



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

**C-3**

LAURA L. DOUD, CPA  
City Auditor

May 22, 2012

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, 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 September 30, 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  
SEPTEMBER 30, 2011**



**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, 2011. The City of Long Beach's management is responsible for the cash and investments balances. As of September 30, 2011, 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, 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 September 30, 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 September 30, 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 September 30, 2011 to the City's general ledger.
- Obtained bank and investment reconciliations at September 30, 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 September 30, 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 (APS2) at September 30, 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.)
- Recalculated accrued interest (in aggregate) to determine if accrued interest for investments held at September 30, 2011 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**

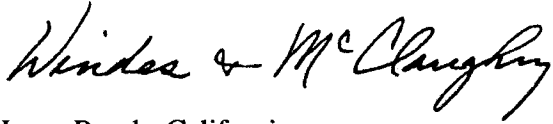
The City's cash and investment balances as of September 30, 2011 are summarized as follows:

Pooled Cash and Investments	\$ 1,754,154,106
Non-Pooled Cash and Investments	<u>276,144,185</u>
Total Cash and Investments	<u>\$ 2,030,298,291</u>

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

**MANAGEMENT COMMENTS**

Management agrees with the results and conclusion.



Long Beach, California  
May 3, 2012

**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT SEPTEMBER 30, 2011  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2010**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled September 30, 2011</b>	<b>Non-Pooled September 30, 2011</b>	<b>Total at September 30, 2011</b>	<b>Total at September 30, 2010</b>
100	General Fund, General	\$ 35,896,359	\$ 338,799	\$ 36,235,158	\$ 50,025,217
103	General Fund, Library	83,838	21,020	104,858	56,442
105	General Fund, Parks and Recreation	2,599,301	34,865	2,634,166	4,787,778
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,154,339	-	2,154,339	1,677,911
121	Special Revenue, Police & Fire	684,312	-	684,312	355,080
130	Special Revenue, Health	460,725	15,650	476,375	830,898
131	Special Revenue, CUPA	797,298	-	797,298	438,734
132	Special Revenue, Parking & Business	487,979	-	487,979	289,652
133	Special Advertising & Promotion	2,491,876	281	2,492,157	1,003,252
134	Special Revenue, Upland Oil	25,283,691	-	25,283,691	11,588,182
135	Housing Development	43,333,661	19,365	43,353,026	31,972,815
136	Belmont Shore Parking Meters	993,942	57,291	1,051,233	826,502
137	Planning & Building Department	6,213,009	-	6,213,009	5,070,707
149	Special Revenue, Business Assistance	1,013,724	-	1,013,724	821,585
150	Community Development Grants	87,163	12,000	99,163	11,221
151	Housing Authority	13,057,070	111,223	13,168,293	12,715,775
180	Special Revenue, Park Development	250,000	-	250,000	941,466
181	Gas Tax Street Improvement	11,518,296	-	11,518,296	4,799,062
182	Special Revenue, Transportation	33,570,709	-	33,570,709	32,817,849
201	Capital Projects	16,964,303	8,237,007	25,201,310	27,399,181
202	Assessment District-Capital Projects	1,524,339	857,479	2,381,818	3,197,202
221	RDA-Poly High	519,955	219,414	739,369	615,824
222	RDA-West Beach	797,230	791,519	1,588,749	2,418,745
223	RDA-West Long Beach	12,368,169	3,169,396	15,537,565	22,095,624
224	RDA-Downtown	12,874,269	8,260,874	21,135,143	19,077,019
225	RDA-Project Income	21,648	-	21,648	4,401,188
227	RDA-Los Altos	375,896	407,967	783,863	745,608
228	RDA-Central	12,663,597	4,150,472	16,814,069	13,465,412
230	RDA-North	42,165,904	31,878,270	74,044,174	76,650,542
232	RDA-Housing	22,232	22,895,314	22,917,546	27,286,203
301	Gas Revenue	13,300,016	655,500	13,955,516	15,671,935
303	Gas Prepaid	11,913	22,685,073	22,696,986	23,212,589
310	Water	50,154,408	3,139,579	53,293,987	43,886,226
311	Sewer	10,018,332	-	10,018,332	8,139,522
320	Airport	35,933,043	52,293,727	88,226,770	82,142,137
330	Refuse/Recycling	20,963,955	3,000	20,966,955	23,725,247
331	SERRF	30,215,768	-	30,215,768	31,536,148
339	SERRF JPA	128,091	11,551,741	11,679,832	11,543,298
340	Towing Operations	1,155,979	4,000	1,159,979	572,167
380	Civic Center	6,445,403	180	6,445,583	6,874,866
385	General Services	12,205,815	5,000	12,210,815	9,686,846



**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT SEPTEMBER 30, 2011  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2010  
(Continued)**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled September 30, 2011</b>	<b>Non-Pooled September 30, 2011</b>	<b>Total at September 30, 2011</b>	<b>Total at September 30, 2010</b>
386	Fleet Services Fund	\$ 18,398,539	\$ 2,876,126	\$ 21,274,665	\$ 17,040,588
390	Insurance	29,713,971	61	29,714,032	26,846,765
391	Employee Benefits	74,104,335	-	74,104,335	66,465,625
401	Tidelands Operations	112,104,611	16,104,819	128,209,430	76,772,137
403	Tidelands-Marina	15,230,078	15,600	15,245,678	14,234,252
410	Queen Mary	1,644,046	-	1,644,046	1,610,420
411	Tidelands Operating - Rainbow Harbor Area	5,130,822	4,362,308	9,493,130	8,345,510
420	Tidelands Oil Revenue	36,783,276	-	36,783,276	36,617,859
421	Tidelands Reserve - Subsidence	156,754,281	1,818,253	158,572,534	157,213,845
430	Harbor - Operations	956,368,949	35,000	956,403,949	633,191,548
431	Harbor - Capital	( 403,494,850)	-	( 403,494,850)	( 225,619,763)
432	Harbor Debt Service	269,339,150	63,859,553	333,198,703	471,293,200
433	Harbor - Clean Air Action Plan	( 3,389,104)	-	( 3,389,104)	141,524
440	Expandable Trusts	943,818	-	943,818	971,904
451	ICTF JPA	6,420,650	-	6,420,650	8,576,610
452	Earthquake Assessment Agency Funds	1,059,155	-	1,059,155	2,170,736
453	Other Special Assessment	1,328,198	-	1,328,198	1,320,965
455	Other Agency	3,364,664	1,500	3,366,164	3,384,755
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	67,450	67,450	70,072
470	Agency Special Assessment CFD #5 Long Beach Towne Center	22,638	1,311,434	1,334,072	1,350,710
471	Agency Special Assessment LBBFA Local Agency	-	183,576	183,576	181,618
472	Agency Special Assessment CFD#6 Pike Public Improvements	451,308	5,356,910	5,808,218	5,418,097
473	Agency Special Assessment - Douglas Park	259,686	1,513,092	1,772,778	1,751,255
474	CFD 2007 Belmont 2004 Spcl Tx Bd	36,737	365,610	402,347	562,785
475	AD 2008-1 Toledo Underground Utility 20B	46,591	113,964	160,555	158,347
600	Debt Service	<u>725,000</u>	<u>6,342,923</u>	<u>7,067,923</u>	-
	<b>Total Cash and Investments</b>	<b><u>\$ 1,754,154,106*</u></b>	<b><u>\$ 276,144,185</u></b>	<b><u>\$ 2,030,298,291</u></b>	<b><u>\$ 1,934,445,021</u></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 SEPTEMBER 30, 2011  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2010**

	<u>Pooled September 30, 2011</u>	<u>Non-Pooled September 30, 2011</u>	<u>Total at September 30, 2011</u>	<u>Total at September 30, 2010</u>
<b>CASH</b>				
Cash in banks	\$ 177,708,861	\$ 668,719	\$ 178,377,580	\$ 101,538,244
Cash with fiscal agents	-	<u>215,892,726</u>	<u>215,892,726</u>	<u>119,789,957</u>
Total cash	<u>\$ 177,708,861</u>	<u>\$ 216,561,445</u>	<u>\$ 394,270,306</u>	<u>\$ 221,328,201</u>
<b>INVESTMENTS</b>				
U.S. Treasury Bills	\$ -	\$ -	\$ -	\$ 79,981,252
U.S. Treasury Notes	224,058,258	-	224,058,258	333,900,012
Federal Farm Credit Bank	221,381,456	-	221,381,456	195,234,441
Federal Home Loan Bank	345,110,914	-	345,110,914	373,642,082
Federal National Mortgage Association (FNMA)	232,158,352	-	232,158,352	296,156,591
FNMA Discounts Notes	67,983,438	-	67,983,438	-
FFCB Discount Note	19,999,425	-	19,999,425	-
Federal Home Loan Mortgage Corporation (FHLMC)	237,853,351	-	237,853,351	321,029,344
FHLMC Discount Notes	55,000,000	-	55,000,000	-
Federal Home Loan Discount	19,989,208	-	19,989,208	-
Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
Local Agency Investment Fund	150,095,811	-	150,095,811	50,115,576
Guaranteed Investment Contracts	-	47,764,487	47,764,487	48,591,694
Special Assessment Bonds	-	1,818,253	1,818,253	1,726,349
Money Market	704,406	-	704,406	137,300
Savers Loan	2,110,626	-	2,110,626	2,382,573
Guaranteed Rate Management Account (GRMA)	-	-	-	<u>219,606</u>
Total investments	<u>\$ 1,576,445,245</u>	<u>\$ 59,582,740</u>	<u>\$ 1,636,027,985</u>	<u>\$ 1,713,116,820</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<u>\$ 1,754,154,106</u>	<u>\$ 276,144,185</u>	<u>\$ 2,030,298,291</u>	<u>\$ 1,934,445,021</u>