk of fraudulent transactions.

##### *Recommendation*

Users should be provided the least amount of access necessary to fulfill their job responsibilities. As such, users with access to update and modify payroll information should be limited to those responsible for processing employee payroll and benefits.

##### *Management's Response*

The City's Technology and Innovation department (TI) will establish a process that requires the Help Desk to create a task, when an employee is terminated, that is assigned to the Supervisor of the HR/Payroll system. The task will require the Supervisor to confirm that the terminated employee does not have access to HR/Payroll. If the terminated employee does have access, their access will be removed. In addition, an annual review of all employee access will be performed by the business.

#### **IT General Controls – CC&B Administrative Access 1**

##### *Observation*

The City uses the Customer Care and Billing, or "CC&B," to supports it utilities and billing operation. During our testwork over administrative access, we noted that four (4) users have inappropriate access: one intern, and three users that no longer support the CC&B application on behalf of the City.



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*Effect (or Potential Effect)*

Administrative access allows a user to manage system configurations and the users with access to the system, including creating new users. Inappropriate administrative access to CC&B could result in the mismanagement of user access that could allow erroneous transactions to be processed without detection.

*Recommendation*

Users should be provided the least amount of access required for them to fulfill their job responsibilities. In addition, user access should be segregated where possible and coordinated to allow for the detection of errors or prevent erroneous transactions from being processed. Administrative access to applications and systems should be limited to those who are responsible for managing applications or not responsible for processing transactions within it.

*Management's Response*

TI will establish a process that requires the Help Desk to create a task, when an employee is terminated, that is assigned to the Supervisor of the CIS / MWM systems. The task will require the Supervisor to confirm that the terminated employee does not have access to CIS / MWM Systems. If the terminated employee does have access, their access will be removed. In addition, an annual review of all employee access will be performed by the business.

**IT General Controls – SCLM Access**

*Observation*

The City uses the Systems Control and Library Management, or "SCLM," system to migrate Billing and Collection (BC) and legacy Utilities and Billing changes into the production environment. We noted that the users with access to migrate changes within SCLM have access to both develop and migrate changes. This creates a segregation of duties conflict and prevent the ability to enforce controls over change management.

*Effect (or Potential Effect)*

The lack of segregation of duties between the users developing the code and the users migrating the code into productions undermines the ability to detect an error and prevent the migration of faulty or unauthorized code into the production environment.

*Recommendation*

A periodic review should be implemented to monitor SCLM program changes migrated into production to validate the application level changes were performed by appropriate personnel.



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*Management's Response*

All users that should not have update access to SCLM were removed from access. Only the Data Center staff can migrate changes from Test to Production in SCLM. If anyone else attempts a migration an e-mail is sent to the Data Center staff notifying them of the failed attempt. As part of the quarterly security review, we have added a review of all SCLM changes.

**IT General Controls – DB2 System Access**

*Observation*

During our testwork over direct write and administrative access to the DB2 Database Management System underlying Tesseract, we noted that four users were deemed to have inappropriate access. The access is not commensurate with their job responsibilities.

*Effect (or Potential Effect)*

Inappropriate access to make changes to the data or database objects underlying any application could result in transaction processing and reporting errors, and unreliable data.

*Recommendation*

Direct write access to the database should be restricted to those users who require the access to fulfill their job responsibilities. In addition, monitoring controls to log and review those users performing sensitive functions, such as "INSERT" or "ALTER," should be implemented.

*Management's Response*

TI will establish a process to review access of the HR/Payroll system's Data Base on a quarterly basis. A review of all users who have access to the DB2 Database will be conducted with TI's Operations staff and the Supervisor over HR/Payroll to ensure that all access is appropriate to the users' job responsibilities.

**IT General Controls – MS SQL System Access**

*Observation*

During KPMG's testwork over direct write and administrative access to the MS SQL Server Database Management System underlying RescueNet, we noted that two users, an intern and nondatabase administrator have direct write access to the MS SQL Server Database Management System. The access is not commensurate with their job responsibilities.

*Effect (or Potential Effect)*

Inappropriate access to make changes to the data or database objects underlying any application could result in transaction processing and reporting errors, and unreliable data.





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*Recommendation*

Direct write access to the database should be restricted to those users who require the access to fulfill their job responsibilities. In addition, monitoring controls to log and review those users performing sensitive functions, such as "INSERT" or "ALTER," should be implemented.

*Management's Response*

TI will establish a process to review access of the Zoll Ambulance Billing system's Data Base on a quarterly basis. A review of all users who have access to the database will be conducted by the DBA's and the Supervisor over the Zoll Ambulance Billing Application.

**IT General Controls – Terminated User Access**

*Observation*

During our testwork over the revocation of access for terminated employees, we noted that thirteen user IDs related to terminated employees were still active in the in-scope financial applications. Some user IDs were active more than nine months after their termination dates.

*Effect (or Potential Effect)*

The untimely removal of access could result in a lack of segregation of duties as a result of a terminated employee sharing his or her password with an active employee. In turn, the lack of segregation of duties could allow a user to complete a transaction without the appropriate review or authorization. As such, an erroneous transaction could be processed and then go undetected.

*Recommendation*

A review of active users against the list of terminated employees should be performed by the business quarterly, if not monthly, for the in-scope financial applications to provide reasonable assurance that access for terminated employees is revoked in a timely manner. Application and system administrators should be held accountable for failing to revoke the access to City's applications particularly if they have failed to do so after they have received a notification of the termination from Human Resources of the termination.

*Management's Response*

Initially, TI Supervisors will review a list of Active Users against a list of terminated employees (from HR Payroll) to ensure that all terminated users cannot access the applications. In addition, TI will institute a long-term solution to ensure that terminated employees are removed from these systems in a timely fashion. When an employee separates from the City, a report is sent to the Helpdesk. The Helpdesk will create tasks for each system administrator to check their systems to make sure the terminated employee's access is removed.



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## **IT General Controls – Computer Operations**

### *Observation*

During our testwork over help desk operations, we noted that for one, or 1, out of 25 Remedy tickets was not closed in a timely manner. One ticket, marked, high priority, was not closed for 63 days.

### *Effect (or Potential Effect)*

While the help desk person may have merely forgot to close the tickets, another ticket could go unresolved for an extended period of time, which could cause errors in the financial reporting process.

### *Recommendation*

A help desk supervisor should be responsible for performing a semimonthly, if not weekly, review of open tickets to ensure they are being addressed and help desk Service Level Agreements are upheld. Help desk personnel should be held accountable for not addressing and closing tickets in a timely manner.

### *Management's Response*

TI will implement a process that requires the Supervisor of each group to review open Remedy Tickets on a biweekly basis. If there is a need for a ticket to remain open for an extended amount of time, the reason will be documented in the ticket.

## **IT General Controls – Password Configurations 7**

### *Observation*

During the testwork over the password configurations, we noted that the password parameters to the mainframe environment and the database underlying the CC&B application were not configured according to the IT policies and procedures. The mainframe environment supports the following applications: FAMIS, ADPICS, legacy Utilities and Billing, and Billings and Collections; and the database maintains the integrity of the data underlying the CC&B application. Passwords, coupled with user IDs, are used to identify and authenticate users onto these environments. Password parameters are configured to force users to employ strong passwords and prevent users from guessing a user ID's password to gain unauthorized access.

### *Effect (or Potential Effect)*

The lack of strong passwords increases the risk of unauthorized access and the processing of unauthorized transactions. Moreover, the lack of adherence to the TI policies and procedures undermines and weakens an organization's control environment.



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*Recommendation*

The password parameters to systems should be configured to adhere to the TI policies and procedures.

*Management's Response*

The Network Password Policy document refers specifically to "Network" and does not include the mainframe. However, TI will change the password length requirement for the mainframe to 8 characters. Because of system limitations, we cannot require strong passwords for the mainframe. The database IDs will also be changed to 8 characters and complex, to fall in line with AR8-29 (Network Password Policy). These changes will be gradual, the mainframe changes will be enforced as user passwords expire. AR8-29 will be updated to reflect the mainframe and database constraints.

\* \* \* \* \*

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

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

Very truly yours,

*KPMG LLP*



**KPMG LLP**  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

July 1, 2015

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

Ladies and Gentlemen:

We have audited the governmental, business-type activities, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City) as of September 30, 2014, and have issued our report thereon under date of March 27, 2015. We did not audit the financial statements of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amount included for the discretely presented component unit, is based solely on the report of the other auditor. Under our professional standards, we are providing you with the accompanying information related to the conduct of our audit. We have also audited the federal expenditures of each major federal program of the City for the year ended September 30, 2014 and issued our report thereon dated June 26, 2015. We also audited the following entities and have issued separate reports for each entity as of the City's annual audit.

- Aquarium of the Pacific
- The Harbor Department
- The Water Department

#### **Our Responsibility Under Professional Standards**

We are responsible for forming and expressing opinions about whether the financial statements, which have been prepared by management with the oversight of City Council, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. We have a responsibility to perform our audit of the financial statements in accordance with professional standards. In carrying out this responsibility, we planned and performed the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Because of the nature of audit evidence and the characteristics of fraud, we are to obtain reasonable, not absolute, assurance that material misstatements are detected. We have no responsibility to plan and perform the audit to obtain reasonable assurance that misstatements, whether caused by error or fraud, that are not material to the financial statements are detected. Our audit does not relieve management or City Council of their responsibilities.



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

We also have a responsibility to communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to the responsibilities of City Council in overseeing the financial reporting process. We are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Other Information in Documents Containing Audited Financial Statements**

Our responsibility for other information in documents containing the City's financial statements and our auditors' report thereon does not extend beyond the financial information identified in our auditors' report, and we have no obligation to perform any procedures to corroborate other information contained in these documents. We have, however, read the other information included in the City's Comprehensive Annual Financial Report (CAFR), and no matters came to our attention that cause us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the City's financial statements.

### **Accounting Practices and Alternative Treatments**

#### *Significant Accounting Policies*

Significant accounting policies used by the City are described in Note 2 to the City's financial statements. As described in note 2, in fiscal 2014 the City adopted Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*; GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*; and GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. There is also a reference in note 2 that the City will be required to adopt the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment of GASB No. 27* and GASB Statement No. 71, *Pension transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68* in fiscal 2015.

#### *Qualitative Aspects of Accounting Practices*

We have discussed with the City Auditor and management our judgments about the quality, not just the acceptability, of the City's accounting principles as applied in its financial reporting. The discussions generally included such matters as the consistency of the City's accounting policies and their application, and the understandability and completeness of the City's financial statements, which include related disclosures.



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### **Management Judgments and Accounting Estimates**

The preparation of the financial statements requires management of the City to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period.

Management's estimate of the allowance for uncollectible accounts is based on relevant historical data and the City's policy in which all accounts aged greater than a specified period are reserved. Management's estimates for workers' compensation, pension liabilities, other postemployment benefits, and general liabilities are based on historical data and other relevant factors to arrive at the actuarial determined estimated liabilities. Environmental remediation liabilities recorded by the Harbor Department are based on various vendor bids on the cost to perform the necessary site cleanup. Estimated oil field abandonment liabilities are based on the total number of wells mined by the City as well as the estimated cost per well based on historical estimates. Management's estimates of derivative instrument values are based on various cash flow projections including the future value of natural gas and interest rates.

### **Uncorrected and Corrected Misstatements**

In connection with our audit of the City's financial statements, we have discussed with management certain financial statement misstatements that have not been corrected in the City's books and records as of and for the year ended September 30, 2014. We have reported such misstatements to management on a Summary of Uncorrected Audit Misstatements by opinion union and have received written representations from management that management believes that the effects of the uncorrected financial statement misstatements are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. Attached is a copy of the summary that has been provided to, and discussed with, management.

### **Disagreements with Management**

There were no disagreements with management on financial accounting and reporting matters that, if not satisfactorily resolved, would have caused a modification of our auditors' reports on the City's financial statements.

### **Management's Consultation with Other Accountants**

To the best of our knowledge, management has no consulted with or obtained opinions, written or oral, from other independent accountants during the year ended September 30, 2014.



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**Significant Issues Discussed, or Subject to Correspondence, with Management**

*Material Written Communications*

Attached to this letter please find copies of the following material written communications between management and us:

1. Engagement letter;
2. Management representation letter; and
3. Management letter.

**Significant Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

**Other Significant Findings or Issues**

We also performed single audit of the City for the year ended September 30, 2014 and issued i) our 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* dated March 27, 2015 (GAS Report) and ii) our report on compliance for each major federal program, internal control over compliance and on the schedules of expenditures of federal awards required by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* dated June 26, 2015 (A-133 Report) (collectively referred to as the Single Audit Reports). During the course of our audit, we identified a deficiency in internal control over the reporting of capital asset expenditures at the Harbor Department that we considered to be a material weakness which was included in our GAS Report. We also identified a deficiency in internal control over the reporting of federal expenditures for the Surface Transportation – Discretionary Grants for Capital Investment program that we considered to be a material weakness which was included in our A-133 Report. The finding noted for the reporting of federal expenditures also resulted in a qualification to the A-133 Report. Both of these findings are described in the schedule of findings and questioned costs which accompanies the Single Audit Reports. The Single Audit Reports were provided to you under separate cover.

\* \* \* \* \*

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

Very truly yours,

**KPMG LLP**



**KPMG LLP**  
Suite 700  
20 Pacifica  
Irvine, CA 92618-3391

Telephone +1 949 885 5400  
Fax +1 949 885 5410  
Internet [www.us.kpmg.com](http://www.us.kpmg.com)

July 24, 2014

City of Long Beach  
333 West Ocean Boulevard, 8th Floor  
Long Beach, California 90802

Attention: Laura Doud, City Auditor

Ladies and Gentlemen:

This letter (the Engagement Letter) is incorporated by reference in the Agreement between City of Long Beach (the City) and KPMG LLP dated July 16, 2013 (the Agreement) and confirms our understanding of our engagement to provide professional services to the City of Long Beach, California (the City).

### **Objectives and Limitations of Services**

#### ***Financial Statement Audit Services***

You have requested that we audit the City's financial statements as set forth in Appendix I.

We have the responsibility to conduct and will conduct the audit of the financial statements in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, with the objective of expressing an opinion as to whether the presentation of the financial statements that have been prepared by management with the oversight of those charged with governance, conforms with U.S. generally accepted accounting principles.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. In conducting the audit, we will perform tests of the accounting records and such other procedures, as we consider necessary in the circumstances, based on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud, to provide a reasonable basis for our opinion on the financial statements. We also will evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, and evaluate the overall financial statement presentation.

Our audit of the financial statements will be planned and performed to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Absolute assurance is not attainable because of the nature of audit evidence and the characteristics of fraud. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements, fraud (including fraud that may be an illegal act), and other illegal acts may exist and not be detected by an audit of financial statements even though the audit is





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properly planned and performed in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Also, an audit is not designed to detect matters that are immaterial to the financial statements, and because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to detect abuse.

We will also perform certain limited procedures to the required supplementary information as required by auditing standards generally accepted in the United States of America. However, we will not express an opinion or provide any assurance on the information. Our report relating to the financial statements will include our consideration of required supplementary information.

Subject to the remainder of this paragraph, we will issue a written report upon completion of our audit of the City's financial statements addressed to City Council of the City. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion(s), add emphasis-of-matter or other-matter paragraphs or withdraw from the engagement. If, during the performance of our audit procedures, circumstances arise which make it necessary to modify our report or withdraw from the engagement, we will communicate to the City Council our reasons for modification or withdrawal.

While our report may be sent to the City electronically for your convenience, only the hard copy report is to be relied upon as our work product.

#### ***Internal Control over Financial Reporting and Compliance and Other Matters***

In making our risk assessments as part of planning and performing our audit of the financial statements, we will consider the City's internal control relevant to the preparation and fair presentation of the financial statements in order to determine the nature, timing, and extent of our audit procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of City's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, our objective is not to provide an opinion on compliance with such provisions.

In accordance with *Government Auditing Standards*, we will prepare a written report, *Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards* (GAGAS report), on our consideration of internal control over financial reporting and tests of compliance made as part of our audit of the financial statements. While the objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements, this report will include any material weaknesses and significant deficiencies to the extent they come to our attention. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material



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misstatement of the financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. This report will also include instances of:

- Fraud and noncompliance with provisions of laws or regulations that have a material effect on the financial statements or other financial data significant to the audit objectives and any other instances that warrant the attention of those charged with governance;
- Noncompliance with provisions of contracts or grant agreements that has a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives; or
- Abuse that is material, either quantitatively or qualitatively.

The report will describe its purpose and will state that it is not suitable for any other purpose.

In accordance with *Government Auditing Standards*, we will also issue a management letter to communicate instances of noncompliance with provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but warrant the attention of those charged with governance.

#### ***OMB Circular A-133 Audit Services***

We will also perform audit procedures with respect to the City's major federal programs in accordance with the provisions of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations* (OMB Circular A-133). OMB Circular A-133 includes specific audit requirements, mainly in the areas of internal control and compliance with laws, regulations, contracts, and grant agreements that exceed those required by *Government Auditing Standards*.

As part of our audit procedures performed in accordance with the provisions of OMB Circular A-133, we will perform tests to evaluate the effectiveness of the design and operation of internal controls that we consider relevant to preventing or detecting material noncompliance with laws, regulations, contracts, and grant agreements applicable to each of the City's major programs. The tests of internal control performed in accordance with OMB Circular A-133 are less in scope than would be necessary to render an opinion on internal control.

In relation to compliance with the program requirements applicable to its federal programs, management acknowledges and understands its responsibility for:

- Identifying the City's government programs and understanding and complying with the compliance requirements.
- Establishing and maintaining effective controls that provide reasonable assurance that the City administers government programs in compliance with the compliance requirements.



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- Evaluating and monitoring the City's compliance with the compliance requirements.
- Taking corrective action when instances of noncompliance are identified, including corrective action on audit findings of the compliance audit.

We will perform tests of the City's compliance with certain provisions of laws, regulations, contracts, and grant agreements we determine to be necessary based on the *OMB Circular A-133 Compliance Supplement (Compliance Supplement)*. The procedures outlined in the *Compliance Supplement* are those suggested by each federal agency and do not cover all areas of regulations governing each program. Program reviews by federal agencies may identify additional instances of noncompliance.

As required by OMB Circular A-133, we will prepare a written report which provides our opinion on the schedule of expenditures of federal awards in relation to the City's financial statements. In addition, we will prepare a written report (A-133 report) which 1) provides our opinion on compliance with laws, regulations, contracts, and grant agreements that could have a direct and material effect on a major federal program and 2) communicates our consideration of internal control over major federal programs. The A-133 report will describe its purpose and will state that it is not suitable for any other purpose.

#### ***Offering Documents***

Should the City wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities, prior to our consenting to include or incorporate by reference our report(s) on such financial statements, we would consider our consent to the inclusion of our report and the terms thereof at that time. We will be required to perform procedures as required by the standards of the American Institute of Certified Public Accountants, including, but not limited to, reading other information incorporated by reference in the offering document and performing subsequent event procedures. Our reading of the other information included or incorporated by reference in the offering document will consider whether such information, or the manner of its presentation, is materially inconsistent with information, or the manner of its presentation, appearing in the financial statements. However, we will not perform procedures to corroborate such other information (including forward-looking statements). The specific terms of our future services with respect to future offering documents will be determined at the time the services are to be performed.

Should the City wish to include or incorporate by reference these financial statements and our audit report(s) thereon into an offering of exempt securities without obtaining our consent to include or incorporate by reference our report(s) on such financial statements, and we are not otherwise associated with the offering document, then the City agrees to include the following language in the offering document:

"KPMG LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. KPMG LLP also has not performed any procedures relating to this official statement."



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### **Our Responsibility to Communicate with the City Council**

We will report to the audit committee or those charged with governance, in writing, the following matters:

- Material, corrected misstatements that were brought to the attention of management as a result of audit procedures.
- Uncorrected misstatements accumulated by us during the audit and the effect that they, individually or in the aggregate, may have on our opinion in the auditor's report, and the effect of uncorrected misstatements related to prior periods.
- Significant difficulties and disagreements with management, if any, encountered during our audit.
- Other matters required to be communicated by auditing standards generally accepted in the United States of America.

We will also read minutes, if any, of relevant committee meetings for consistency with our understanding of the communications made to the City Council and determine that the City Council has received copies of all material written communications between ourselves and management. We will also determine that the City Council has been informed of i) the initial selection of, or the reasons for any change in, significant accounting policies or their application during the period under audit, ii) the methods used by management to account for significant unusual transactions, and iii) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

To the extent that they come to our attention, we will inform the appropriate level of management about any illegal acts, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud. Further, to the extent they come to our attention, we also will communicate directly to the City Council illegal acts that come to our attention, unless they are clearly inconsequential, material errors in the financial statements and any instances of fraud that involve senior management or that, in our judgment, cause a material misstatement of the financial statements.

In accordance with *Government Auditing Standards*, we are also required in certain circumstances to report fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse directly to parties outside the auditee.

### **Management Responsibilities**

The management of the City acknowledges and understands that they have responsibility for the preparation and fair presentation, in accordance with U.S generally accepted accounting principles, of the financial statements and all representations contained therein. Management also is responsible for identifying and ensuring that the City complies with laws, regulations, contracts, and grant agreements applicable to its activities, and for informing us of any known



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material violations of such laws and regulations and provisions of contracts and grant agreements. Management also is responsible for preventing and detecting fraud, including the design and implementation of programs and controls to prevent and detect fraud, for adopting sound accounting policies, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements and to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. Management is also responsible for informing us, of which it has knowledge, of all material weaknesses and significant deficiencies in the design or operation of such controls. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Management of the City also acknowledges and understands that it is their responsibility to provide us with: i) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements and the compliance requirements applicable to its federal programs such as records, documentation, and other matters; ii) additional information that we may request from management for purposes of the audits; and iii) unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. As required by auditing standards generally accepted in the United States of America, we will make specific inquiries of management about the representations embodied in the financial statements and the effectiveness of internal control, and obtain a representation letter from management about these matters. The responses to our inquiries, the written representations, and the results of audit tests, among other things, comprise the evidential matter we will rely upon in forming opinions on the financial statements.

In addition to the OMB Circular A-133 requirements to maintain internal control and comply with the compliance requirements applicable to federal programs as discussed above, OMB Circular A-133 also requires the City to prepare a:

- Schedule of expenditures of federal awards;
- Summary schedule of prior audit findings;
- Corrective action plan; and
- Data collection form (Part I).

While we may be separately engaged to assist you in the preparation of these items, preparation is the responsibility of the City.

Certain provisions of OMB Circular A-133 allow a granting agency to request that a specific program be selected as a major program provided that the federal granting agency is willing to pay the incremental audit cost arising from such selection. The City agrees to notify KPMG LLP (KPMG) of any such request by a granting agency and to work with KPMG to modify the terms of this letter as necessary to accommodate such a request.



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To facilitate our audit planning, in accordance with *Government Auditing Standards*, management agrees to identify and provide copies of reports, if applicable, of previous audits, attestation engagements, or other studies that directly relate to the objectives of the audit, including whether related recommendations have been implemented, prior to September 30, 2014.

Management is responsible for adjusting the financial statements to correct material misstatements and for affirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements being reported upon, taken as a whole. Because of the importance of management's representations to the effective performance of our services, the City will release KPMG and its personnel from any claims, liabilities, costs and expenses relating to our services under this letter attributable to any misrepresentations in the representation letter referred to above. The provisions of this paragraph shall apply regardless of the form of action, damage, claim, liability, cost, expense, or loss asserted, whether in contract, statute, tort (including but not limited to negligence) or otherwise.

Management is also responsible for providing us with written responses in accordance with *Government Auditing Standards* to the findings included in the GAGAS or A-133 report within 14 days of being provided with draft findings. If such information is not provided on a timely basis prior to release of the report(s), the report(s) will indicate the status of management's responses.

*Government Auditing Standards* require external and internal auditors to meet minimum Continuing Professional Education (CPE) hours. Therefore, management is responsible for monitoring and documenting the compliance with the *Government Auditing Standards* CPE hours of those internal auditors assigned to the audit in direct assistance roles.

Management is responsible for the distribution of the reports issued by KPMG.

#### **Other Matters**

This letter shall serve as the City's authorization for the use of e-mail and other electronic methods to transmit and receive information, including confidential information, between KPMG and the City and between KPMG and outside specialists or other entities engaged by either KPMG or the City. The City acknowledges that e-mail travels over the public Internet, which is not a secure means of communication and, thus, confidentiality of the transmitted information could be compromised through no fault of KPMG. KPMG will employ commercially reasonable efforts and take appropriate precautions to protect the privacy and confidentiality of transmitted information.

Further, for purposes of the services described in this letter only, the City hereby grants to KPMG a limited, revocable, non-exclusive, non-transferable, paid up and royalty-free license, without right of sublicense, to use all logos, trademarks and service marks of the City solely for presentations or reports to the City or for internal KPMG presentations and intranet sites.



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KPMG is a limited liability partnership comprising both certified public accountants and certain principals who are not licensed as certified public accountants. Such principals may participate in the engagements to provide the services described in this letter.

KPMG uses the services of KPMG controlled entities, KPMG member firms and/or third party service providers within and outside the United States to provide professional services and administrative, analytical and clerical support. You agree that these parties may have access to certain of your information with the understanding that the confidential information will be maintained under information controls providing equivalent protection as our own. You also understand and agree that KPMG aggregates your information with information from other sources for the purpose of improving audit quality and service, and for use in presentations to clients and non-clients in a form where it is sufficiently de-identified so as not to be attributable to the City or where the City could be identified as a source of the information. The work papers for this engagement are the property of KPMG. Pursuant to *Government Auditing Standards*, we are required to make certain work papers available in a full and timely manner to Regulators upon request for their reviews of audit quality and for use by their auditors. In addition, we may be requested to make certain work papers available to Regulators pursuant to authority provided by law or regulation. Access to the requested will be provided under supervision of KPMG personnel. Furthermore, upon request, we may provide photocopies of selected work papers to Regulators. Such Regulators may intend, or decide, to distribute the photocopies or information contained therein to others, including other government agencies.

In the event KPMG is requested pursuant to subpoena or other legal process to produce its documents and/or testimony relating to this engagement for the City in judicial or administrative proceedings to which KPMG is not a party, the City shall reimburse KPMG at standard billing rates for its professional time and expenses, including reasonable attorney's fees, incurred in responding to such requests.

#### ***Other Government Auditing Standards Matters***

As required by *Government Auditing Standards*, we have attached a copy of KPMG's most recent peer review report.

#### ***Additional Reports and Fees for Services***

Appendix I to this letter lists the additional reports we will issue as part of this engagement and our fees for professional services to be performed under this letter.

In addition, fees for any special audit-related projects, such as research and/or consultation on special business or financial issues, will be billed separately from the audit fees for professional services set forth in Appendix I and may be subject to written arrangements supplemental to those in this letter.

\* \* \* \* \*



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Our engagement herein is for the provision of annual audit services for the financial statements and OMB Circular A-133 and for the periods described in Appendix I, and it is understood that such services are provided as a single annual engagement as noted in the Agreement between the City and KPMG LLP dated July 16, 2013.

We shall be pleased to discuss this letter with you at any time. For your convenience in confirming these arrangements, we enclose a copy of this letter. Please sign and return it to us to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.

Very truly yours,

KPMG LLP

Christopher B. Ray  
Partner

CBR:bp:glb:T1314

Enclosures

cc: Patrick West, City Manager, City of Long Beach  
Amy Webber, City Attorney, City of Long Beach  
John Gross, Director of Finance, City of Long Beach

ACCEPTED:

City of Long Beach, California

  
Authorized Signature  
[Those Charged with Governance]

City Auditor  
Title

8/6/14  
Date

APPROVED AS TO FORM  
8-14, 2014  
**CHARLES PARKIN**, City Attorney  
By   
**AMY R. WEBBER**  
DEPUTY CITY ATTORNEY

Authorized Signature  
[Management] **Assistant City Manager**  
EXECUTED PURSUANT  
TO SECTION 301 OF  
THE CITY CHARTER.

City Manager  
Title

September 5, 2014  
Date



### Fees for Services

Based upon our discussions with and representations of management, our fees for services we will perform are estimated as follows:

Audit of financial statements and related notes to the financial statements of the City of Long Beach as of and for the years ended September 30, 2014 (CAFR)*	\$449,150
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#### Other Reports:

The other reports that we will issue as part of and upon completion of this engagement are as follows which includes a breakdown the fee to issue each report:

<u>Report</u>	<u>Fee</u>
Report issued in connection with OMB Circular A-133 audit **	\$144,450
Schedule of Passenger Facility Charges, Revenues and Expenses of the City of Long Beach Airport	\$19,850
Aquarium of the Pacific Corporation financial statements	\$54,300
Harbor Department financial statements	\$127,370
Water Department financial statements	\$57,400

\*The estimated fees for the audit of the City's financial statements assumes the City Auditor or another firm will continue to perform the cash and investment testwork they performed in fiscal 2013.

\*\*The fee estimate for the single audit is based on the assumption that 6 major programs will be required to be audited for fiscal 2014. An additional fee of \$26,025 will be billed for each additional program required to be audited.

The above estimates are based on the level of experience of the individuals who will perform the services. In addition, expenses are billed for reimbursement as incurred. Circumstances encountered during the performance of these services that warrant additional time or expense could cause us to be unable to deliver them within the above estimates. We will endeavor to notify you of any such circumstances as they are assessed.

Where KPMG is reimbursed for expenses, it is KPMG's policy to bill clients the amount incurred at the time the good or service is purchased. If KPMG subsequently receives a volume rebate or other incentive payment from a vendor relating to such expenses, KPMG does not credit such payment to the client. Instead, KPMG applies such payments to reduce its overhead costs, which costs are taken into account in determining KPMG's standard billing rates and certain transaction charges which may be charged to clients.



## System Review Report

To the Partners of KPMG LLP  
and the National Peer Review Committee of the AICPA Peer Review Board

We have reviewed the system of quality control for the accounting and auditing practice of KPMG LLP (the Firm), applicable to non-SEC issuers, in effect for the year ended March 31, 2011. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. The Firm is responsible for designing a system of quality control and complying with it to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the Firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at [www.aicpa.org/prsummary](http://www.aicpa.org/prsummary).

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards*, audits of employee benefit plans, an audit performed under FDICIA, and an audit of a carrying broker-dealer.

In our opinion, the system of quality control for the accounting and auditing practice of KPMG LLP, applicable to non-SEC issuers, in effect for the year ended March 31, 2011, has been suitably designed and complied with to provide the Firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. KPMG LLP has received a peer review rating of *pass*.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

December 2, 2011



# CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

333 West Ocean Boulevard 6<sup>th</sup> Floor • Long Beach, CA 90802 • (562) 570-6465 • Fax (562) 570 -5836

March 27, 2015

KPMG, LLP  
20 Pacifica, Suite 700  
Irvine, CA 92618

Ladies and Gentlemen:

We are providing this letter in connection with your audit of the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, the aggregate remaining fund information, and the related notes to the financial statements, of the City of Long Beach, California (the City), as of and for the year ended September 30, 2014, for the purpose of expressing opinions as to whether these financial statements present fairly, in all material respects, the respective financial positions, changes in financial positions, and, where applicable, cash flows thereof in conformity with U.S. generally accepted accounting principles.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of March 27, 2015, the following representations made to you during the audit:

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated July 24, 2014, for the preparation and fair presentation of the financial statements in accordance with U.S. generally accepted accounting principles.
2. We have made available to you:
  - a. All records, documentation, and information that is relevant to the preparation and fair presentation of the financial statements.
  - b. Additional information that you have requested from us for the purpose of the audit.
  - c. Unrestricted access and the full cooperation of personnel within the entity from whom you determined it necessary to obtain audit evidence.
  - d. All minutes of the meetings of City Council, or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. Except as disclosed to you in writing, there have been no:

- a. Circumstances that have resulted in communications from the City's legal counsel to the City reporting evidence of a material violation of securities law or breach of fiduciary duty, or similar violation by the City or any agent thereof.
- b. Communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations in any jurisdiction, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
- c. False statements affecting the City's financial statements made to the City's internal auditors, or other auditors who have audited entities under our control upon whose work you may be relying in connection with your audit.

4. There are no:

- a. Violations or possible violations of laws or regulations, whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency;
- b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion and must be disclosed in accordance with paragraphs 96 – 113 of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*;
- c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB Statement No. 62, paragraphs 96 – 113;
- d. Material transactions, for example, grants and other contractual arrangements, that have not been properly recorded in the accounting records underlying the financial statements;
- e. Events that have occurred subsequent to the date of the statement of net position and, through the date of this letter that would require adjustment to or disclosure in the financial statements.

5. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with GASB Statement No. 62, paragraphs 96 – 113.

6. The effects of the uncorrected financial statement misstatements summarized in the accompanying schedule(s) are immaterial, both individually and in the aggregate, to the financial statements for each respective opinion unit.

7. We acknowledge our responsibility for the design, implementation and maintenance of programs and controls to prevent and detect fraud; for adopting sound accounting policies; for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements; and, to provide reasonable assurance against the possibility of misstatements that are material to the financial statements whether due to error or fraud. We understand that the term "fraud"

includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets.

8. We have disclosed to you all deficiencies in the design or operation of internal control over financial reporting of which we are aware, which could adversely affect the City's ability to initiate, authorize, record, process, or report financial data. We have separately disclosed to you all such deficiencies that we believe to be significant deficiencies or material weaknesses in internal control over financial reporting, as those terms are defined in AU-C Section 265, Communicating Internal Control Related Matters Identified in an Audit.
9. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
10. We have no knowledge of any fraud or suspected fraud affecting the City's financial statements involving:
  - a. Management;
  - b. Employees who have significant roles in internal control over financial reporting, or
  - c. Others where the fraud could have a material effect on the financial statements.
11. We have no knowledge of any allegations of fraud or suspected fraud affecting the City's financial statements received in communications from employees, former employees, analysts, regulators, or others.
12. The City has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, and deferred inflows of resources.
13. We have no knowledge of any officer or City Council member, or any other person acting under the direction thereof, having taken any action to fraudulently influence, coerce, manipulate, or mislead you during your audit.
14. The following have been properly recorded or disclosed in the financial statements:
  - a. Related party relationships and transactions of which we are aware in accordance with the requirement of U.S. generally accepted accounting principles, including sales, purchases, loans, transfers, leasing arrangements, guarantees, ongoing contractual commitments, and amounts receivable from or payable to related parties;
  - b. Guarantees, whether written or oral, under which the City is contingently liable;
  - c. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements;
  - d. Agreements to repurchase assets previously sold, including sales with recourse;
  - e. Changes in accounting principle affecting consistency;
  - f. The existence of and transactions with joint ventures and other related organizations.

15. The City has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets, nor has any asset been pledged as collateral.
16. The City has complied with all aspects of laws, regulations, contractual agreements, donor restrictions, and grants that may affect the financial statements, including noncompliance.
17. Management is responsible for compliance with the laws, regulations, donor restrictions and provisions of contracts and grant agreements applicable to the City. Management has identified and disclosed to you all laws, regulations, donor restrictions, and provisions of contracts and grant agreements that have a direct and material effect on the determination of financial statement amounts.
18. The City's reporting entity includes all entities that are component units of the City. Such component units have been properly presented as either blended or discrete. Investments in joint ventures in which the City holds an equity interest have been properly recorded on the statement of net position. The financial statements disclose all other joint ventures and other related organizations.
19. The financial statements properly classify all funds and activities, including governmental funds, which are presented in accordance with the fund type definitions in GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.
20. All funds that meet the quantitative criteria in GASB Statement No. 34, Basic Financial statements — and Management's Discussion and Analysis — for State and Local Governments, for presentation as major are identified and presented as such, and all other funds that are presented as major are considered to be particularly important to financial statement users by management.
21. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
22. Amounts advanced to related entities represent valid receivables and are expected to be recovered at some future date in accordance with the terms of related agreements.
23. Receivables reported in the financial statements represent valid claims against debtors arising on or before the date of the statement of net position and have been appropriately reduced to their estimated net realizable value.
24. Deposits and investment securities are properly classified and reported.
25. The City is responsible for determining the fair value of certain investments as required by GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools, as amended. The amounts reported represent the City's best estimate of fair value of investments required to be reported under the Statement. The City also has disclosed the methods and significant assumptions used to estimate the fair value of its investments, and the nature of investments reported at amortized cost.

26. The City has identified and properly reported all of its derivative instruments and any related deferred outflows of resources or deferred inflows of resources related to hedging derivative instruments in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The City complied with the requirements of GASB Statement No. 53 related to the determination of hedging derivative instruments and the application of hedge accounting. Further, the City has disclosed all material information about its derivative and hedging arrangement in accordance with GASB Statement No. 53.
27. The estimate of fair value of derivative instruments is in compliance with GASB Statement No. 53. For derivative instruments with fair values that are based on other than quoted market prices, the City has disclosed the methods and significant assumptions used to estimate those fair values.
28. The following information about financial instruments with off-balance-sheet risk and financial instruments with concentrations of credit risk has been properly disclosed in the financial statements:
  - a. The extent, nature, and terms of financial instruments with off-balance-sheet risk;
  - b. The amount of credit risk of financial instruments with off-balance-sheet credit risk, and information about the collateral supporting such financial instruments; and
  - c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral supporting such financial instruments.
29. We believe that all material expenditures or expenses that have been deferred to future periods will be recoverable.
30. Capital assets, including infrastructure assets, are properly capitalized, reported and, if applicable, depreciated.
31. The City has properly applied the requirements of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, including those related to the recognition of outlays associated with the development of internally generated computer software.
32. The City has no:
  - a. Commitments for the purchase or sale of services or assets at prices involving material probable loss;
  - b. Material amounts of obsolete, damaged, or unusable items included in the inventories at greater than salvage values; or,
  - c. Loss to be sustained as a result of other-than-temporary declines in the fair value of investments.
33. For variable-rate demand bond obligations that are reported as general long-term debt or excluded from current liabilities of proprietary funds, we believe all of the conditions described in GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities*, have been met.

34. The City has complied with all tax and debt limits and with all debt related covenants.
35. We have received opinions of counsel upon each issuance of tax-exempt bonds that the interest on such bonds is exempt from federal income taxes under section 103 of the Internal Revenue Code of 1986, as amended. There have been no changes in the use of property financed with the proceeds of tax-exempt bonds, or any other occurrences, subsequent to the issuance of such opinions, that would jeopardize the tax-exempt status of the bonds. Provision has been made, where material, for the amount of any required arbitrage rebate.
36. We believe that the actuarial assumptions and methods used to measure financial statement liabilities and costs associated with pension and other post-employment benefits and to determine information related to the City's funding progress related to such benefits for financial reporting purposes are appropriate in the City's circumstances and that the related actuarial valuation was prepared in conformity with U.S. generally accepted accounting principles.
37. There were no omissions from the participants' data provided to the actuary for the purpose of determining the pension liability, other post-employment benefit obligation and other actuarially determined amounts in the financial statements.
38. Provision has been made in the financial statements for the City's pollution remediation obligations. We believe that such estimate has been determined in accordance with the provisions of GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations and is reasonable based on available information.
39. The City has identified and properly accounted for and presented all deferred outflows of resources and deferred inflows of resources.
40. Components of net position (net investment in capital assets; restricted; and unrestricted) and fund balance components (non-spendable; restricted; committed; assigned; and unassigned) are properly classified and, if applicable, approved.
41. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
42. The City has identified and properly accounted for all non-exchange transactions.
43. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
44. We have disclosed to you all accounting policies and practices we have adopted that, if applied to significant items or transactions, would not be in accordance with U.S. generally accepted accounting principles. We have evaluated the impact of the application of each such policy and practice, both individually and in the aggregate, on the City's current period financial statements, and the expected impact of each such policy and practice on future periods' financial reporting. We believe the effect of these



policies and practices on the financial statements is not material. Furthermore, we do not believe the impact of the application of these policies and practices will be material to the financial statements in future periods.

45. We agree with the findings of specialists in evaluating the oil field abandonment costs liability and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.
46. We acknowledge our responsibility for the presentation of the supplementary information, which includes the additional financial section and other supplementary information, in accordance with the applicable criteria and/or prescribed guidelines and:
  - a. Believe the supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and/or prescribed guidelines.
  - b. The methods of measurement or presentation of the supplementary information have not changed from those used in the prior period; and
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the supplementary information are reasonable and appropriate in the circumstances.
47. We acknowledge our responsibility for the presentation of the required supplementary information which includes, management's discussion and analysis, budgetary comparison information and the schedule of funding progress, in accordance with the applicable criteria and prescribed guidelines established by the Governmental Accounting Standards Board, and:
  - a. Believe the required supplementary information, including its form and content, is fairly presented in accordance with the applicable criteria and prescribed guidelines;
  - b. The methods of measurement or presentation of the required supplementary information have not changed from those used in the prior period;
  - c. The significant assumptions or interpretations underlying the measurement or presentation of the required supplementary information are reasonable and appropriate in the circumstances.
48. The City has complied with all applicable laws and regulations in adopting, approving, and amending budgets.
49. In accordance with Government Auditing Standards, we have identified to you all previous audits, attestation engagements, and other studies that relate to the objectives of this audit, including whether related recommendations have been implemented.

Further, we confirm that we are responsible for the fair presentation in the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, and the related notes to the financial statements, in conformity with U.S. generally accepted accounting principles. We are also responsible for establishing and maintaining effective internal control over financial reporting.

Very truly yours,



PATRICK H. WEST  
CITY MANAGER



JOHN GROSS  
DIRECTOR OF FINANCIAL MANAGEMENT

[illegible]

[illegible]

Don't see it?	dollars
Not? / Used by owner's name :	Railroad
Final Stationing	\$9,000,000
End : 437	\$600,000

**Continuing Care Retirement in Cincy as Part of 2nd**

[illegible]









See attached Memo for discussion of adjustments

*Transcript of the 2007-2008 Annual Meeting of the Board of Directors of the Company*

Unrecorded audit differences after tax effect as a percentage of financial statement amounts	Financial statement amounts (G&P raw financial statement amounts)
Aggregate of unrecorded audit differences - total impact on revenues	
Financial statement amounts (as per final financial statements) - revenues	
Unrecorded audit differences as a percentage of financial statement amounts	
Aggregate of unrecorded audit differences - total impact on expenditures	
Financial statement amounts (as per final financial statements) - expenses	
Unrecorded audit differences as a percentage of financial statement amounts	

Note 1 - As the City of Long Beach is a governmental agency, the comparison of the passed audit adjustments as a percentage of the change in net assets or fund balances is not a reasonable basis for materiality. As such, the schedule above was revised to measure the audit adjustments to total revenues and expenses/expenditures (see HPSPPL 03-15)



KPMG LLP  
Suite 1500  
550 South Hope Street  
Los Angeles, CA 90071-2629

March 27, 2015

City Council  
City of Long Beach  
333 West Ocean Blvd.  
Long Beach, California 90081

Ladies and Gentlemen:

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), for the year ended September 30, 2014, and have issued our report thereon dated March 27, 2015. In planning and performing our audit of the financial statements of the City, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weaknesses.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



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A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. As reported in the independent auditors' 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* issued separately, we consider deficiencies over the reporting of capital asset expenditures at the Harbor Department of the City to be a material weakness.

Although not considered to be significant deficiencies or material weaknesses, we also noted the following items during our audit, which are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized as follows:

#### **Non-GAAP Policies**

##### *Observation*

During our audit, we reviewed the City's internal control process in place to identify new non-GAAP policies and quantify the impact of new and existing non-GAAP policies to the financial statements. We noted that the City does not have a formal process in place to identify new non-GAAP policies. Furthermore, the City does not perform an analysis during the year to quantify the impact of the new and existing non-GAAP policies to the year-end financial statements. As a result of the procedures performed, we noted the City did not quantify the impact of the following non-GAAP policies:

- Recognition of revenue for several revenue sharing agreements in the year subsequent to the when the exchange transaction has taken place.
- Transfers of completed construction projects are not made timely to the appropriate depreciable asset category when the asset is substantially completed and in use.

##### *Recommendation*

We recommend that the City enhance its internal controls related to the documentation and calculation of the impact of non-GAAP policies to ensure that adopted policies do not result in a material misstatement of the financial statements.



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#### *Managements Response*

The City accepts KPMG's recommendation. The City continues to correct its non-GAAP policies. The City recognizes the necessity and, in conformance with the recommendations of KPMG, will continue to update our policies and procedures to ensure the recognition of revenue for revenue sharing agreements in the year when the exchange transaction has taken place. The City will continue its efforts to ensure that depreciable assets are recorded when they are placed into service. Finally, The City will seek to perform an analysis during the year to quantify the impact of the new and existing non-GAAP policies to the year-end financial statements.

#### **Automated Application Control – Payroll Transactions**

##### *Observation*

During our testwork over access to update and modify payroll benefits, we noted that ten (10) users had inappropriate access.

##### *Effect (or Potential Effect)*

The inappropriate access to update and modify payroll benefits could result in unauthorized changes to employee payroll and benefits information, and increases the risk of fraudulent transactions.

##### *Recommendation*

Users should be provided the least amount of access necessary to fulfill their job responsibilities. As such, users with access to update and modify payroll information should be limited to those responsible for processing employee payroll and benefits.

##### *Management's Response*

The City's Technology and Innovation department (TI) will establish a process that requires the Help Desk to create a task, when an employee is terminated, that is assigned to the Supervisor of the HR/Payroll system. The task will require the Supervisor to confirm that the terminated employee does not have access to HR/Payroll. If the terminated employee does have access, their access will be removed. In addition, an annual review of all employee access will be performed by the business.

#### **IT General Controls – CC&B Administrative Access 1**

##### *Observation*

The City uses the Customer Care and Billing, or "CC&B," to supports it utilities and billing operation. During our testwork over administrative access, we noted that four (4) users have inappropriate access: one intern, and three users that no longer support the CC&B application on behalf of the City.



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*Effect (or Potential Effect)*

Administrative access allows a user to manage system configurations and the users with access to the system, including creating new users. Inappropriate administrative access to CC&B could result in the mismanagement of user access that could allow erroneous transactions to be processed without detection.

*Recommendation*

Users should be provided the least amount of access required for them to fulfill their job responsibilities. In addition, user access should be segregated where possible and coordinated to allow for the detection of errors or prevent erroneous transactions from being processed. Administrative access to applications and systems should be limited to those who are responsible for managing applications or not responsible for processing transactions within it.

*Management's Response*

TI will establish a process that requires the Help Desk to create a task, when an employee is terminated, that is assigned to the Supervisor of the CIS / MWM systems. The task will require the Supervisor to confirm that the terminated employee does not have access to CIS / MWM Systems. If the terminated employee does have access, their access will be removed. In addition, an annual review of all employee access will be performed by the business.

**IT General Controls – SCLM Access**

*Observation*

The City uses the Systems Control and Library Management, or "SCLM," system to migrate Billing and Collection (BC) and legacy Utilities and Billing changes into the production environment. We noted that the users with access to migrate changes within SCLM have access to both develop and migrate changes. This creates a segregation of duties conflict and prevent the ability to enforce controls over change management.

*Effect (or Potential Effect)*

The lack of segregation of duties between the users developing the code and the users migrating the code into productions undermines the ability to detect an error and prevent the migration of faulty or unauthorized code into the production environment.

*Recommendation*

A periodic review should be implemented to monitor SCLM program changes migrated into production to validate the application level changes were performed by appropriate personnel.



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#### *Management's Response*

All users that should not have update access to SCLM were removed from access. Only the Data Center staff can migrate changes from Test to Production in SCLM. If anyone else attempts a migration an e-mail is sent to the Data Center staff notifying them of the failed attempt. As part of the quarterly security review, we have added a review of all SCLM changes.

#### **IT General Controls – DB2 System Access**

##### *Observation*

During our testwork over direct write and administrative access to the DB2 Database Management System underlying Tesseract, we noted that four users were deemed to have inappropriate access. The access is not commensurate with their job responsibilities.

##### *Effect (or Potential Effect)*

Inappropriate access to make changes to the data or database objects underlying any application could result in transaction processing and reporting errors, and unreliable data.

##### *Recommendation*

Direct write access to the database should be restricted to those users who require the access to fulfill their job responsibilities. In addition, monitoring controls to log and review those users performing sensitive functions, such as "INSERT" or "ALTER," should be implemented.

#### *Management's Response*

TI will establish a process to review access of the HR/Payroll system's Data Base on a quarterly basis. A review of all users who have access to the DB2 Database will be conducted with TI's Operations staff and the Supervisor over HR/Payroll to ensure that all access is appropriate to the users' job responsibilities.

#### **IT General Controls – MS SQL System Access**

##### *Observation*

During KPMG's testwork over direct write and administrative access to the MS SQL Server Database Management System underlying RescueNet, we noted that two users, an intern and nondatabase administrator have direct write access to the MS SQL Server Database Management System. The access is not commensurate with their job responsibilities.

##### *Effect (or Potential Effect)*

Inappropriate access to make changes to the data or database objects underlying any application could result in transaction processing and reporting errors, and unreliable data.



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#### *Recommendation*

Direct write access to the database should be restricted to those users who require the access to fulfill their job responsibilities. In addition, monitoring controls to log and review those users performing sensitive functions, such as "INSERT" or "ALTER," should be implemented.

#### *Management's Response*

TI will establish a process to review access of the Zoll Ambulance Billing system's Data Base on a quarterly basis. A review of all users who have access to the database will be conducted by the DBA's and the Supervisor over the Zoll Ambulance Billing Application.

### **IT General Controls – Terminated User Access**

#### *Observation*

During our testwork over the revocation of access for terminated employees, we noted that thirteen user IDs related to terminated employees were still active in the in-scope financial applications. Some user IDs were active more than nine months after their termination dates.

#### *Effect (or Potential Effect)*

The untimely removal of access could result in a lack of segregation of duties as a result of a terminated employee sharing his or her password with an active employee. In turn, the lack of segregation of duties could allow a user to complete a transaction without the appropriate review or authorization. As such, an erroneous transaction could be processed and then go undetected.

#### *Recommendation*

A review of active users against the list of terminated employees should be performed by the business quarterly, if not monthly, for the in-scope financial applications to provide reasonable assurance that access for terminated employees is revoked in a timely manner. Application and system administrators should be held accountable for failing to revoke the access to City's applications particularly if they have failed to do so after they have received a notification of the termination from Human Resources of the termination.

#### *Management's Response*

Initially, TI Supervisors will review a list of Active Users against a list of terminated employees (from HR Payroll) to ensure that all terminated users cannot access the applications. In addition, TI will institute a long-term solution to ensure that terminated employees are removed from these systems in a timely fashion. When an employee separates from the City, a report is sent to the Helpdesk. The Helpdesk will create tasks for each system administrator to check their systems to make sure the terminated employee's access is removed.





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## **IT General Controls – Computer Operations**

### *Observation*

During our testwork over help desk operations, we noted that for one, or 1, out of 25 Remedy tickets was not closed in a timely manner. One ticket, marked, high priority, was not closed for 63 days.

### *Effect (or Potential Effect)*

While the help desk person may have merely forgot to close the tickets, another ticket could go unresolved for an extended period of time, which could cause errors in the financial reporting process.

### *Recommendation*

A help desk supervisor should be responsible for performing a semimonthly, if not weekly, review of open tickets to ensure they are being addressed and help desk Service Level Agreements are upheld. Help desk personnel should be held accountable for not addressing and closing tickets in a timely manner.

### *Management's Response*

TI will implement a process that requires the Supervisor of each group to review open Remedy Tickets on a biweekly basis. If there is a need for a ticket to remain open for an extended amount of time, the reason will be documented in the ticket.

## **IT General Controls – Password Configurations 7**

### *Observation*

During the testwork over the password configurations, we noted that the password parameters to the mainframe environment and the database underlying the CC&B application were not configured according to the IT policies and procedures. The mainframe environment supports the following applications: FAMIS, ADPICS, legacy Utilities and Billing, and Billings and Collections; and the database maintains the integrity of the data underlying the CC&B application. Passwords, coupled with user IDs, are used to identify and authenticate users onto these environments. Password parameters are configured to force users to employ strong passwords and prevent users from guessing a user ID's password to gain unauthorized access.

### *Effect (or Potential Effect)*

The lack of strong passwords increases the risk of unauthorized access and the processing of unauthorized transactions. Moreover, the lack of adherence to the TI policies and procedures undermines and weakens an organization's control environment.



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*Recommendation*

The password parameters to systems should be configured to adhere to the TI policies and procedures.

*Management's Response*

The Network Password Policy document refers specifically to "Network" and does not include the mainframe. However, TI will change the password length requirement for the mainframe to 8 characters. Because of system limitations, we cannot require strong passwords for the mainframe. The database IDs will also be changed to 8 characters and complex, to fall in line with AR8-29 (Network Password Policy). These changes will be gradual, the mainframe changes will be enforced as user passwords expire. AR8-29 will be updated to reflect the mainframe and database constraints.

\* \* \* \* \*

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements and, therefore, may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the City's organization gained during our work to make comments and suggestions that we hope will be useful to you. We would be pleased to discuss these comments and recommendations with you at any time.

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

Very truly yours,

*KPMG LLP*