



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

August 6, 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 March 31, 2013.

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, 2013.

TIMING CONSIDERATIONS:

This item is not time sensitive.

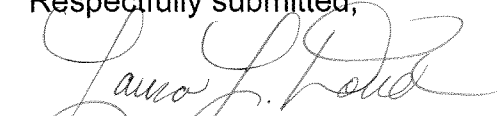
FISCAL IMPACT:

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, 2013**



**WINDES & McCLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants
EXCEEDING EXPECTATIONS SINCE 1926

TABLE OF CONTENTS

Executive Summary	1
Background	1-2
Audit Objectives, Scope, and Methodology	2-3
Results and Conclusions	4-5
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



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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 March 31, 2013. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 2013, 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, 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 March 31, 2013 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 March 31, 2013.

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, 2013 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, 2013 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 2013 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, 2013 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 March 31, 2013 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 March 31, 2013, 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 March 31, 2013. 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:

- \$ 6,712,024 - Payments from Union Bank cash concentration account were initiated in April 2013 but recorded as March 31, 2013 in FAMIS. This led to an understatement of cash of Harbor Capital Fund (Fund 431) in the pooled cash account.
- \$ 6,979,282 - Payments from Union Bank cash concentration account was initiated in April 2013 but recorded as March 31, 2013 in FAMIS. This led to an understatement of cash in pooled cash for 29 different funds.
- \$ 290,229 - A deposit for a cash with fiscal agent account was received during the quarter ended March 31, 2013, but was not recorded in FAMIS. This led to an understatement in the FAMIS cash with fiscal agent account reported in the Agency Special Assessment Fund (Fund 470). Cash with fiscal agent is considered part of the non-pooled cash and investments.
- \$ 165,577 - Payments made from a cash with fiscal agent account during the quarter ended March 31, 2013, was 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.

The City's cash and investment balances as of March 31, 2013, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,552,756,970
Non-Pooled Cash and Investments	<u>216,093,068</u>
Total Cash and Investments	<u>\$ 1,768,850,038</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 March 31, 2013, 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 March 31, 2013, 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 "Windes & McCaughey".

Long Beach, California
July 9, 2013

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2013
WITH COMPARATIVE TOTALS FOR MARCH 31, 2012**

Fund Number	Name of Fund	Pooled March 31, 2013	Non-Pooled March 31, 2013	Total at March 31, 2013	Total at March 31, 2012
100	General Fund, General	\$ 110,565,274	\$ 321,696	\$ 110,886,970	\$ 56,545,248
103	General Fund, Library	(6,328,171)	21,020	(6,307,151)	458,330
105	General Fund, Parks and Recreation	(7,062,332)	34,865	(7,027,467)	3,397,118
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	(406,588)	-	(406,588)	2,468,071
121	Special Revenue, Police & Fire	810,265	-	810,265	867,831
130	Special Revenue, Health	88,128	11,610	99,738	1,194,074
131	Special Revenue, CUPA	1,858,305	-	1,858,305	1,646,939
132	Special Revenue, Parking & Business	652,815	-	652,815	1,350,279
133	Special Advertising & Promotion	4,467,632	-	4,467,632	2,821,534
134	Special Revenue, Upland Oil	21,310,830	-	21,310,830	23,180,383
135	Housing Development	11,717,987	7,000	11,724,987	47,729,450
136	Belmont Shore Parking Meters	1,060,150	67,835	1,127,985	1,053,585
137	Planning & Building Department	12,939,794	-	12,939,794	7,358,639
149	Special Revenue, Business Assistance	1,313,984	-	1,313,984	1,018,656
150	Community Development Grants	1,221,510	12,000	1,233,510	(456,887)
151	Housing Authority	9,959,987	8,450	9,968,437	10,479,710
180	Special Revenue, Park Development	-	-	-	6,338
181	Gas Tax Street Improvement	18,137,005	-	18,137,005	15,594,217
182	Special Revenue, Transportation	29,401,749	-	29,401,749	37,042,360
201	Capital Projects	26,947,575	7,291,391	34,238,966	28,454,970
202	Assessment District-Capital Projects	1,549,789	689,038	2,238,827	2,247,114
203	Blight Removal	2	-	2	2
221	RDA-Poly High	-	-	-	486,786
222	RDA-West Beach	-	-	-	1,069,120
223	RDA-West Long Beach	-	-	-	11,255,384
224	RDA-Downtown	-	-	-	8,281,729
225	RDA-Project Income	-	-	-	7,982,033
227	RDA-Los Altos	-	-	-	533,101
228	RDA-Central	-	-	-	1,809,580
230	RDA-North	-	-	-	45,302,624
232	RDA-Housing	-	-	-	22,276
270	SA-RD Obligation Retirement FD Operation	65,189,906	27,218,767	92,408,673	39,336,758
277	SA-RD Obligation Retirement FD Debt SVC	521,160	31,964,043	32,485,203	31,798,676
301	Gas Revenue	11,113,117	655,500	11,768,617	11,764,096
303	Gas Prepaid	292,599	18,444,360	18,736,959	19,231,360
310	Water	46,305,822	3,158,053	49,463,875	52,775,491
311	Sewer	6,497,897	-	6,497,897	9,210,132
320	Airport	48,486,188	21,605,982	70,092,170	82,547,078
330	Refuse/Recycling	18,050,979	3,000	18,053,979	21,543,770
331	SERRF	23,088,354	-	23,088,354	27,724,828
339	SERRF JPA	100,988	11,695,259	11,796,247	11,699,221
340	Towing Operations	1,770,783	4,000	1,774,783	1,234,696
380	Civic Center	7,688,462	180	7,688,642	7,479,045

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2013
WITH COMPARATIVE TOTALS FOR MARCH 31, 2012
(Continued)**

Fund Number	Name of Fund	Pooled March 31, 2013	Non-Pooled March 31, 2013	Total at March 31, 2013	Total at March 31, 2012
385	General Services	\$ 8,443,127	\$ 5,000	\$ 8,448,127	\$ 9,908,983
386	Fleet Services Fund	28,577,475	7,500	28,584,975	25,793,593
390	Insurance	36,297,840	61	36,297,901	33,846,578
391	Employee Benefits	74,979,822	-	74,979,822	69,321,807
401	Tidelands Operations	171,713,542	12,818,486	184,532,028	148,353,237
403	Tidelands-Marina	10,802,722	15,600	10,818,322	13,377,340
410	Queen Mary	1,975,402	-	1,975,402	1,816,455
411	Tidelands Operating – Rainbow Harbor Area	4,316,714	4,367,710	8,684,424	7,961,529
420	Tidelands Oil Revenue	74,029,702	-	74,029,702	52,125,463
421	Tidelands Reserve - Subsidence	157,892,607	1,956,110	159,848,717	158,484,477
430	Harbor - Operations	1,388,264,675	35,000	1,388,299,675	1,097,911,083
431	Harbor - Capital	(1,050,379,020)	-	(1,050,379,020)	(538,179,159)
432	Harbor Debt Service	163,358,242	63,864,647	227,222,889	296,803,745
433	Harbor - Clean Air Action Plan	(7,744,013)	-	(7,744,013)	(4,187,012)
440	Expandable Trusts	933,060	-	933,060	965,768
451	ICTF JPA	4,350,951	-	4,350,951	10,397,576
452	Earthquake Assessment Agency Funds	1,186,694	-	1,186,694	974,829
453	Other Special Assessment	130,801	-	130,801	1,320,739
455	Other Agency	3,063,258	1,500	3,064,758	3,359,978
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5	-	39,821	39,821	101,043
470	Agency Special Assessment CFD #5 Long Beach Towne Center	35,367	1,598,467	1,633,834	1,331,385
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	183,834
472	Agency Special Assessment CFD #6 Pike Public Improvements	47,500	4,338,012	4,385,512	4,677,784
473	Agency Special Assessment – Douglas Park	4,842,814	1,529,363	6,372,177	1,858,787
474	CFD 2007 Belmont 2004 Spcl Tx Bd	18,819	361,533	380,352	424,746
475	AD 2008-1 Toledo Underground Utility 20B	88,654	113,965	202,619	198,988
476	Douglas Park North	54,229	-	54,229	33,058
600	Debt Service	1,131,885	1,816,232	2,948,117	6,562,366
999	Accrued Interest Receivable	(3,967,844)	-	(3,967,844)	(5,372,165)
	Total Cash and Investments	\$ 1,552,756,970*	\$ 216,093,068	\$ 1,768,850,038	\$ 2,046,902,580

* 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, 2013
WITH COMPARATIVE TOTALS FOR MARCH 31, 2012**

	<u>Pooled March 31, 2013</u>	<u>Non-Pooled March 31, 2013</u>	<u>Total at March 31, 2013</u>	<u>Total at March 31, 2012</u>
CASH				
Cash in banks	\$ 177,768,309	\$ 527,662	\$ 178,295,971	\$ 238,862,776
Cash with fiscal agents	<u>-</u>	<u>160,050,168</u>	<u>160,050,168</u>	<u>201,438,829</u>
Total cash	<u>\$ 177,768,309</u>	<u>\$ 160,577,830</u>	<u>\$ 338,346,139</u>	<u>\$ 440,301,605</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 66,993,297	\$ -	\$ 66,993,297	\$ 19,999,133
U.S. Treasury Notes	389,878,953	-	389,878,953	396,963,185
Federal Farm Credit Bank	85,246,737	-	85,246,737	172,395,965
Federal Home Loan Bank	184,713,050	-	184,713,050	325,818,073
Federal National Mortgage Association (FNMA)	228,263,606	-	228,263,606	301,764,549
FNMA Discounts Notes	14,997,850	-	14,997,850	72,977,771
FFCB Discount Note	-	-	-	7,994,307
Federal Home Loan Mortgage Corporation (FHLMC)	202,738,163	-	202,738,163	230,064,644
FHLMC Discount Notes	24,992,553	-	24,992,553	-
Federal Home Loan Discount Certificate of Deposit	39,996,161	-	39,996,161	19,982,578
Local Agency Investment Fund	-	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	118,208,817	-	118,208,817	98,947
Special Assessment Bonds	-	43,559,128	43,559,128	44,290,055
Corporate Bonds	-	1,956,110	1,956,110	1,864,205
Money Market	16,977,865	-	16,977,865	-
Savers Loan	288,044	-	288,044	415,604
	<u>1,693,565</u>	<u>-</u>	<u>1,693,565</u>	<u>1,971,959</u>
Total investments	<u>\$ 1,374,988,661</u>	<u>\$ 55,515,238</u>	<u>\$ 1,430,503,899</u>	<u>\$ 1,606,600,975</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,552,756,970</u>	<u>\$ 216,093,068</u>	<u>\$ 1,768,850,038</u>	<u>\$ 2,046,902,580</u>