April 25, 2011

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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Long Beach, California (the City), for the year ended September 30, 2010, and have issued our report thereon dated April 25, 2011. In planning and performing our audit of the financial statements of the City of Long Beach, California, 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.

During our audit we noted certain matters involving internal control and other operational matters that 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 below:

In addition, we identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management and those charged with governance on April 25, 2011.

Net Assets

Observation

During our audit, we noted that there are no written policies or procedures in place related to the annual review of the classification of net assets as part of the City's comprehensive annual financial reporting process.

Recommendation

We recommend that the City formalize its policies or procedures for the documentation and support for the classification of net assets to ensure that the basis of the restriction is external and not an internal designation by the City.

Management's Response

The City accepts KPMG's recommendation. However, it is important to note that while formal written policies and procedures are not currently in place, there is an annual review of net assets that is performed during the development of the comprehensive annual financial report. The City will endeavor to enhance its review process and formalize policies and procedures for the annual review, classification and documentation of net assets to ensure the basis for the restriction is external and not an internal designation by the City. These new policies and procedures will be developed concurrently with the City's analysis and implementation of the new fund balance reporting revisions required by the Governmental Accounting Standards Board.

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.

- Expenditures for a capital project were not properly recorded as construction in progress when incurred.

- Recording of debt extinguishment at the date of payment to the trustee rather than the date the debt is paid to the debtors

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.

Managements Response

The City accepts KPMG's recommendation. As in the prior fiscal year, the City will identify and correct as many non-GAAP policies as it can during the limited time between the end of the annual audit and fiscal year-end closing. The City recognizes the necessity and, in conformance with the recommendations of KPMG, will adopt policies and procedures needed 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 review its debt service procedures and develop and adopt new policies or procedures to ensure that debt service payments are recorded in the proper period.

Tax Revenue and Receivables

Observation

During our audit, we noted several instances in which management did not evaluate the availability criteria for various tax receivables to determine that the funds were received within 60 days of year-end. Therefore, management understated receivables and revenue.

Recommendation

We recommend that the City establish controls to ensure that revenue is evaluated for availability when issuing financial statements.

Management's Response

The City accepts KPMG's recommendation. The City will further modify its procedures for both GASB 33 accrual estimates as well as the availability and recognition of other tax-based revenues.

The City has a list of major general revenues and will continue to process accruals for these revenues in period 12 based on estimates provided by a revenue analyst. After 60 days from fiscal year closing, Financial Management compares actual cash received with estimates and, if differences are material, prepares a period 13 entry. On a go-forward basis Financial Management will include other estimated revenues in this process.

Land Held for Resale

Observation

During our audit we noted several instances where management had not evaluated to fair value of land held for resale. Management reported all land at cost. As a result of this, there were some land values that were reported at an amount greater than the fair value at the reporting date.

Recommendation

We recommend that management implement a procedure to evaluate the fair value of land recorded at each reporting period to ensure that the land is reported at the lower of cost of market.

Managements Response

The City accepts KPMG's recommendation. The City will identify and implement a cost-effective solution to ensure that land held for resale is periodically evaluated to determine each property's fair value. Based on this evaluation, land held for resale will be adjusted to reflect the lower of either the appraised fair value at fiscal year end or the original purchase price.

IT General Controls – Logical Access 1

Observation

During our testwork over Migrator Access, KPMG noted that SCLM is used to migrate changes to the Mainframe RACF, UB, BC, and parts of the Payroll applications. KPMG noted that all users with access to SCLM have access to both develop and migrate changes. This creates a segregation of duties issue.

Additionally, KPMG noted that of those users, 8 users have inappropriate access to migrate changes using SCLM for changes to the Mainframe RACF, UB, BC, and parts of the Payroll applications.

Recommendation

Consider implementing a periodic monitoring of changes migrated into production to validate the appropriateness of application level changes.

Consider a clean up of the SCLM access list.

Considering removing all in appropriate users from access to SCLM.

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 email 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 – Logical Access 2

Observation

During our testwork over Migrator Access, KPMG noted that changes to the FAMIS, ADPICS, and parts of the Payroll application are manually migrated to the CICSDB.PCICS01.FA.*.** (for FAMIS and ADPICS) and PROD.TS.PMP.*.** (for HR/TESSERACT) production libraries within Mainframe. KPMG noted that all users with access to migrate changes to the production libraries have access to both develop and migrate changes. This creates a segregation of duties issue.

Additionally, of those users, KPMG noted the following:

1. 2 users have inappropriate access to the "CICSDB.PCICS01.FA.*.**" library for changes to the FAMIS and ADPICS applications.

2. 2 users have inappropriate access to the "PROD.TS.PMP.*.**" library for changes to the HR/TESSERACT application.

Recommendation

Consider implementing a periodic monitoring of changes migrated into production to validate the appropriateness of application level changes.

Consider a clean up of the production libraries access list.

Considering removing all in appropriate users from access to production libraries.

Management's Response

HR/Tesseract: TSD Mgmt will review the access to PROD.TS.PMP.*.* on a monthly basis. A paper copy of the monthly access will be maintained for audit purposes. A formal procedure will be documented and followed.

As part of the quarterly security review we have added a review of all "PROD.TS.PMP.*.**" changes to the HR/TESSERACT application.

Famis And Adpics Applications: Financial Management will review the access to CICSDB.PCICS01.*.* on a quarterly basis. A paper copy of the monthly access will be maintained for audit purposes. A formal procedure will be documented and followed.

As part of the quarterly security review we have added a review of all "CICSDB.PCICS01.FA.*.**" changes to the FAMIS and ADPICS applications.

In addition a review of the current access into production was reviewed by Mgmt and individuals who had inappropriate access were removed.

IT General Controls – User Administration

Observation

During the performance of testwork over User Administration, KPMG noted that City of Long Beach currently does not have a formal policy/procedure that establishes a timeframe, which a user must be removed from system access; however, there is an informal timeframe to remove access within 14 days from termination.

In addition, during the performance of testwork over User Administration, KPMG noted that four (4) selected terminations had a removal date of 14 days or more. However, for users with a removal date greater than 14 days of their termination date, KPMG noted their Mainframe access was disabled timely but their network account was not. Therefore, the identified accounts did not perform any transactions within the Mainframe environment between the periods, which they were terminated to when they were removed.

Recommendation

Consider implementing and enforcing a formally defined timeframe in which terminated employees must be removed from systems.

Consider following up on access removal remedy tickets that have not been completed within two weeks.

Management's Response

The Department of Technology Services will develop, implement, and enforce a policy, with identified timeframes, in which separated employees are removed from having network access. The policy will speak to both 1) terminations and 2) other separations, such as resignations and retirements.

IT General Controls – Physical Access

Observation

During our testwork over Physical Security, KPMG noted that one (1) terminated user had inappropriate access to the data center.

Recommendation

Consider performing a periodic review over users with access to the data center.

Management's Response

Will have a quarterly review done of users with access to the data center to be certain that terminated users are not on the list.

IT General Controls – Change Management

Observation

During our testwork over Change Management, KPMG noted that a change management policy for the Mainframe operating system is not formally documented.

Recommendation

Consider developing a formal change management policy for changes to the Mainframe operating system, or expand the current Mainframe business application change management policies to cover the Mainframe.

Management's Response

The mainframe system programmers use the CLB change request system to document all changes done to the mainframe production operating system. These changes are initially tested on the test mainframe system and then migrated to the production system. If needed, application programmers are involved in assisting us in testing.

A formal change management policy will be developed and followed detailing the process described above.

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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