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OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

November 16, 2010

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 March 31, 2010.

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 March 31, 2010.

TIMING CONSIDERATIONS:

This item is not time sensitive.

FISCAL IMPACT:

There is no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

Delia E. Doud for Laura Doud

Laura L. Doud, CPA
CITY AUDITOR

Attachment

Office of the City Auditor

Audit Report Quarterly Audit of Cash & Investments

As of March 31, 2010

November 2010



Audit Staff

City Auditor: Laura L. Doud
Assistant City Auditor: Deborah K. Ellis
Deputy City Auditor: Janet Day
Audit Manager: Patrice Launay
Senior Auditor: Zadie Cannon
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Audit Intern: Yujing Pan

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EXECUTIVE SUMMARY

The Office of the City Auditor has completed the quarterly audit of the cash and investment balances of the City of Long Beach as of March 31, 2010. The City of Long Beach's management is responsible for the schedules of cash and investments. Our responsibility is to verify cash on a quarterly basis and provide a written report to the City Council. As of March 31, 2010, the City's cash and investment portfolio totaled approximately \$1.98 billion.

Based on the results of audit procedures performed as described below, cash and investment balances as recorded on the City's books as of March 31, 2010 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.

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 in the City Treasury on a quarterly basis and providing a written report to the City Council.

This performance audit of the 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 within a pool allows the City to earn a higher rate of return than each fund could receive by itself. The Treasury Bureau invests pooled funds that are not needed for operations. 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.

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, for a period of two years with options for

three one-year extensions, at the discretion of the City Manager. Per the agreement, Chandler actively manages approximately 25 percent of the City's pooled funds as well as provides ongoing oversight of investments, financial markets, regulatory developments, investment strategy reviews and performance management.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to agree 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 and the City's Investment Policy. The scope of this audit was limited to the quarter ending March 31, 2010.

We performed the following procedures in our audit:

- Obtained an understanding of the internal controls surrounding the City's cash and investments.
- Obtained confirmations of all cash held by banks and investments held by the City Treasurer's safekeeping agent and other custodians as of March 31, 2010 and agreed them to the City's general ledger.
- Traced the balance of total investments on the City Treasurer's Investment Holdings Report as of March 31, 2010 to the City's general ledger.
- Analyzed the bank account and investment reconciliations as of March 31, 2010 and agreed them to the City's general ledger. This included testing, on a sample basis, the various adjustments made on the reconciliations.
- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report as of March 31, 2010 to the types of investments authorized for the City in accordance with the City's Investment Policy and California Government Code Section 53601.
- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report as of March 31, 2010 to the portfolio mix limitations imposed by the City's Investment Policy and California Government Code Section 53601 for specific investment types.
- Recomputed and reviewed supporting documentation, on a sample basis, relevant to the purchase, sale and maturity of individual investments to determine compliance with the following provisions of the California Government Code Section 53601, and the City's Investment Policy:
 - Purchase 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 this interest is conducted as part of our fourth quarter cash and investments audit. As such, we did not test accrued interest, which is excluded from the balance of Total Cash and Investments as of March 31, 2010, 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.

We conducted this 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.

RESULTS AND CONCLUSIONS

The City's cash and investment balances as of March 31, 2010 are summarized as follows:

Pooled Cash and Investments	\$ 1,706,947,036
Non-Pooled Cash and Investments	<u>275,895,189</u>
Total Cash and Investments	<u>\$ 1,982,842,225</u>

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.

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books as of March 31, 2010, agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with the California Government Code Section 53601 and the City's Investment Policy, with regards to the audit procedures described in the Audit Objectives, Scope, and Methodology Section.

MANAGEMENT COMMENTS

Management concurs with the result of this audit report.

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT MARCH 31, 2010 WITH COMPARATIVE TOTALS FOR MARCH 31, 2009**

Fund #	Name of Fund	Pooled 3/31/2010	Non-Pooled 3/31/2010	Total at 3/31/2010	Total at 3/31/2009
100	General Fund, General	\$ 61,754,829	\$ 4,154,376	\$ 65,909,205	\$ 79,447,088
103	General Fund, Library	242,863	20,705	263,568	887,444
105	General Fund, Parks and Recreation	3,739,767	1,866,241	5,606,008	5,689,465
110	General Fund, Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	3,549,963	-	3,549,963	3,020,469
121	Special Revenue, Police & Fire	25,441	-	25,441	2,065,387
130	Special Revenue, Health	254,754	12,299	267,053	(1,061,492)
131	Special Revenue, CUPA	955,195	-	955,195	866,031
132	Special Revenue, Parking & Business	708,426	-	708,426	925,331
133	Special Advertising & Promotion	306,004	281	306,285	748,781
134	Special Revenue, Upland Oil	12,444,701	-	12,444,701	7,804,374
135	Housing Development	38,868,695	16,316	38,885,011	44,763,506
136	Belmont Shore Parking Meters	617,357	408,861	1,026,218	802,122
137	Development Services	3,477,498	-	3,477,498	3,502,942
149	Special Revenue, Business Assistance	434,813	-	434,813	1,460,777
150	Community Development Grants	(1,558,491)	15,321	(1,543,170)	1,089,588
151	Housing Authority	11,369,230	104,934	11,474,164	12,385,328
180	Special Revenue, Development Impact Fee	445,705	-	445,705	173,437
181	Gas Tax Street Improvement	2,084,599	-	2,084,599	5,880,987
182	Special Revenue, Transportation	32,015,199	-	32,015,199	41,112,321
201	Capital Projects	16,439,788	15,815,691	32,255,479	35,413,637
202	Assessment District-Capital Projects	138,388	3,164,038	3,302,426	2,607,164
220	RDA-LB Bond Authority	-	-	-	31,555
221	RDA-Poly High	546,325	217,846	764,171	956,982
222	RDA-West Beach	2,067,194	769,862	2,837,056	3,201,786
223	RDA-West Long Beach	22,789,040	3,153,466	25,942,506	24,697,320
224	RDA-Downtown	20,561,232	8,253,556	28,814,788	29,090,997
225	RDA-Project Income	4,383,902	-	4,383,902	2,924,515
227	RDA-Los Altos	628,751	407,967	1,036,718	886,421
228	RDA-Central	9,694,730	7,748,679	17,443,409	20,036,295
230	RDA-North	30,517,961	21,455,333	51,973,294	48,830,463
232	RDA-Housing	22,606	28,507,521	28,530,127	29,982,792
301	Gas Revenue	14,449,106	655,500	15,104,606	5,241,794
303	Gas Prepaid	7,725,342	19,954,304	27,679,646	17,257,218
310	Water	29,502,062	20,000	29,522,062	19,652,602
311	Sewer	4,657,862	3,164,925	7,822,787	3,067,852
320	Airport	30,332,876	56,907,340	87,240,216	31,440,964
330	Refuse/Recycling	26,067,078	3,000	26,070,078	23,843,900
331	SERRF	30,246,686	-	30,246,686	33,083,347
339	SERRF JPA	98,999	11,285,047	11,384,046	11,417,171
340	Towing Operations	366,405	3,700	370,105	(143,308)
380	Civic Center	7,920,590	3,093,391	11,013,981	11,746,859

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT MARCH 31, 2010 WITH COMPARATIVE TOTALS FOR MARCH 31, 2009
(Continued)**

Fund #	Name of Fund	Pooled 3/31/2010	Non-Pooled 3/31/2010	Total at 3/31/2010	Total at 3/31/2009
385	General Services	\$ 7,670,948	\$ 5,000	\$ 7,675,948	\$ 6,674,467
386	Fleet Services Fund	13,879,349	2,888,714	16,768,063	11,067,706
390	Insurance	26,966,168	61	26,966,229	16,485,279
391	Employee Benefits	55,259,206	-	55,259,206	58,524,201
401	Tidelands Operations	55,223,515	13,130,543	68,354,058	58,108,061
403	Tidelands-Marina	13,870,337	15,600	13,885,937	10,118,441
410	Queen Mary	1,741,709	-	1,741,709	3,539,082
411	Tidelands Operating - Rainbow Harbor Area	2,743,835	4,564,868	7,308,703	9,009,608
420	Tidelands Oil Revenue	36,356,079	-	36,356,079	10,330,049
421	Tidelands Reserve - Subsidence	159,330,621	1,680,397	161,011,018	164,644,500
430	Harbor - Operations	569,881,225	35,000	569,916,225	632,706,115
431	Harbor Capital	(127,795,488)	-	(127,795,488)	(78,808,613)
432	Harbor Debt Service	436,390,972	54,136,548	490,527,520	477,471,022
433	Harbor Clean Air Action Plan	4,980,447	-	4,980,447	(2,134,186)
440	Expandable Trusts	1,041,583	-	1,041,583	1,048,305
451	ICTF JPA	8,518,237	-	8,518,237	11,936,977
452	Earthquake Assessment Agency Funds	2,078,419	-	2,078,419	1,806,291
453	Other Special Assessment	1,646,650	-	1,646,650	2,259,207
455	Other Agency	2,950,920	1,500	2,952,420	3,133,651
460	Los Cerritos Wetlands Authority	-	59,326	59,326	42,068
470	Agency Special Assessment CFD #5 LB Towne Center	418,825	1,288,426	1,707,251	1,418,126
471	Agency Special Assessment LBBFA Local Agency	-	676,965	676,965	795,614
472	Agency Special Assessment CFD#6 Pike Public Improvement	42,079	4,435,716	4,477,795	4,502,135
473	Agency Special Assessment - Douglas Park	80,004	1,531,807	1,611,811	3,046,990
474	CFD 2007-2 Belmont Shore 2009	-	264,218	264,218	-
999	Accrued Interest	(6,222,075)	-	(6,222,075)	(9,455,605)
TOTAL CASH AND INVESTMENTS		<u>\$ 1,706,947,036</u>	<u>\$ 275,895,189</u>	<u>\$ 1,982,842,225</u>	<u>\$ 1,974,101,703</u>

* We tested the City's Pooled Investment Fund in aggregate; the City's allocation of Pooled Investments is presented for informational purposes only.

ATTACHMENT II

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY SECURITY TYPE
AT MARCH 31, 2010 WITH COMPARATIVE TOTALS FOR MARCH 31, 2009**

	Pooled 3/31/2010	Non-Pooled 3/31/2010	Total 3/31/2010	Total 3/31/2009
CASH:				
Cash in Banks	\$ 9,718,922	\$ 659,349	\$ 10,378,271	\$ 123,327,291
Cash with Fiscal Agents	-	215,806,963	215,806,963	164,084,995
	<u>\$ 9,718,922</u>	<u>\$ 216,466,312</u>	<u>\$ 226,185,234</u>	<u>\$ 287,412,286</u>
INVESTMENTS:				
U.S. Treasury Bills	\$ 515,788,873	-	\$ 515,788,873	\$ 149,920,060
U.S. Treasury Notes	263,435,946	-	263,435,946	241,488,344
Federal Farm Credit Bank	106,608,450	-	106,608,450	25,660,800
Federal Home Loan Bank	254,848,832	-	254,848,832	196,651,079
Federal National Mortgage Association	239,402,589	-	239,402,589	455,632,224
Federal Home Loan Mortgage Corporation	193,245,564	-	193,245,564	363,070,939
Local Agency Investment Fund (LAIF)	39,105	-	39,105	80,000,000
Guaranteed Rate Managed Account (GRMA)	61,214,914	-	61,214,914	-
Time Certificate	60,000,000	-	60,000,000	-
Money Market	128,248	-	128,248	105,530,720
Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	-	47,748,479	47,748,479	53,535,665
Special Assessment Bonds	-	1,680,398	1,680,398	1,588,492
Municipal Bonds	-	-	-	840,000
Savers Loan	2,515,593	-	2,515,593	2,771,094
Total Investments	<u>\$ 1,697,228,114</u>	<u>\$ 59,428,877</u>	<u>\$ 1,756,656,991</u>	<u>\$ 1,686,689,417</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,706,947,036</u>	<u>\$ 275,895,189</u>	<u>\$ 1,982,842,225</u>	<u>\$ 1,974,101,703</u>