



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

**C-3**

LAURA L. DOUD, CPA  
City Auditor

June 21, 2011

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 December 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 December 31, 2010.

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



**City of Long Beach  
Office of the City Auditor**

**Quarterly Audit of Cash & Investments**

As of December 31, 2010

**June 2011**

**Laura L. Doud, CPA  
City Auditor**

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

**QUARTERLY AUDIT OF CASH & INVESTMENTS  
DECEMBER 31, 2010**



**WINDES & MCCLAUGHRY  
ACCOUNTANCY CORPORATION**

*Certified Public Accountants  
& Consultants*

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## EXECUTIVE SUMMARY

We have conducted a performance audit of the cash and investment balances of the City of Long Beach as of December 31, 2010. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 2010, 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 investments 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 December 31, 2010 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.

### *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.

## BACKGROUND (CONTINUED)

### *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, in addition, 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 December 31, 2010.

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 December 31, 2010 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 December 31, 2010 to the City's general ledger.
- Obtained bank and investment reconciliations at December 31, 2010 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.
- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report (APS2) at December 31, 2010 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.

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

- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report at December 31, 2010 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 meets 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 the year-end cash and investments audit. As such, we did not test accrued interest, which is excluded from the balance of Total Cash and Investments at December 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. 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 properly booked in FAMIS to reflect the cash and investment balances at December 31, 2010. The following summarizes our findings:

- \$3,029,110 - Checks from Union Bank cash concentration account were issued in January 2011 but recorded as December 31, 2010 in FAMIS. This lead to an understatement of cash of several funds in the pooled cash account.

**RESULTS AND CONCLUSIONS (CONTINUED)**

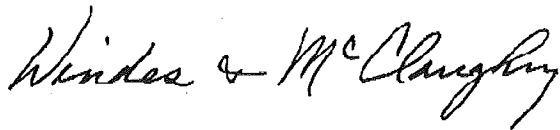
\$2,577,892 - Payments made from cash with fiscal agent accounts during the quarter ended December 31, 2010, were not recorded in FAMIS until noted during the audit. In addition, the reconciliation of the cash with fiscal agent account was not performed until requested by the audit, which was approximately three months after the quarter-end. This lead to an overstatement in the FAMIS cash with fiscal agent account reported in the Airport Fund. Cash with fiscal agent is considered part of non-pooled cash and investments.

\$45,618,592 - Proceeds from the issuance of the 2010 Airport Bond were not promptly recorded in FAMIS. Proceeds were available as of December 1, 2010, but not recorded until April 2011. This lead to an understatement in the FAMIS cash with fiscal agent account reported in the Airport Fund. Cash with fiscal agent is considered part of non-pooled cash and investments.

The City's cash and investment balances as of December 31, 2010, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,709,561,938
Non-Pooled Cash and Investments	<u>309,448,762</u>
Total Cash and Investments	<u>\$ 2,019,010,700</u>

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



Long Beach, California  
June 13, 2011



## MANAGEMENT COMMENTS

\$3,029,110

This report notes an adjustment of \$3,029,110 to the cash concentration account as of December 31, 2010. The payments made from cash concentration account were properly vouchered in January 2011, however the payments were improperly posted as of December 31, 2010, resulting in an understatement of pooled cash in several funds. In FAMIS, the select date determines the voucher payment date and the input month/year is the recorded system date for these cash transactions. The select date is manually entered by the Office of the City Auditor(OCA). The input month/year is automated; however, at month end, a manual entry is sometimes required to change it to the correct period. During two check runs at the beginning of January 2011, the OCA inadvertently missed changing the input month/year to the appropriate date. This critical step was overlooked in error causing the system to post the check runs to December, 2010. The OCA did not detect the error prior to approving the check run, resulting in an understatement of cash as of December 31, 2010. The OCA is updating its procedures to ensure this error does not occur in the future.

\$2,577,892

The Department of Financial Management acknowledges that there is a need to ensure that significant transactions and all bank reconciliations are completed in a timely manner.

\$45,618,592

The Department of Financial Management understands that there is a need to ensure that significant transactions are recorded in a timely manner. In this case the bonds were sold on November 23, 2010 with financial information related to the sale available as of February 15, 2011. While it would have been possible to book a preliminary entry related to the issuance of these bonds before December 31, 2011, the entry would have lacked accuracy and would have required a subsequent correcting entry. In the months following the issuance of the bonds, the Department confirmed that the funds were on deposit with the fiscal agent and verified the accuracy of those amounts.

ATTACHMENT I

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

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled December 31, 2010</b>	<b>Non-Pooled December 31, 2010</b>	<b>Total at December 31, 2010</b>	<b>Total at December 31, 2009</b>
100	General Fund, General	\$ 64,202,330	\$ 4,131,718	\$ 68,334,048	\$ 53,885,107
103	General Fund, Library	( 3,417,622)	21,020	( 3,396,602)	243,917
105	General Fund, Parks and Recreation	( 2,427,577)	2,055,277	( 372,300)	5,922,149
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	927,300	-	927,300	5,966,694
121	Special Revenue, Police & Fire	362,762	-	362,762	49,362
130	Special Revenue, Health	616,400	11,633	628,033	( 32,696)
131	Special Revenue, CUPA	1,574,636	-	1,574,636	1,197,844
132	Special Revenue, Parking & Business	1,244,826	-	1,244,826	1,199,649
133	Special Advertising & Promotion	1,428,100	281	1,428,381	777,156
134	Special Revenue, Upland Oil	14,596,876	-	14,596,876	9,276,118
135	Housing Development	39,222,533	22,656	39,245,189	43,238,667
136	Belmont Shore Parking Meters	884,308	51,009	935,317	831,743
137	Planning & Building Department	4,982,633	-	4,982,633	3,645,986
149	Special Revenue, Business Assistance	870,960	-	870,960	551,249
150	Community Development Grants	( 1,130,825)	13,403	( 1,117,422)	( 702,673)
151	Housing Authority	13,347,130	11,270	13,358,400	16,787,295
180	Special Revenue, Park Development	972,235	-	972,235	156,719
181	Gas Tax Street Improvement	8,939,440	-	8,939,440	5,202,122
182	Special Revenue, Transportation	32,162,784	-	32,162,784	31,923,219
201	Capital Projects	13,717,060	10,506,815	24,223,875	32,702,104
202	Assessment District-Capital Projects	43,030	2,497,211	2,540,241	4,795,627
221	RDA-Poly High	601,227	219,822	821,049	1,004,865
222	RDA-West Beach	2,192,332	782,666	2,974,998	3,145,101
223	RDA-West Long Beach	21,385,022	3,157,701	24,542,723	25,885,825
224	RDA-Downtown	16,966,718	8,264,304	25,231,022	29,565,348
225	RDA-Project Income	5,375,556	-	5,375,556	5,091,391
227	RDA-Los Altos	594,584	407,967	1,002,551	996,614
228	RDA-Central	14,242,858	6,233,341	20,476,199	21,380,963
230	RDA-North	40,252,928	51,055,555	91,308,483	51,134,394
232	RDA-Housing	22,312	23,116,776	23,139,088	29,266,936
301	Gas Revenue	12,081,545	655,500	12,737,045	10,124,335
303	Gas Prepaid	4,970	7,208,729	7,213,699	27,693,761
310	Water	45,054,280	3,113,601	48,167,881	27,761,738
311	Sewer	8,933,647	964,925	9,898,572	7,570,593
320	Airport	34,382,673	80,737,829	115,120,502	31,110,735
330	Refuse/Recycling	23,349,319	3,000	23,352,319	24,813,253
331	SERRF	24,974,715	-	24,974,715	29,353,355
339	SERRF JPA	120,210	11,446,324	11,566,534	11,420,685

ATTACHMENT I

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

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled December 31, 2010</b>	<b>Non-Pooled December 31, 2010</b>	<b>Total at December 31, 2010</b>	<b>Total at December 31, 2009</b>
340	Towing Operations	\$ 362,703	\$ 4,000	\$ 366,703	\$ 785,567
380	Civic Center	8,068,558	180	8,068,738	11,012,052
385	General Services	9,245,181	5,000	9,250,181	7,585,498
386	Fleet Services Fund	14,932,240	2,850,194	17,782,434	15,989,896
390	Insurance	26,572,023	61	26,572,084	25,741,940
391	Employee Benefits	51,592,802	-	51,592,802	46,352,580
401	Tidelands Operations	73,898,986	13,073,632	86,972,618	65,920,340
403	Tidelands-Marina	16,408,861	15,600	16,424,461	11,714,403
410	Queen Mary	1,645,509	-	1,645,509	1,928,905
411	Tidelands Operating				
	- Rainbow Harbor Area	4,570,762	4,310,809	8,881,571	6,869,662
420	Tidelands Oil Revenue	57,992,404	-	57,992,404	40,099,373
421	Tidelands Reserve - Subsidence	155,092,084	1,749,325	156,841,409	160,746,859
430	Harbor - Operations	714,627,274	35,000	714,662,274	532,000,042
431	Harbor - Capital	( 261,614,443)	-	( 261,614,443)	( 70,982,608)
432	Harbor Debt Service	376,421,982	63,503,717	439,925,699	469,028,504
433	Harbor - Clean Air Action Plan	( 1,119,875)	-	( 1,119,875)	8,872,435
440	Expandable Trusts	982,687	-	982,687	1,052,866
451	ICTF JPA	6,372,473	-	6,372,473	8,505,371
452	Earthquake Assessment Agency Funds	2,426,710	-	2,426,710	2,016,289
453	Other Special Assessment	1,313,091	-	1,313,091	1,636,488
455	Other Agency	3,242,211	1,500	3,243,711	2,939,728
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	60,034	60,034	63,866
470	Agency Special Assessment CFD #5 Long Beach Towne Center	45,019	1,308,705	1,353,724	1,364,026
471	Agency Special Assessment LBBFA Local Agency	-	181,657	181,657	675,100
472	Agency Special Assessment CFD#6 Pike Public Improvements	198,258	3,571,596	3,769,854	3,428,127
473	Agency Special Assessment - Douglas Park	622,240	1,509,185	2,131,425	2,896,403
474	CFD 2007 Belmont 2004 Spcl Tx Bd	23,294	464,271	487,565	264,218
475	AD 2008-1 Toledo Underground Utility 20B	81,515	113,963	195,478	-
999	Accrued Interest Receivable	( 7,096,826)	-	( 7,096,826)	( 5,199,568)
	<b>Total Cash and Investments</b>	<b>\$ 1,709,561,938*</b>	<b>\$ 309,448,762</b>	<b>\$ 2,019,010,700</b>	<b>\$ 1,917,245,612</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 DECEMBER 31, 2010  
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2009**

	<u>Pooled December 31, 2010</u>	<u>Non-Pooled December 31, 2010</u>	<u>Total at December 31, 2010</u>	<u>Total at December 31, 2009</u>
<b>CASH</b>				
Cash in banks	\$ 97,852,413	\$ 572,858	\$ 98,425,271	\$ 18,322,818
Cash with fiscal agents	-	265,559,161	265,559,161	160,267,217
<b>Total cash</b>	<u>\$ 97,852,413</u>	<u>\$ 266,132,019</u>	<u>\$ 363,984,432</u>	<u>\$ 178,590,035</u>
<b>INVESTMENTS</b>				
U.S. Treasury Bills	\$ 127,438,258	\$ -	\$ 127,438,258	\$ 612,422,602
U.S. Treasury Notes	273,985,469	-	273,985,469	216,352,111
Federal Farm Credit Bank	192,238,466	-	192,238,466	81,359,680
Federal Home Loan Bank	313,108,194	-	313,108,194	188,545,594
Federal National Mortgage Association (FNMA)	297,187,833	-	297,187,833	148,490,987
FNMA Discounts Notes	35,979,667	-	35,979,667	44,977,971
Federal Home Loan Mortgage Corporation (FHLMC)	299,260,158	-	299,260,158	149,734,257
FHLMC Discount Notes	19,977,153	-	19,977,153	30,686,854
Certificate of Deposit	-	10,000,000	10,000,000	10,002,529
Local Agency Investment Fund (LAIF)	50,113,341	-	50,113,341	22,000,120
Guaranteed Investment Contracts (GIC)	-	31,567,418	31,567,418	55,620,651
Special Assessment Bonds	-	1,749,325	1,749,325	1,657,420
Medium Term Notes (MTN)	-	-	-	48,544,523
Money Market	107,334	-	107,334	464,694
Savers Loan	2,313,638	-	2,313,638	2,604,092
Guaranteed Rate Management Account (GRMA)	14	-	14	65,191,492
GRMA Compensating Balance Account	-	-	-	60,000,000
<b>Total investments</b>	<u>1,611,709,525</u>	<u>43,316,743</u>	<u>1,655,026,268</u>	<u>1,738,655,577</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<u>\$ 1,709,561,938</u>	<u>\$ 309,448,762</u>	<u>\$ 2,019,010,700</u>	<u>\$ 1,917,245,612</u>