



**OFFICE OF THE CITY AUDITOR**  
Long Beach, California

LAURA L. DOUD, CPA  
City Auditor

December 10, 2013

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

RECOMMENDATION:

Receive and file the Quarterly Report of Cash and Investments for the quarter ending June 30, 2013.

DISCUSSION:

Pursuant to Section 803 of the City Charter, the Office of the City Auditor is charged with verifying cash in the City Treasury on a quarterly basis and providing a written report to the City Council. Attached is the Quarterly Report of Cash and Investments for the quarter ending June 30, 2013.

TIMING CONSIDERATIONS:

This item is not time sensitive.


FISCAL IMPACT:

There is no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

  
Laura L. Doud, CPA  
CITY AUDITOR

13DEC-5 4:10:20

Attachment

**THE CITY OF LONG BEACH  
OFFICE OF THE CITY AUDITOR**

**QUARTERLY AUDIT OF CASH & INVESTMENTS  
JUNE 30, 2013**



**WINDES & McCLAUGHRY  
ACCOUNTANCY CORPORATION**  
*Certified Public Accountants & Consultants*  
EXCEEDING EXPECTATIONS SINCE 1926

**THE CITY OF LONG BEACH  
OFFICE OF THE CITY AUDITOR**

**QUARTERLY AUDIT OF CASH & INVESTMENTS  
JUNE 30, 2013**

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## EXECUTIVE SUMMARY

We have conducted a performance audit of the cash and investment balances of the City of Long Beach (the City) as of June 30, 2013. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2013, the City's cash and investments portfolio totaled approximately \$1.6 billion.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## BACKGROUND

### *City Charter Mandate*

Pursuant to Section 803 of the Charter of the City of Long Beach, California, the Office of the City Auditor is charged with verifying cash and investment balances in the City Treasury on a quarterly basis and providing a written report to the City Council. The Office of the City Auditor has contracted Windes & McClaughry Accountancy Corporation to perform the June 30, 2013 audit.

The audit of cash and investment balances of the City of Long Beach includes verifying cash and investments with outside depositories, and evaluating the City Treasurer's compliance with the relevant provisions of the California Government Code and the City's Investment Policy, which is adopted annually by the City Council.

### *Pooled Cash and Investments*

The City's pooled cash is a grouping of the City's available cash for investments. The larger amount of money involved in a pool allows the City to earn a higher rate of return than each fund could receive by itself. Pooled funds that are not needed for operations are invested by the Treasury Bureau. The interest income earned in pooled cash and investments is apportioned to funds based on the ratio of daily cash balances to the total of pooled cash and investments.

## **BACKGROUND (CONTINUED)**

### ***Non-pooled Cash and Investments***

Generally, non-pooled cash and investments are used for specific project operations or pledged for reserves or interest payments of outstanding debt.

### ***Chandler Asset Management***

On September 22, 2009, the City Council approved an agreement with Chandler Asset Management ("Chandler") to provide investment advisory and management services relating to the City's pooled investment portfolio. The term of the agreement is two (2) years, with options to extend for three (3) one (1) year periods, at the discretion of the City Manager. Chandler manages approximately 25 percent of the City's pooled investment portfolio on a non-discretionary basis and provides ongoing oversight of investment activity, including "best practice" recommendations, updates on both financial and regulatory developments, investment strategy review, and performance and credit analysis related to investments in the City's investment pool.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY**

The objectives of our performance audit were to reconcile cash and investments as to the amount and description recorded on the City's books with outside depositories and to evaluate the City's compliance with the relevant provisions of the California Government Code Section 53601 and the City's Investment Policy.

The scope of this audit was limited to the quarter ended June 30, 2013.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City's cash and investments process.
- Obtained confirmations of all cash held by banks and investments held by the City Treasurer's safekeeping agent and other custodians as of June 30, 2013 and reconciled them to the City's general ledger.
- Reconciled the balance of total investments on the City Treasurer's Investment Activity Portfolio Statistics Report (APS2) at June 30, 2013 to the City's general ledger.
- Obtained bank and investment reconciliations at June 30, 2013 and traced balances to the City's general ledger. This also included testing, on a sample basis, the adjustments made on the reconciliation to ensure they are valid adjustments.

## **AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY (CONTINUED)**

- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report (APS2) at June 30, 2013 to the types of investments authorized for the City in accordance with the City's Investment Policy and the relevant provisions of the California Government Code.
- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report (APS2) at June 30, 2013 to the portfolio mix limitations imposed by the City's Investment Policy and the relevant provisions of the California Government Code.
- Reviewed supporting documentation and recalculated, on a sample basis, the purchase, sale and maturity of individual investments to determine compliance with the following provisions of the California Government Code and the City's Investment Policy:
  - Purchases of investments meet minimum rating requirements and maximum allowable maturity periods.
  - All sections of the investment transaction record are properly completed and authorized by the City Treasurer.
  - Transactions are supported by documentation from third-party sources (individual broker confirmations, safekeeping statements, custodian statements, etc.)

The City finalizes its calculations of accrued interest at the end of the fiscal year; thus, testing of accrued interest is conducted as part of the year-end cash and investment audit. As such, we did not test accrued interest, which is excluded from the balance of Total Cash and Investments at June 30, 2013, listed below and in Attachments I and II. In addition, the allocation of pooled cash and investments between funds was outside the scope of this audit. As such, the Schedule of Pooled and Non-Pooled Cash and Investment Balances by Fund and the Schedule of Pooled and Non-Pooled Cash and Investment Balances by Security Type are attached for informational purposes only.

## RESULTS AND CONCLUSIONS

During our audit, we noted the following reconciling items that were not booked in FAMIS to reflect the cash and investment balances at June 30, 2013. The reconciling items are due to routine timing differences between when the cash movement actually occurred and when the transactions were posted to FAMIS. The following summarizes our findings:

\$ 6,258,738 - Payments from Union Bank cash concentration account were initiated in July 2013 but recorded as June 30, 2013 in FAMIS. This led to an understatement of cash of Harbor Capital Fund (Fund 431) in the pooled cash account.

The City's cash and investment balances as of June 30, 2013, after the adjustments noted above, are summarized as follows:

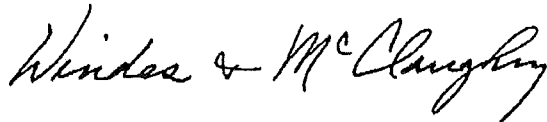
Pooled Cash and Investments	\$ 1,369,405,545
Non-Pooled Cash and Investments	<u>202,834,499</u>
Total Cash and Investments	<u>\$ 1,572,240,044</u>

Based on the results of audit procedures performed and adjustments made, cash and investment balances as recorded on the City's books at June 30, 2013 materially agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with the relevant provisions of the California Government Code and the City's Investment Policy.

## MANAGEMENT COMMENTS

Management agrees that it is in full compliance with the applicable sections of the California Government Code and City's Investment Policy. The City believes that, as of June 30, 2013, the general ledger account balances and adjustments fairly represent the City's cash and investment position.

Unlike private industry, the City does not publish interim financial statements. Instead, the City publishes the audited Comprehensive Annual Financial Report (CAFR) that reflects closing balances at fiscal year end. The reconciling items identified by the City Auditor's Office represent intra-period routine timing differences whose impacts offset within the accounting period and are, therefore, not significant.



Long Beach, California  
November 11, 2013



**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT JUNE 30, 2013  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled June 30, 2013</b>	<b>Non-Pooled June 30, 2013</b>	<b>Total at June 30, 2013</b>	<b>Total at June 30, 2012</b>
100	General Fund, General	\$ 154,718,342	\$ 329,555	\$ 155,047,897	\$ 97,777,218
103	General Fund, Library	737,484	21,020	758,504	( 2,993,884)
105	General Fund, Parks and Recreation	1,768,411	34,865	1,803,276	( 652,495)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	( 782,285)	-	( 782,285)	( 482,829)
121	Special Revenue, Police & Fire	961,682	-	961,682	1,098,504
130	Special Revenue, Health	1,363,124	9,240	1,372,364	1,646,835
131	Special Revenue, CUPA	1,596,503	-	1,596,503	1,414,632
132	Special Revenue, Parking & Business	976,604	-	976,604	1,158,840
133	Special Advertising & Promotion	4,801,279	-	4,801,279	3,189,481
134	Special Revenue, Upland Oil	16,101,015	-	16,101,015	19,085,528
135	Housing Development	11,642,116	7,000	11,649,116	43,345,654
136	Belmont Shore Parking Meters	920,090	69,558	989,648	1,119,067
137	Planning & Building Department	13,606,040	-	13,606,040	8,526,745
149	Special Revenue, Business Assistance	1,442,229	-	1,442,229	1,088,793
150	Community Development Grants	1,234,158	12,000	1,246,158	( 86,246)
151	Housing Authority	9,204,301	47,907	9,252,208	10,842,277
181	Gas Tax Street Improvement	18,622,929	-	18,622,929	15,803,734
182	Special Revenue, Transportation	28,880,728	-	28,880,728	34,458,190
201	Capital Projects	18,690,630	7,293,295	25,983,925	25,884,289
202	Assessment District-Capital Projects	1,551,200	689,073	2,240,273	2,240,357
203	Blight Removal	2	-	2	2
209	Legislative- Capital Projects	5,400,000	-	5,400,000	-
270	SA-RD Obligation Retirement FD Operation	34,508,840	23,788,895	58,297,735	144,904,356
277	SA-RD Obligation Retirement FD Debt SVC	526,210	31,877,628	32,403,838	31,851,461
301	Gas Revenue	8,434,581	655,500	9,090,081	17,769,824
303	Gas Prepaid	292,727	13,268,075	13,560,802	14,171,785
310	Water	41,337,014	3,158,053	44,495,067	52,953,328
311	Sewer	6,318,069	-	6,318,069	8,562,336
320	Airport	48,429,348	16,909,586	65,338,934	76,808,679
330	Refuse/Recycling	17,818,980	3,000	17,821,980	20,712,905
331	SERRF	25,134,943	-	25,134,943	28,632,533
339	SERRF JPA	101,192	11,679,401	11,780,593	11,720,249
340	Towing Operations	623,196	3,700	626,896	1,671,354
380	Civic Center	8,560,367	180	8,560,547	8,420,594
385	General Services	8,177,806	5,000	8,182,806	10,830,592
386	Fleet Services Fund	30,943,841	7,500	30,951,341	27,688,889
390	Insurance	38,355,296	61	38,355,357	35,976,529
391	Employee Benefits	76,186,599	-	76,186,599	69,463,280

**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT JUNE 30, 2013  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012  
(Continued)**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled June 30, 2013</b>	<b>Non-Pooled June 30, 2013</b>	<b>Total at June 30, 2013</b>	<b>Total at June 30, 2012</b>
401	Tidelands Operations	179,559,585	14,776,726	194,336,311	159,610,394
403	Tidelands-Marina	6,494,720	15,600	6,510,320	11,928,484
410	Queen Mary	2,014,789	-	2,014,789	1,850,111
411	Tidelands Operating - Rainbow Harbor Area	4,898,253	4,328,368	9,226,621	9,801,543
420	Tidelands Oil Revenue	79,848,070	-	79,848,070	55,695,796
421	Tidelands Reserve - Subsidence	158,092,507	1,979,086	160,071,593	158,824,607
430	Harbor - Operations	1,464,998,412	35,000	1,465,033,412	1,123,720,292
431	Harbor - Capital	( 1,263,687,050)	-	( 1,263,687,050)	( 609,214,053)
432	Harbor Debt Service	83,250,454	63,340,446	146,590,900	254,654,104
433	Harbor - Clean Air Action Plan	( 8,542,548)	-	( 8,542,548)	( 5,618,029)
440	Expandable Trusts	934,523	-	934,523	968,290
451	ICTF JPA	4,356,451	-	4,356,451	4,407,602
452	Earthquake Assessment Agency Funds	1,358,170	-	1,358,170	1,107,603
453	Other Special Assessment	131,725	-	131,725	1,320,873
455	Other Agency	3,320,492	1,500	3,321,992	3,402,117
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	61,475	61,475	48,378
470	Agency Special Assessment CFD #5 Long Beach Towne Center	27,787	1,296,284	1,324,071	1,319,278
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	184,151
472	Agency Special Assessment CFD#6 Pike Public Improvements	189,757	3,223,708	3,413,465	3,693,331
473	Agency Special Assessment - Douglas Park	5,137,106	1,531,060	6,668,166	1,979,739
474	CFD 2007 Belmont 2004 Spcl Tx Bd	234,754	264,233	498,987	342,999
475	AD 2008-1 Toledo Underground Utility 20B	112,597	113,965	226,562	222,149
476	Douglas Park North	73,232	-	73,232	38,143
600	Debt Service	1,999,224	1,986,944	3,986,168	6,042,099
999	Accrued Interest Receivable	( 3,583,056)	-	( 3,583,056)	( 5,835,770)
<b>Total Cash and Investments</b>		<b>\$ 1,369,405,545*</b>	<b>\$ 202,834,499</b>	<b>\$ 1,572,240,044</b>	<b>\$ 2,016,097,617</b>

\* The City's pooled cash and investments was audited in aggregate and the allocation among funds was outside the scope of the performance audit. The allocation is presented for informational purposes only.

**ATTACHMENT II**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY SECURITY TYPE AT JUNE 30, 2013  
WITH COMPARATIVE TOTALS FOR JUNE 30, 2012**

	<u>Pooled June 30, 2013</u>	<u>Non-Pooled June 30, 2013</u>	<u>Total at June 30, 2013</u>	<u>Total at June 30, 2012</u>
<b>CASH</b>				
Cash in banks	\$ 170,619,326	\$ 564,451	\$ 171,183,777	\$ 216,521,578
Cash with fiscal agents	-	151,919,266	151,919,266	186,351,782
 Total cash	 <u>\$ 170,619,326</u>	 <u>\$ 152,483,717</u>	 <u>\$ 323,103,043</u>	 <u>\$ 402,873,360</u>
<b>INVESTMENTS</b>				
U.S. Treasury Bills	\$ 6,998,770	\$ -	\$ 6,998,770	\$ 73,935,525
U.S. Treasury Notes	335,791,082	-	335,791,082	422,945,487
Federal Farm Credit Bank (FFCB)	58,065,678	-	58,065,678	160,021,372
Federal Home Loan Bank	176,518,184	-	176,518,184	274,528,487
Federal National Mortgage Association (FNMA)	224,476,920	-	224,476,920	312,801,486
FNMA Discounts Notes	19,988,889	-	19,988,889	19,994,472
FFCB Discount Note	-	-	-	7,997,138
Federal Home Loan Mortgage Corporation (FHLMC)	209,834,458	-	209,834,458	205,330,913
FHLMC Discount Notes	29,989,342	-	29,989,342	-
Federal Home Loan Discount Certificate of Deposit	14,999,569	-	14,999,569	19,990,667
Local Agency Investment Fund	-	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	120,284,808	-	120,284,808	57,099,035
Special Assessment Bonds	-	38,371,696	38,371,696	44,290,055
Money Market	-	1,979,086	1,979,086	1,887,183
Savers Loan	214,553	-	214,553	500,076
	<u>1,623,966</u>	<u>-</u>	<u>1,623,966</u>	<u>1,902,361</u>
 Total investments	 <u>\$ 1,198,786,219</u>	 <u>\$ 50,350,782</u>	 <u>\$ 1,249,137,001</u>	 <u>\$ 1,613,224,257</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$ 1,369,405,545</b>	<b>\$ 202,834,499</b>	<b>\$ 1,572,240,044</b>	<b>\$ 2,016,097,617</b>