



KPMG LLP
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May 17, 2012

The 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, 2011, and have issued our report thereon dated May 17, 2012. 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 as follows:

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 May 17, 2012.

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.



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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.
- 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



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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.

IT General Controls – User Administration

Observation

During our testwork over user terminations, KPMG noted that access was not terminated for four (4) users. KPMG noted that these users appeared on the weekly HR termination reports; however, a remedy ticket was not created to remove their access.

Recommendation

Consider reconciling all terminated users on the HR termination reports with a remedy ticket to ensure that access is disabled timely for all terminated users.



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Management's Response

In an effort to reduce TSD's response time, the Department has streamlined its process to disable a separated employee's network access. Since October 2011, instead of a two-step process that was previously employed, the Department has given the Help Desk security rights to disable an employee's network access. Now, the network access can be disabled as soon as the Help Desk receives the weekly Termination Listing Report. On a go-forward basis, it is expected that TSD will be able to disable separated employees' network access within two business days from appearing on the weekly Termination Listing Report. TSD will also develop a review process to ensure that Remedy tickets are created for all employees appearing on the weekly report.

IT General Controls – Logical Access 1

Observation

During our testwork over Migrator Access, KPMG noted that SCLM is used to migrate changes to the BC and UB applications, as well as the HR and FAMIS/ADPICS jobs. KPMG noted that all users with access to migrate changes within SCLM have access to both develop and migrate changes. This creates a segregation of duties issue.

Recommendation

Consider documenting results of the periodic monitoring of changes migrated into production to validate the appropriateness of application level changes.

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 – Logical Access 2

Observation

During our testwork over Migrator Access, KPMG noted that changes to the FAMIS, ADPICS, and Payroll applications 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 access to develop and migrate changes is not segregated.



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Additionally, of those users, KPMG noted the following:

One user has inappropriate access to develop and migrate changes for the HR application.

Recommendation

Consider documenting results of the periodic monitoring of changes migrated into production to validate the appropriateness of application level changes.

Consider removing inappropriate access to perform changes to the HR application.

Management's Response

HR/Tesseract: TSD Mgmt will review the Access/changes to Prod.TS.PMP.Dev.SRC and Prod.TS.PM.Dev.CPY on a monthly basis. The review will be documented in an Excel Spreadsheet and also noted on the review document.

FAMIS: TSD Mgmt will review the Access/changes to CICSDB.PCICS01.FA.FAMIS51.LBLIB on a monthly basis. The review will be documented in an Excel Spreadsheet and also noted on the review document.

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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