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OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

August 23, 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 March 31, 2011.

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, 2011.

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
MARCH 31, 2011**



**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
MARCH 31, 2011**

TABLE OF CONTENTS

Executive Summary	1
Background	1-2
Audit Objectives, Scope, and Methodology	2-3
Results and Conclusions	3-4
Management Comments	5
Attachment I: Pooled and Non-Pooled Cash and Investment Balances By Fund	6-7
Attachment II: Pooled and Non-Pooled Cash and Investment Balances By Security Type	8



EXECUTIVE SUMMARY

We have conducted a performance audit of the cash and investment balances of the City of Long Beach (the City) as of March 31, 2011. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 2011, the City's cash and investments portfolio totaled approximately \$2.1 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 March 31, 2011 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, 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 March 31, 2011.

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 March 31, 2011 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 March 31, 2011 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 2011 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 March 31, 2011 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 at March 31, 2011 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 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 March 31, 2011, 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 March 31, 2011. The following summarizes our findings:

\$ 20,000,000	In connection with the renewal of a certificate of deposit, the City made an error in posting \$20 million to the RDA North (Fund RD230). The error was noted and corrected by the City in April 2011. This led to an overstatement of \$20 million in the FAMIS cash with fiscal agent account in the RDA North Fund at March 31, 2011. Cash with fiscal agent is considered part of non-pooled cash and investments.
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RESULTS AND CONCLUSIONS (CONTINUED)

\$ 853,485 The City received incoming wire transfers of \$572,010 and \$281,475 on March 14 and March 31, 2011, respectively. Both transfers were not recorded in FAMIS as of March 31, 2011. This lead to an understatement in the FAMIS cash with fiscal agent accounts of \$572,010 in the Fleet Service Fund (IS386) and \$281,475 in the General Fund, Parks and Recreation Fund (GP 105). Cash with fiscal agents is considered part of non-pooled cash and investments.

The City's cash and investment balances as of March 31, 2011, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,787,274,703
Non-Pooled Cash and Investments	<u>299,775,071</u>
Total Cash and Investments	<u>\$ 2,087,049,774</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at March 31, 2011, 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
August 15, 2011

MANAGEMENT COMMENTS

- 1) \$20,000,000 – The overstatement in RDA is due to a data input error in which the transaction inadvertently increased cash with fiscal agent instead of decreasing it. The error was identified and corrected after March month end.
- 2) \$572,010 – This is an interest payment of the 1998B Fleet service bonds paid and recorded in March and due to bond holders on April 1st. The City remitted payment to cash with fiscal agent for disbursement to bond holders in March in accordance with the bond indenture. The City believes it is not cost effective to record the cash being wired into the cash with fiscal agent account in March and then turnaround a few days later and record the expense and/or the reduction of the liability in April. The City records debt service payments directly to the appropriate account eliminating multiple entries for the same transaction.
- 3) \$281,475 – General fund, Skylinks cash with fiscal agent account is offset by the collection held in trust account since the City, on behalf of American Golf, holds cash in this account. The initial wire was inadvertently recorded in collection held in trust, instead of cash with fiscal agent. This was identified and corrected in April after March month end.

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2011
WITH COMPARATIVE TOTALS FOR MARCH 31, 2010**

Fund Number	Name of Fund	Pooled March 31, 2011	Non-Pooled March 31, 2011	Total at March 31, 2011	Total at March 31, 2010
100	General Fund, General	\$ 89,379,167	\$ 4,202,673	\$ 93,581,840	\$ 65,909,205
103	General Fund, Library	1,617,307	21,020	1,638,327	263,568
105	General Fund, Parks and Recreation	3,043,942	2,464,569	5,508,511	5,606,008
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	828,231	-	828,231	3,549,963
121	Special Revenue, Police & Fire	517,739	-	517,739	25,441
130	Special Revenue, Health	1,135,430	11,311	1,146,741	267,053
131	Special Revenue, CUPA	1,403,031	-	1,403,031	955,195
132	Special Revenue, Parking & Business	505,150	-	505,150	708,426
133	Special Advertising & Promotion	1,506,348	281	1,506,629	306,285
134	Special Revenue, Upland Oil	18,256,786	-	18,256,786	12,444,701
135	Housing Development	41,526,089	11,580	41,537,669	38,885,011
136	Belmont Shore Parking Meters	962,005	52,524	1,014,529	1,026,218
137	Planning & Building Department	4,436,681	-	4,436,681	3,477,498
149	Special Revenue, Business Assistance	945,770	-	945,770	434,813
150	Community Development Grants	182,866	16,041	198,907	(1,543,170)
151	Housing Authority	13,430,572	12,080	13,442,652	11,474,164
180	Special Revenue, Park Development	1,190,696	-	1,190,696	445,705
181	Gas Tax Street Improvement	10,515,653	-	10,515,653	2,084,599
182	Special Revenue, Transportation	33,084,550	-	33,084,550	32,015,199
201	Capital Projects	17,178,378	10,230,943	27,409,321	32,255,479
202	Assessment District-Capital Projects (76,668)	2,497,211	2,420,543	3,302,426
203	Blight Removal	61,780,134	11,489,640	73,269,774	-
221	RDA-Poly High	272,599	218,308	490,907	764,171
222	RDA-West Beach	1,276,768	783,165	2,059,933	2,837,056
223	RDA-West Long Beach	3,285,019	3,158,494	6,443,513	25,942,506
224	RDA-Downtown	4,571,633	8,201,786	12,773,419	28,814,788
225	RDA-Project Income	22,542	-	22,542	4,383,902
227	RDA-Los Altos	360,934	407,967	768,901	1,036,718
228	RDA-Central	3,604,180	5,231,011	8,835,191	17,443,409
230	RDA-North	8,926,965	24,227,846	33,154,811	51,973,294
232	RDA-Housing	21,806	22,800,629	22,822,435	28,530,127
301	Gas Revenue	15,305,660	655,500	15,961,160	15,104,606
303	Gas Prepaid	4,978	20,472,750	20,477,728	27,679,646
310	Water	44,972,285	3,113,601	48,085,886	29,522,062
311	Sewer	8,829,643	-	8,829,643	7,822,787
320	Airport	33,815,396	73,707,897	107,523,293	87,240,216
330	Refuse/Recycling	23,595,540	3,000	23,598,540	26,070,078
331	SERRF	24,943,238	-	24,943,238	30,246,686
339	SERRF JPA	120,385	11,447,409	11,567,794	11,384,046
340	Towing Operations	869,020	4,000	873,020	370,105
380	Civic Center	7,046,775	180	7,046,955	11,013,981
385	General Services	10,581,139	5,000	10,586,139	7,675,948

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2011
WITH COMPARATIVE TOTALS FOR MARCH 31, 2010
(Continued)**

Fund Number	Name of Fund	Pooled March 31, 2011	Non-Pooled March 31, 2011	Total at March 31, 2011	Total at March 31, 2010
386	Fleet Services Fund	\$ 17,606,714	\$ 3,423,051	\$ 21,029,765	\$ 16,768,063
390	Insurance	29,718,771	61	29,718,832	26,966,229
391	Employee Benefits	62,278,868	-	62,278,868	55,259,206
401	Tidelands Operations	86,980,821	13,008,462	99,989,283	68,354,058
403	Tidelands-Marina	17,722,100	15,600	17,737,700	13,885,937
410	Queen Mary	1,660,114	-	1,660,114	1,741,709
411	Tidelands Operating – Rainbow Harbor Area	4,382,098	4,309,438	8,691,536	7,308,703
420	Tidelands Oil Revenue	57,982,758	-	57,982,758	36,356,079
421	Tidelands Reserve - Subsidence	155,318,462	1,772,301	157,090,763	161,011,018
430	Harbor - Operations	779,976,791	35,000	780,011,791	569,916,225
431	Harbor - Capital	(308,387,746)	-	(308,387,746)	(127,795,488)
432	Harbor Debt Service	372,373,682	63,712,488	436,086,170	490,527,520
433	Harbor - Clean Air Action Plan	(2,124,792)	-	(2,124,792)	4,980,447
440	Expandable Trusts	991,715	-	991,715	1,041,583
451	ICTF JPA	6,382,195	-	6,382,195	8,518,237
452	Earthquake Assessment Agency Funds	2,362,486	-	2,362,486	2,078,419
453	Other Special Assessment	1,420,165	-	1,420,165	1,646,650
455	Other Agency	3,363,132	1,500	3,364,632	2,952,420
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	45,153	45,153	59,326
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	59,102	1,310,012	1,369,114	1,707,251
471	Agency Special Assessment LBBFA Local Agency	-	181,717	181,717	676,965
472	Agency Special Assessment CFD#6 Pike Public Improvements	220	4,425,938	4,426,158	4,477,795
473	Agency Special Assessment – Douglas Park	257,278	1,507,700	1,764,978	1,611,811
474	CFD 2007 Belmont 2004 Spcl Tx Bd	34,394	464,271	498,665	264,218
475	AD 2008-1 Toledo Underground Utility 20B	70,828	113,963	184,791	-
999	Accrued Interest Receivable	(7,931,815)	-	(7,931,815)	(6,222,075)
	Total Cash and Investments	\$ 1,787,274,703*	\$ 299,775,071	\$ 2,087,049,774	\$ 1,982,842,225

* 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 MARCH 31, 2011 WITH COMPARATIVE TOTALS FOR MARCH 31, 2010

Fund Number	Name of Fund	Pooled March 31, 2011	Non-Pooled March 31, 2011	Total at March 31, 2011	Total at March 31, 2010
CASH					
	Cash in banks	\$ 157,040,749	\$ 563,053	\$ 157,603,802	\$ 10,378,271
	Cash with fiscal agents	-	242,621,413	242,621,413	215,806,963
	Total cash	<u>\$ 157,040,749</u>	<u>\$ 243,184,466</u>	<u>\$ 400,225,215</u>	<u>\$ 226,185,234</u>
INVESTMENTS					
	U.S. Treasury Bills	\$ 84,990,247	\$ -	\$ 84,990,247	\$ 515,788,873
	U.S. Treasury Notes	335,584,260	-	335,584,260	263,435,946
	Federal Farm Credit Bank	188,591,875	-	188,591,875	106,608,450
	Federal Home Loan Bank	343,950,584	-	343,950,584	254,848,832
	Federal National Mortgage Association (FNMA)	270,033,606	-	270,033,606	239,402,589
	FNMA Discounts Notes	19,995,333	-	19,995,333	-
	Federal Home Loan Mortgage Corporation (FHLMC)	269,006,272	-	269,006,272	193,245,564
	FHLMC Discount Notes	19,982,894	-	19,982,894	-
	Federal Home Loan Discount	24,999,819	-	24,999,819	-
	Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
	Local Agency Investment Fund (LAIF)	70,170,901	-	70,170,901	39,105
	Guaranteed Investment Contracts (GIC)	-	44,818,304	44,818,304	47,748,479
	Special Assessment Bonds	-	1,772,301	1,772,301	1,680,398
	Money Market	682,310	-	682,310	128,248
	Savers Loan	2,245,853	-	2,245,853	2,515,593
	Guaranteed Rate Management Account (GRMA)	-	-	-	61,214,914
	GRMA Compensating Balance Account	-	-	-	60,000,000
	Total investments	<u>\$ 1,630,233,954</u>	<u>\$ 56,590,605</u>	<u>\$ 1,686,824,559</u>	<u>\$ 1,756,656,991</u>
TOTAL CASH AND INVESTMENTS		<u>\$ 1,787,274,703</u>	<u>\$ 299,775,071</u>	<u>\$ 2,087,049,774</u>	<u>\$ 1,982,842,225</u>