



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-5

LAURA L. DOUD, CPA
City Auditor

July 9, 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 December 31, 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 December 31, 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
DECEMBER 31, 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 December 31, 2012. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 2012, the City's cash and investments portfolio totaled approximately \$1.8 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 and 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 December 31, 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 December 31, 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 December 31, 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 December 31, 2012 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 31, 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 December 31, 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 December 31, 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.)

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 December 31, 2012, 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 December 31, 2012. 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:

- \$23,962,925 - Wire transfer from Union Bank cash concentration account was initiated in January 2013 but recorded as November 2012 in FAMIS. This led to an understatement of cash of Harbor Capital Fund (Fund 431) in the pooled cash account.
- \$1,105,368 - Wire transfer to Union Bank cash concentration account was completed in December 2012 but recorded as January 2013 in FAMIS. This led to an understatement of cash in pooled cash for the following funds: Fleet Services Fund (Fund 386) of \$38,135, Development Services Fund (Fund 137) of \$232,233, and Tidelands Operating Fund (Fund 401) of \$835,000.
- \$1,159,949 - Interest payment made from cash with fiscal agent account during the quarter ended December 31, 2012, was not recorded in FAMIS. This led to an overstatement in the FAMIS cash with fiscal agent account reported in the Airport Fund (Fund 320). Cash with fiscal agent is considered part of the non-pooled cash and investments.
- \$4,289,709 - Payments made from cash with fiscal agent account during the quarter ended December 31, 2012, were not recorded in FAMIS. This led to an overstatement in the FAMIS cash with fiscal agent account reported in the Debt Service Fund (Fund 600). Cash with fiscal agent is considered part of the non-pooled cash and investments.
- \$2,734,000 - A transfer to an escrow account from cash with fiscal agent account during the quarter ended December 31, 2012, was not recorded in FAMIS. This led to an overstatement in the FAMIS cash with fiscal agent account reported in the Fleet Services Fund (Fund 386). Cash with fiscal agent is considered part of the non-pooled cash and investments.

The City’s cash and investment balances as of December 31, 2012, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,539,596,645
Non-Pooled Cash and Investments	<u>218,040,437</u>
Total Cash and Investments	<u>\$ 1,757,637,082</u>

RESULTS AND CONCLUSIONS (CONTINUED)

Based on the results of audit procedures performed and adjustments made, cash and investment balances as recorded on the City's books at December 31, 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

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 December 31, 2012, 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.

A handwritten signature in cursive script that reads "Winder & McCaughey".

Long Beach, California
June 14, 2013

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2012
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011**

Fund Number	Name of Fund	Pooled December 31, 2012	Non-Pooled December 31, 2012	Total at December 31, 2012	Total at December 31, 2011
100	General Fund, General	\$ 80,674,490	\$ 320,290	\$ 80,994,780	\$ 48,794,916
103	General Fund, Library	(2,632,226)	21,020	(2,611,206)	264,769
105	General Fund, Parks and Recreation	(1,712,764)	34,865	(1,677,899)	3,513,721
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	710,079	-	710,079	3,485,501
121	Special Revenue, Police & Fire	749,132	-	749,132	758,899
130	Special Revenue, Health	341,626	9,606	351,232	2,435,444
131	Special Revenue, CUPA	2,127,475	-	2,127,475	1,893,605
132	Special Revenue, Parking & Business	1,383,253	-	1,383,253	1,340,637
133	Special Advertising & Promotion	4,398,845	-	4,398,845	2,941,897
134	Special Revenue, Upland Oil	12,391,124	-	12,391,124	29,307,967
135	Housing Development	12,136,368	7,000	12,143,368	53,710,567
136	Belmont Shore Parking Meters	981,261	65,272	1,046,533	1,117,618
137	Planning & Building Department	13,642,613	-	13,642,613	6,408,885
149	Special Revenue, Business Assistance	1,242,805	-	1,242,805	959,765
150	Community Development Grants	467,599	12,026	479,625	833,186
151	Housing Authority	9,396,620	32,436	9,429,056	11,854,157
180	Special Revenue, Park Development	-	-	-	250,151
181	Gas Tax Street Improvement	17,260,903	-	17,260,903	12,470,719
182	Special Revenue, Transportation	28,920,006	-	28,920,006	35,400,117
201	Capital Projects	23,251,226	8,254,946	31,506,172	24,314,483
202	Assessment District-Capital Projects	1,550,141	689,011	2,239,152	2,259,801
203	Blight Removal	2	-	2	2
221	RDA-Poly High	-	-	-	783,955
222	RDA-West Beach	-	-	-	2,077,055
223	RDA-West Long Beach	-	-	-	17,191,576
224	RDA-Downtown	-	-	-	20,426,827
225	RDA-Project Income	-	-	-	980,008
227	RDA-Los Altos	-	-	-	962,971
228	RDA-Central	-	-	-	19,660,709
230	RDA-North	-	-	-	83,143,652
232	RDA-Housing	-	-	-	22,917,502
270	SA-RD Obligation Retirement FD Operation	73,985,973	39,653,346	113,639,319	-
277	SA-RD Obligation Retirement FD Debt SVC	529,603	32,089,620	32,619,223	-
301	Gas Revenue	7,263,413	655,500	7,918,913	11,827,926
303	Gas Prepaid	293,093	6,063,979	6,357,072	6,990,575
310	Water	48,672,031	3,158,053	51,830,084	50,768,098
311	Sewer	6,219,895	-	6,219,895	9,348,564
320	Airport	47,757,574	24,684,995	72,442,569	85,985,598
330	Refuse/Recycling	18,307,004	3,000	18,310,004	22,775,379
331	SERRF	25,499,228	-	25,499,228	23,736,321
339	SERRF JPA	100,914	11,679,967	11,780,881	11,661,303
340	Towing Operations	1,124,204	4,000	1,128,204	1,836,564
380	Civic Center	8,209,629	180	8,209,809	7,688,160

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2012
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011
(Continued)**

Fund Number	Name of Fund	Pooled December 31, 2012	Non-Pooled December 31, 2012	Total at December 31, 2012	Total at December 31, 2011
385	General Services	\$ 9,968,551	\$ 5,000	\$ 9,973,551	\$ 6,197,809
386	Fleet Services Fund	27,076,571	62,835	27,139,406	24,814,846
390	Insurance	34,352,919	61	34,352,980	29,281,018
391	Employee Benefits	68,773,148	-	68,773,148	62,518,832
401	Tidelands Operations	162,457,257	12,373,255	174,830,512	133,394,173
403	Tidelands-Marina	10,206,105	15,600	10,221,705	13,929,599
410	Queen Mary	1,984,660	-	1,984,660	1,779,741
411	Tidelands Operating – Rainbow Harbor Area	5,798,912	4,359,880	10,158,792	8,418,760
420	Tidelands Oil Revenue	42,153,512	-	42,153,512	62,633,817
421	Tidelands Reserve - Subsidence	157,775,511	1,933,134	159,708,645	158,287,320
430	Harbor - Operations	1,308,694,786	35,000	1,308,729,786	1,031,257,125
431	Harbor - Capital	(892,320,322)	-	(892,320,322)	(477,905,944)
432	Harbor Debt Service	143,340,327	63,755,314	207,095,641	298,127,389
433	Harbor - Clean Air Action Plan	(7,559,242)	-	(7,559,242)	(4,126,457)
440	Expandable Trusts	925,559	-	925,559	956,683
451	ICTF JPA	4,347,724	-	4,347,724	10,385,978
452	Earthquake Assessment Agency Funds	1,174,625	-	1,174,625	1,245,868
453	Other Special Assessment	130,474	-	130,474	1,335,542
455	Other Agency	3,032,656	1,500	3,034,156	3,223,896
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	65,597	65,597	72,404
470	Agency Special Assessment CFD #5 Long Beach Towne Center	12,287	1,306,544	1,318,831	1,322,027
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	183,354
472	Agency Special Assessment CFD#6 Pike Public Improvements	151,390	3,246,940	3,398,330	3,781,955
473	Agency Special Assessment – Douglas Park	5,073,726	1,528,325	6,602,051	2,181,807
474	CFD 2007 Belmont 2004 Spcl Tx Bd	106,517	264,233	370,750	424,121
475	AD 2008-1 Toledo Underground Utility 20B	84,128	113,964	198,092	201,623
476	Douglas Park North	52,537	-	52,537	16,937
600	Debt Service	1,831,804	1,524,131	3,355,935	6,627,901
999	Accrued Interest Receivable	(4,272,616)	-	(4,272,616)	(6,212,731)
	Total Cash and Investments	\$ 1,539,596,645*	\$ 218,040,437	\$ 1,757,637,082	\$ 2,028,434,943

* 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, 2012
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2011**

	<u>Pooled December 31, 2012</u>	<u>Non-Pooled December 31, 2012</u>	<u>Total at December 31, 2012</u>	<u>Total at December 31, 2011</u>
CASH				
Cash in banks	\$ 204,194,953	\$ 550,272	\$ 204,745,225	\$ 270,574,503
Cash with fiscal agents	<u>-</u>	<u>174,188,755</u>	<u>174,188,755</u>	<u>205,105,895</u>
Total cash	<u>\$ 204,194,953</u>	<u>\$ 174,739,027</u>	<u>\$ 378,933,980</u>	<u>\$ 475,680,398</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 91,968,264	-	\$ 91,968,264	\$ 19,997,111
U.S. Treasury Notes	400,761,680	-	400,761,680	267,290,355
Federal Farm Credit Bank	120,265,606	-	120,265,606	201,456,801
Federal Home Loan Bank	208,766,652	-	208,766,652	338,837,925
Federal National Mortgage Association (FNMA)	241,076,445	-	241,076,445	292,069,799
FNMA Discounts Notes	14,994,688	-	14,994,688	52,963,708
FFCB Discount Note	-	-	-	12,990,766
Federal Home Loan Mortgage Corporation (FHLMC)	199,512,387	-	199,512,387	266,682,827
FHLMC Discount Notes	-	-	-	34,997,239
Federal Home Loan Discount	-	-	-	19,985,814
Certificate of Deposit	-	\$ 10,000,000	10,000,000	10,000,000
Local Agency Investment Fund	56,161,799	-	56,161,799	57,266
Guaranteed Investment Contracts	-	31,368,275	31,368,275	31,368,275
Special Assessment Bonds	-	1,933,135	1,933,135	1,841,230
Money Market	131,007	-	131,007	173,871
Savers Loan	<u>1,763,164</u>	<u>-</u>	<u>1,763,164</u>	<u>2,041,558</u>
Total investments	<u>\$ 1,335,401,692</u>	<u>\$ 43,301,410</u>	<u>\$ 1,378,703,102</u>	<u>\$ 1,552,754,545</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,539,596,645</u>	<u>\$ 218,040,437</u>	<u>\$ 1,757,637,082</u>	<u>\$ 2,028,434,943</u>