



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

April 23, 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 September 30, 2012.

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 September 30, 2012.

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

Attachment

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

**QUARTERLY AUDIT OF CASH & INVESTMENTS
SEPTEMBER 30, 2012**



**WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants

EXCEEDING EXPECTATIONS SINCE 1926

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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 September 30, 2012. The City of Long Beach's management is responsible for the cash and investments balances. As of September 30, 2012, the City's cash and investments portfolio totaled approximately \$2.0 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 September 30, 2012 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 September 30, 2012.

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 September 30, 2012 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 September 30, 2012 to the City’s general ledger.
- Obtained bank and investment reconciliations at September 30, 2012 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 September 30, 2012 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 September 30, 2012 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.)
- Recalculated accrued interest (in aggregate) to determine if accrued interest for investments held at September 30, 2012 was accurately stated on the City's general ledger.

The allocation of accrued interest and 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


The City's cash and investment balances as of September 30, 2012 are summarized as follows:

Pooled Cash and Investments	\$ 1,707,592,407
Non-Pooled Cash and Investments	<u>252,582,387</u>
Total Cash and Investments	<u>\$ 1,960,174,794</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at September 30, 2012, 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

In connection with the City Auditor's performance audit of the City of Long Beach's cash and investments balances for the quarter ended September 30, 2012, for the purpose of expressing an opinion that the cash and investments balances are presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and in compliance with the California Government Code and the City's Investment Policy, management concurs with the audit's conclusion and agrees that cash and investments balances are fairly stated and that the City is in compliance with the relevant provisions of the California Government Code and City Investment Policy.



Long Beach, California
March 27, 2013

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2011**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled September 30, 2012</u>	<u>Non-Pooled September 30, 2012</u>	<u>Total at September 30, 2012</u>	<u>Total at September 30, 2011</u>
100	General Fund, General	\$ 51,851,282	\$ 317,479	\$ 52,168,761	\$ 36,235,158
103	General Fund, Library	373,219	21,020	394,239	104,858
105	General Fund, Parks and Recreation	2,945,380	34,865	2,980,245	2,634,166
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	589,463	-	589,463	2,154,339
121	Special Revenue, Police & Fire	1,003,487	-	1,003,487	684,312
130	Special Revenue, Health	1,632,948	15,650	1,648,598	476,375
131	Special Revenue, CUPA	1,091,601	-	1,091,601	797,298
132	Special Revenue, Parking & Business	418,722	-	418,722	487,979
133	Special Advertising & Promotion	3,908,976	-	3,908,976	2,492,157
134	Special Revenue, Upland Oil	19,699,077	-	19,699,077	25,283,691
135	Housing Development	10,035,118	5,660	10,040,778	43,353,026
136	Belmont Shore Parking Meters	942,001	63,888	1,005,889	1,051,233
137	Planning & Building Department	10,073,600	-	10,073,600	6,213,009
149	Special Revenue, Business Assistance	1,119,953	-	1,119,953	1,013,724
150	Community Development Grants	267,458	12,000	279,458	99,163
151	Housing Authority	9,952,588	310,821	10,263,409	13,168,293
180	Special Revenue, Park Development	-	-	-	250,000
181	Gas Tax Street Improvement	17,206,043	-	17,206,043	11,518,296
182	Special Revenue, Transportation	29,096,671	-	29,096,671	33,570,709
201	Capital Projects	15,630,482	8,256,740	23,887,222	25,201,310
202	Assessment District-Capital Projects	1,552,076	688,984	2,241,060	2,381,818
203	Blight Removal	2	-	2	-
221	RDA-Poly High	-	-	-	739,369
222	RDA-West Beach	-	-	-	1,588,749
223	RDA-West Long Beach	-	-	-	15,537,565
224	RDA-Downtown	-	-	-	21,135,143
225	RDA-Project Income	-	-	-	21,648
227	RDA-Los Altos	-	-	-	783,863
228	RDA-Central	-	-	-	16,814,069
230	RDA-North	-	-	-	74,044,174
232	RDA-Housing	-	-	-	22,917,546
270	SA-RD Obligation Retirement FD Operation	117,969,677	39,662,865	157,632,542	-
277	SA-RD Obligation Retirement FD Debt SVC	529,597	32,085,676	32,615,273	-
301	Gas Revenue	10,608,121	655,500	11,263,621	13,955,516
303	Gas Prepaid	3,131	21,844,490	21,847,621	22,696,986
310	Water	48,853,029	3,153,959	52,006,988	53,293,987
311	Sewer	6,625,250	-	6,625,250	10,018,332
320	Airport	45,380,316	29,043,437	74,423,753	88,226,770
330	Refuse/Recycling	18,256,137	3,000	18,259,137	20,966,955
331	SERRF	29,921,910	-	29,921,910	30,215,768
339	SERRF JPA	100,973	11,608,019	11,708,992	11,679,832
340	Towing Operations	1,145,585	4,000	1,149,585	1,159,979
380	Civic Center	7,082,871	180	7,083,051	6,445,583

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2011
(Continued)**

Fund Number	Name of Fund	Pooled September 30, 2012	Non-Pooled September 30, 2012	Total at September 30, 2012	Total at September 30, 2011
385	General Services	\$ 10,612,649	\$ 5,000	\$ 10,617,649	\$ 12,210,815
386	Fleet Services Fund	25,464,235	4,171,296	29,635,531	21,274,665
390	Insurance	36,071,740	61	36,071,801	29,714,032
391	Employee Benefits	76,941,878	-	76,941,878	74,104,335
401	Tidelands Operations	151,150,220	15,061,498	166,211,718	128,209,430
403	Tidelands-Marina	7,809,674	15,600	7,825,274	15,245,678
410	Queen Mary	1,895,657	-	1,895,657	1,644,046
411	Tidelands Operating - Rainbow Harbor Area	6,206,600	4,353,889	10,560,489	9,493,130
420	Tidelands Oil Revenue	74,734,996	-	74,734,996	36,783,276
421	Tidelands Reserve - Subsidence	157,962,126	1,910,158	159,872,284	158,572,534
430	Harbor - Operations	1,258,859,390	35,000	1,258,894,390	956,403,949
431	Harbor - Capital	(730,085,774)	-	(730,085,774)	(403,494,850)
432	Harbor Debt Service	144,278,776	63,808,556	208,087,332	333,198,703
433	Harbor - Clean Air Action Plan	(6,692,258)	-	(6,692,258)	(3,389,104)
440	Expandable Trusts	910,205	-	910,205	943,818
451	ICTF JPA	4,422,306	-	4,422,306	6,420,650
452	Earthquake Assessment Agency Funds	1,018,922	-	1,018,922	1,059,155
453	Other Special Assessment	1,313,554	-	1,313,554	1,328,198
455	Other Agency	3,284,232	1,500	3,285,732	3,366,164
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	53,840	53,840	67,450
470	Agency Special Assessment CFD #5 Long Beach Towne Center	14,714	1,304,772	1,319,486	1,334,072
471	Agency Special Assessment LBBFA Local Agency	-	10,044	10,044	183,576
472	Agency Special Assessment CFD#6 Pike Public Improvements	188	5,619,399	5,619,587	5,808,218
473	Agency Special Assessment - Douglas Park	4,783,180	1,512,914	6,296,094	1,772,778
474	CFD 2007 Belmont 2009 Spcl Tx Bd	83,982	422,283	506,265	402,347
475	AD 2008-1 Toledo Underground Utility 20B	47,814	113,964	161,778	160,555
476	Douglas Park North	36,057	-	36,057	-
600	Debt Service	1,600,600	6,394,380	7,994,980	7,067,923
	Total Cash and Investments	\$ 1,707,592,407*	\$ 252,582,387	\$ 1,960,174,794	\$ 2,030,298,291

* 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 SEPTEMBER 30, 2012
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2011**

	<u>Pooled September 30, 2012</u>	<u>Non-Pooled September 30, 2012</u>	<u>Total at September 30, 2012</u>	<u>Total at September 30, 2011</u>
CASH				
Cash in banks	\$ 194,493,506	\$ 833,336	\$ 195,326,842	\$ 178,377,580
Cash with fiscal agents	-	192,959,470	192,966,536	215,892,726
Total cash	<u>\$ 194,493,506</u>	<u>\$ 193,792,806</u>	<u>\$ 388,293,378</u>	<u>\$ 394,270,306</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 111,962,262	\$ -	\$ 111,962,262	\$ -
U.S. Treasury Notes	426,294,428	-	426,294,428	224,058,258
Federal Farm Credit Bank	153,174,228	-	153,174,228	221,381,456
Federal Home Loan Bank	215,103,233	-	215,103,233	345,110,914
Federal National Mortgage Association (FNMA)	270,041,300	-	270,041,300	232,158,352
FNMA Discounts Notes	44,992,150	-	44,992,150	67,983,438
FFCB Discount Note	8,000,000	-	8,000,000	19,999,425
Federal Home Loan Mortgage Corporation (FHLMC)	181,000,326	-	181,000,326	237,853,351
FHLMC Discount Notes	-	-	-	55,000,000
Federal Home Loan Discount Certificate of Deposit	29,998,983	-	29,998,983	19,989,208
Local Agency Investment Fund	70,162,815	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	-	46,879,422	46,879,422	47,764,487
Special Assessment Bonds	-	1,910,159	1,910,159	1,818,253
Money Market	535,681	-	535,681	704,406
Savers Loan	1,833,495	-	1,833,495	2,110,626
Total investments	<u>\$ 1,513,098,901</u>	<u>\$ 58,789,581</u>	<u>\$ 1,571,888,482</u>	<u>\$ 1,636,027,985</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,707,592,407</u>	<u>\$ 252,582,387</u>	<u>\$ 1,960,174,794</u>	<u>\$ 2,030,298,291</u>