



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

November 20, 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 June 30, 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 June 30, 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
JUNE 30, 2012**



**WINDES & McLAUGHRY
ACCOUNTANCY CORPORATION**
Certified Public Accountants & Consultants
EXCLUDING EXPECTATIONS SINCE 1976

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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 June 30, 2012. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2012, 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 June 30, 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 June 30, 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 June 30, 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 June 30, 2012 to the City’s general ledger.
- Obtained bank and investment reconciliations at June 30, 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 June 30, 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 June 30, 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 June 30, 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

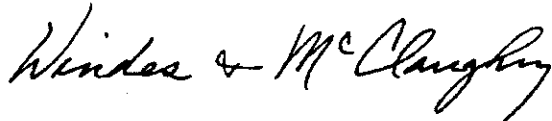
The City's cash and investment balances as of June 30, 2012 are summarized as follows:

| | |
|---------------------------------|-------------------------|
| Pooled Cash and Investments | \$ 1,772,460,808 |
| Non-Pooled Cash and Investments | <u>243,636,809</u> |
| Total Cash and Investments | <u>\$ 2,016,097,617</u> |

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

In connection with the City Auditor's performance audit of the City of Long Beach's cash and investments balances for the quarter ended June 30, 2012, for the purpose of expressing an opinion that the cash and investments balances is presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and in compliance with the California Government Code and the City's Investment Policy, management concurs with the audit's conclusion and agrees that cash and investment balances are fairly stated and that the City is in compliance with the relevant provisions of the California Government Code and City Investment Policy.



Long Beach, California
October 30, 2012

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR JUNE 30, 2011**

| Fund Number | Name of Fund | Pooled June 30, 2012 | Non-Pooled June 30, 2012 | Total at June 30, 2012 | Total at June 30, 2011 |
|--------------------|--|-----------------------------|---------------------------------|-------------------------------|-------------------------------|
| 100 | General Fund, General | \$ 97,446,837 | \$ 330,381 | \$ 97,777,218 | \$ 106,973,614 |
| 103 | General Fund, Library | (3,014,904) | 21,020 | (2,993,884) | 1,109,426 |
| 105 | General Fund, Parks and Recreation | (687,360) | 34,865 | (652,495) | 6,043,709 |
| 110 | Budget Stabilization | 9,000,000 | - | 9,000,000 | 9,000,000 |
| 120 | Special Revenue, General Grants | (482,829) | - | (482,829) | 2,395,207 |
| 121 | Special Revenue, Police & Fire | 1,098,504 | - | 1,098,504 | 569,640 |
| 130 | Special Revenue, Health | 1,639,567 | 7,268 | 1,646,835 | 1,059,071 |
| 131 | Special Revenue, CUPA | 1,414,632 | - | 1,414,632 | 1,065,093 |
| 132 | Special Revenue, Parking & Business | 1,158,840 | - | 1,158,840 | 485,123 |
| 133 | Special Advertising & Promotion | 3,189,200 | 281 | 3,189,481 | 1,666,334 |
| 134 | Special Revenue, Upland Oil | 19,085,528 | - | 19,085,528 | 20,613,513 |
| 135 | Housing Development | 43,338,654 | 7,000 | 43,345,654 | 47,486,203 |
| 136 | Belmont Shore Parking Meters | 1,056,352 | 62,715 | 1,119,067 | 1,036,039 |
| 137 | Planning & Building Department | 8,526,745 | - | 8,526,745 | 5,363,907 |
| 149 | Special Revenue, Business Assistance | 1,088,793 | - | 1,088,793 | 924,537 |
| 150 | Community Development Grants | (98,276) | 12,030 | (86,246) | (808,254) |
| 151 | Housing Authority | 10,257,739 | 584,538 | 10,842,277 | 14,074,142 |
| 180 | Special Revenue, Park Development | - | - | - | 294,830 |
| 181 | Gas Tax Street Improvement | 15,803,734 | - | 15,803,734 | 11,968,547 |
| 182 | Special Revenue, Transportation | 34,458,190 | - | 34,458,190 | 33,439,372 |
| 201 | Capital Projects | 17,634,699 | 8,249,590 | 25,884,289 | 27,120,397 |
| 202 | Assessment District-Capital Projects | 1,551,293 | 689,064 | 2,240,357 | 2,476,004 |
| 203 | Blight Removal | 2 | - | 2 | 82,521,062 |
| 221 | RDA-Poly High | - | - | - | 456,256 |
| 222 | RDA-West Beach | - | - | - | 1,739,874 |
| 223 | RDA-West Long Beach | - | - | - | 5,327,028 |
| 224 | RDA-Downtown | - | - | - | 10,974,004 |
| 225 | RDA-Project Income | - | - | - | 937,825 |
| 227 | RDA-Los Altos | - | - | - | 800,214 |
| 228 | RDA-Central | - | - | - | 7,696,128 |
| 230 | RDA-North | - | - | - | 31,887,133 |
| 232 | RDA-Housing | - | - | - | 22,823,042 |
| 270 | SA-RD Obligation Retirement FD Operation | 105,251,751 | 39,652,605 | 144,904,356 | - |
| 277 | SA-RD Obligation Retirement FD Debt SVC | - | 31,851,461 | 31,851,461 | - |
| 301 | Gas Revenue | 17,114,324 | 655,500 | 17,769,824 | 15,615,772 |
| 303 | Gas Prepaid | 11,919 | 14,159,866 | 14,171,785 | 15,519,040 |
| 310 | Water | 49,834,633 | 3,118,695 | 52,953,328 | 48,588,889 |
| 311 | Sewer | 8,562,336 | - | 8,562,336 | 10,197,809 |
| 320 | Airport | 44,210,914 | 32,597,765 | 76,808,679 | 94,484,435 |
| 330 | Refuse/Recycling | 20,709,905 | 3,000 | 20,712,905 | 23,036,663 |
| 331 | SERRF | 28,632,533 | - | 28,632,533 | 24,622,618 |
| 339 | SERRF JPA | 128,348 | 11,591,901 | 11,720,249 | 11,626,288 |
| 340 | Towing Operations | 1,667,354 | 4,000 | 1,671,354 | 197,126 |

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR JUNE 30, 2011
(Continued)**

| Fund Number | Name of Fund | Pooled June 30, 2012 | Non-Pooled June 30, 2012 | Total at June 30, 2012 | Total at June 30, 2011 |
|-----------------------------------|---|-------------------------------------|---|---------------------------------------|---------------------------------------|
| 380 | Civic Center | 8,420,414 | 180 | 8,420,594 | 7,567,551 |
| 385 | General Services | 10,825,592 | 5,000 | 10,830,592 | 10,399,212 |
| 386 | Fleet Services Fund | 24,895,031 | 2,793,858 | 27,688,889 | 20,206,976 |
| 390 | Insurance | 35,976,468 | 61 | 35,976,529 | 31,679,226 |
| 391 | Employee Benefits | 69,463,280 | - | 69,463,280 | 84,428,657 |
| 401 | Tidelands Operations | 145,163,363 | 14,447,031 | 159,610,394 | 109,086,768 |
| 403 | Tidelands-Marina | 11,912,884 | 15,600 | 11,928,484 | 17,912,706 |
| 410 | Queen Mary | 1,850,111 | - | 1,850,111 | 1,648,603 |
| 411 | Tidelands Operating - Rainbow Harbor Area | 5,481,784 | 4,319,759 | 9,801,543 | 9,124,672 |
| 420 | Tidelands Oil Revenue | 55,695,796 | - | 55,695,796 | 76,319,204 |
| 421 | Tidelands Reserve - Subsidence | 156,937,425 | 1,887,182 | 158,824,607 | 157,340,434 |
| 430 | Harbor - Operations | 1,123,685,292 | 35,000 | 1,123,720,292 | 818,994,237 |
| 431 | Harbor - Capital | (609,214,053) | - | (609,214,053) | (343,941,982) |
| 432 | Harbor Debt Service | 191,166,203 | 63,487,901 | 254,654,104 | 376,743,323 |
| 433 | Harbor - Clean Air Action Plan | (5,618,029) | - | (5,618,029) | (2,821,398) |
| 440 | Expandable Trusts | 968,290 | - | 968,290 | 993,623 |
| 451 | ICTF JPA | 4,407,602 | - | 4,407,602 | 6,391,511 |
| 452 | Earthquake Assessment Agency Funds | 1,107,603 | - | 1,107,603 | 1,039,991 |
| 453 | Other Special Assessment | 1,320,873 | - | 1,320,873 | 1,458,657 |
| 455 | Other Agency | 3,400,617 | 1,500 | 3,402,117 | 3,244,080 |
| 460 | Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB | - | 48,378 | 48,378 | 46,264 |
| 470 | Agency Special Assessmt CFD #5 Long Beach Towne Center | 17,779 | 1,301,499 | 1,319,278 | 1,352,517 |
| 471 | Agency Special Assessment LBBFA Local Agency | - | 184,151 | 184,151 | 182,628 |
| 472 | Agency Special Assessment CFD#6 Pike Public Improvements | 143,538 | 3,549,793 | 3,693,331 | 3,431,491 |
| 473 | Agency Special Assessment - Douglas Park | 456,800 | 1,522,939 | 1,979,739 | 1,972,149 |
| 474 | CFD 2007 Belmont 2009 Spcl Tx Bd | 78,769 | 264,230 | 342,999 | 410,713 |
| 475 | AD 2008-1 Toledo Underground Utility 20B | 108,185 | 113,964 | 222,149 | 211,239 |
| 476 | Douglas Park North | 38,143 | - | 38,143 | - |
| 600 | Debt Service | 16,861 | 6,025,238 | 6,042,099 | - |
| 999 | Accrued Interest Receivable | (5,835,770) | - | (5,835,770) | (6,945,712) |
| Total Cash and Investments | | \$ 1,772,460,808* | \$ 243,636,809 | \$ 2,016,097,617 | \$ 2,091,885,000 |

* 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 JUNE 30, 2012
WITH COMPARATIVE TOTALS FOR JUNE 30, 2011**

| | <u>Pooled June 30, 2012</u> | <u>Non-Pooled June 30, 2012</u> | <u>Total at June 30, 2012</u> | <u>Total at June 30, 2011</u> |
|--|-------------------------------------|---|---------------------------------------|---------------------------------------|
| CASH | | | | |
| Cash in banks | \$ 215,413,789 | \$ 1,107,789 | \$ 216,521,578 | \$ 136,685,842 |
| Cash with fiscal agents | <u>-</u> | <u>186,351,782</u> | <u>186,351,782</u> | <u>219,655,943</u> |
| Total cash | <u>\$ 215,413,789</u> | <u>\$ 187,459,571</u> | <u>\$ 402,873,360</u> | <u>\$ 356,341,785</u> |
| INVESTMENTS | | | | |
| U.S. Treasury Bills | \$ 73,935,525 | - | \$ 73,935,525 | \$ 9,996,423 |
| U.S. Treasury Notes | 422,945,487 | - | 422,945,487 | 301,259,921 |
| Federal Farm Credit Bank (FFCB) | 160,021,372 | - | 160,021,372 | 241,482,176 |
| Federal Home Loan Bank | 274,528,487 | - | 274,528,487 | 311,351,101 |
| Federal National Mortgage Association (FNMA) | 312,801,486 | - | 312,801,486 | 265,382,170 |
| FNMA Discounts Notes | 19,994,472 | - | 19,994,472 | 84,922,664 |
| FFCB Discount Note | 7,997,138 | - | 7,997,138 | 19,991,215 |
| Federal Home Loan Mortgage Corporation (FHLMC) | 205,330,913 | - | 205,330,913 | 241,915,168 |
| FHLMC Discount Notes | - | - | - | 94,963,461 |
| Federal Home Loan Discount Certificate of Deposit | 19,990,667 | - | 19,990,667 | 9,988,356 |
| Local Agency Investment Fund | 57,099,035 | \$ 10,000,000 | 10,000,000 | 10,000,000 |
| Guaranteed Investment Contracts | - | 44,290,055 | 44,290,055 | 100,251,463 |
| Special Assessment Bonds | - | 1,887,183 | 1,887,183 | 39,852,962 |
| Money Market | 500,076 | - | 500,076 | 1,795,276 |
| Savers Loan | <u>1,902,361</u> | <u>-</u> | <u>1,902,361</u> | <u>212,819</u> |
| Total investments | <u>\$ 1,557,047,019</u> | <u>\$ 56,177,238</u> | <u>\$ 1,613,224,257</u> | <u>\$ 1,735,543,215</u> |
| TOTAL CASH AND INVESTMENTS | <u>\$ 1,772,460,808</u> | <u>\$ 243,636,809</u> | <u>\$ 2,016,097,617</u> | <u>\$ 2,091,885,000</u> |