

Office of the City Auditor

Audit Report
Quarterly Audit of Cash & Investments
As of December 31, 2007

December 8, 2008



Audit Staff

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EXECUTIVE SUMMARY

The Office of the City Auditor has completed the quarterly audit of the cash and investment balances of the City of Long Beach as of December 31, 2007. The City of Long Beach's management is responsible for the schedules of cash and investments. Our responsibility is to verify cash on a quarterly basis and provide a written report to the City Council. As of December 31, 2007, the City's cash and investment portfolio totaled approximately \$2 billion.

Based on the results of audit procedures performed as described below, cash and investment balances as recorded on the City's books as of December 31, 2007, agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with the California Government Code and the City's Investment Policy.

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 in the City Treasury on a quarterly basis and providing a written report to the City Council.

This performance audit of the 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 California Government Code §53601 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.

Non-pooled Cash and Investments

Generally, non-pooled cash is used for specific project operations or pledged for reserves or interest payments of outstanding debt.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to agree 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 provisions of the California Government Code §53601 and the City's Investment Policy.

The scope of this audit was limited to the quarter ending December 31, 2007.

We performed the following procedures in our audit:

- Conducted interviews of management personnel to gain an understanding of the internal controls in place surrounding the safeguarding of City's cash and investments.
- Obtained written confirmations of all cash held by banks and investments held by the City Treasurer's safekeeping agent and other custodians as of December 31, 2007 and agreed them to the City's general ledger.
- Traced the balance of total investments on the City Treasurer's Investment Holdings Report as of December 31, 2007 to the City's general ledger.
- Analyzed the bank account and investment reconciliations as of December 31, 2007 and agreed them to the City's general ledger.
- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report as of December 31, 2007 to the types of investments authorized for the City in accordance with the City's Investment Policy and California Government Code §53601.
- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report as of December 31, 2007 to the portfolio mix limitations imposed by the City's Investment Policy and California Government Code §53601 for specific investment types.
- Recomputed and reviewed supporting documentation, on a sample basis, relevant to the purchase, sale and maturity of individual investments to determine compliance with the following provisions of the California Government Code §53601 and the City's Investment Policy:
 - Purchase 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; and thus, the testing of interest is conducted as part of our fourth quarter cash and investments audit. As such, we did not test accrued interest; which is excluded from the total cash and investments as of December 31, 2007. In addition, the allocation of cash and investments between funds was outside the scope of this audit.

We conducted this 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.

RESULTS AND CONCLUSIONS

The City's cash and investment balances as of December 31, 2007 are summarized as follows:

Pooled Cash and Investments	\$ 1,720,673,452
Non-Pooled Cash and Investments	<u>263,329,784</u>
Total Cash and Investments	<u>\$ 1,984,003,236</u>

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.

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books as of December 31, 2007, agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with the California Government Code and the City's Investment Policy.

We noted certain internal control matters that we reported to management of the City of Long Beach, Office of Financial Management, in a separate letter dated December 8, 2008.

MANAGEMENT COMMENTS

Management comments had not yet been received as of the date and filing of this report.

ATTACHMENT I

**CITY OF LONG BEACH
OFFICE OF THE CITY AUDITOR**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT DECEMBER 31, 2007 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2006**

Fund #	Name of Fund	Pooled 12/31/2007	Non-Pooled 12/31/2007	Total at 12/31/2007	Total at 12/31/2006
100	General Fund, General	\$ 60,567,140	\$ 4,300,680	\$ 64,867,820	\$ 50,727,704
103	General Fund, Library	(918,497)	20,705	(897,792)	(832,315)
105	General Fund, Parks and Recreation	2,310,691	2,577,858	4,888,549	4,603,288
120	Special Revenue, General Grants	5,559,253	-	5,559,253	4,133,881
121	Special Revenue, Police & Fire	1,767,423	-	1,767,423	-
130	Special Revenue, Health	614,114	12,950	627,064	800,442
131	Special Revenue, CUPA	868,590	-	868,590	746,197
132	Special Revenue, Parking & Business	1,312,847	-	1,312,847	1,043,412
133	Special Advertising & Promotion	1,191,687	281	1,191,968	1,568,549
134	Special Revenue, Upland Oil	5,259,436	-	5,259,436	7,234,911
135	Housing Development	43,030,820	15,297	43,046,117	32,908,305
136	Belmont Shore Parking Meters	618,499	32,576	651,075	717,214
137	Planning & Building Department	1,925,874	-	1,925,874	861,309
149	Special Revenue, Business Assistance	1,761,499	-	1,761,499	136,151
150	Community Development Grants	4,030,077	12,956	4,043,033	4,630,328
151	Housing Authority	19,638,645	92,476	19,731,121	14,006,094
180	Special Revenue, Park Development	391,224	-	391,224	466,516
181	Gas Tax Street Improvement	8,587,990	-	8,587,990	10,258,922
182	Special Revenue, Transportation	34,549,428	-	34,549,428	27,013,316
201	Capital Projects	15,241,137	22,107,813	37,348,950	23,596,809
202	Assessment District-Capital Projects	2,644,899	654	2,645,553	2,526,725
220	RDA-LB Bond Authority	-	39,142	39,142	32,657
221	RDA-Poly High	825,832	979,854	1,805,686	2,552,607
222	RDA-West Beach	1,445,492	1,625,538	3,071,030	2,709,256
223	RDA-West Long Beach	21,447,784	3,135,739	24,583,523	26,005,685
224	RDA-Downtown	16,904,662	8,222,416	25,127,078	17,022,831
225	RDA-Project Income	2,100,823	-	2,100,823	4,062,262
227	RDA-Los Altos	537,128	408,176	945,304	874,576
228	RDA-Central	7,739,571	11,674,044	19,413,615	29,974,621
230	RDA-North	24,406,974	42,231,457	66,638,431	70,116,376
232	RDA-Housing	2,609,304	37,514,729	40,124,033	51,913,674
301	Gas Revenue	5,482,072	655,500	6,137,572	14,498,820
310	Water	8,726,410	3,619,050	12,345,460	13,336,787
311	Sewer	4,306,558	-	4,306,558	8,343,390
320	Airport	17,507,982	235,349	17,743,331	20,742,744
330	Refuse/Recycling	23,384,490	3,000	23,387,490	22,964,430
331	SERRF	32,129,104	-	32,129,104	28,539,541
339	SERRF JPA	419,919	12,018,408	12,438,327	12,375,663
340	Towing Operations	938,105	3,700	941,805	2,336,964
380	Civic Center	10,035,117	8,016,899	18,052,016	22,886,800
385	General Services	4,007,174	3,041	4,010,215	2,747,917

ATTACHMENT I
(continued)
CITY OF LONG BEACH
OFFICE OF THE CITY AUDITOR

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT DECEMBER 31, 2007 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2006

Fund #	Name of Fund	Pooled 12/31/2007	Non-Pooled 12/31/2007	Total at 12/31/2007	Total at 12/31/2006
386	Fleet Services Fund	9,615,438	2,750,416	12,365,854	17,584,929
390	Insurance	15,790,804	60	15,790,864	8,941,352
391	Employee Benefits	55,465,700	-	55,465,700	56,579,636
401	Tidelands Operations	34,627,962	15,909,526	50,537,488	34,748,259
403	Tidelands-Marina	8,248,353	15,600	8,263,953	1,937,304
410	Queen Mary	1,281,401	-	1,281,401	963,115
411	Tidelands Operating - Rainbow Harbor Area	2,409,195	4,569,211	6,978,406	10,671,919
413	Parking Authority - Queensway Bay	-	-	-	3,060
420	Tidelands Oil Revenue	47,919,522	3,000	47,922,522	11,243,047
421	Tidelands Reserve - Subsidence	156,570,985	2,783,336	159,354,321	151,468,613
430	Harbor - Operations	625,724,891	35,000	625,759,891	520,621,459
431	Harbor - Capital	(31,206,194)	-	(31,206,194)	(29,189,861)
432	Harbor Debt Service	388,194,027	53,738,679	441,932,706	417,543,530
440	Expandable Trusts	1,014,555	-	1,014,555	962,830
450	Deferred Compensation	-	-	-	-
451	ICTF JPA	20,080,845	-	20,080,845	10,807,930
452	Earthquake Assessment Agency Funds	1,802,737	-	1,802,737	1,881,713
453	Other Special Assessment	2,169,881	-	2,169,881	2,098,455
455	Other Agency	2,692,941	1,500	2,694,441	2,433,449
460	Los Cerritos Wetlands Authority	-	34,242	34,242	19,844
470	Agency Special Assessment CFD #5 LB Towne Center	100,221	1,316,017	1,416,238	1,333,699
471	Agency Special Assessment LBBFA Local Agency	-	862,378	862,378	824,761
472	Agency Special Assessment CFD#6 Pike Pub Impv	(1,786,136)	7,175,713	5,389,577	3,423,267
473	Park	367,421	14,574,818	14,942,239	-
999	Accrued Interest Receivable	(16,318,374)	-	(16,318,374)	-
TOTAL CASH AND INVESTMENTS		\$ 1,720,673,452 *	\$ 263,329,784	\$ 1,984,003,236	\$ 1,768,087,669 **

* We tested the City's Pooled Investment Fund in aggregate; the City's allocation of Pooled Investments is presented for informational purposes only.

** The total for 12/31/2006 includes accrued interest. Accrued interest was deducted in the data presented under 12/31/2007.

ATTACHMENT II

**CITY OF LONG BEACH
OFFICE OF THE CITY AUDITOR**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY SECURITY TYPE
AT DECEMBER 31, 2007 WITH COMPARATIVE TOTALS FROM DECEMBER 31, 2006**

	<u>Pooled 12/31/2007</u>	<u>Non-Pooled 12/31/2007</u>	<u>Total 12/31/2007</u>	<u>Total * 12/31/2006</u>
CASH:				
Cash in Banks	\$ (611,490)	\$ 734,651	\$ 123,161	\$ 8,768,378
Cash with Fiscal Agents	-	213,334,623	213,334,623	208,819,094
	<u>\$ (611,490)</u>	<u>\$ 214,069,274</u>	<u>\$ 213,457,784</u>	<u>\$ 217,587,472</u>
INVESTMENTS:				
U.S. Treasury Notes	\$ 124,254,538	\$ -	\$ 124,254,538	\$ 199,713,433
Federal Farm Credit Bank	81,572,228	-	81,572,228	131,688,290
Federal Home Loan Bank	354,458,853	-	354,458,853	306,464,891
Federal National Mortgage Assn.	437,966,655	-	437,966,655	340,112,414
Federal Home Loan Mortgage Corp.	331,562,020	-	331,562,020	308,128,461
Medium Term Notes	64,408,381	-	64,408,381	33,685,560
Commercial Paper	204,900,700	-	204,900,700	174,845,131
L.A.I.F.	119,113,601	-	119,113,601	2,944,855
Certificates of Deposit	-	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	-	36,477,173	36,477,173	36,477,415
Special Assessment Bonds	-	1,473,611	1,473,611	1,381,707
Municipal Bonds	-	1,309,726	1,309,726	1,810,445
Savers Loan	3,047,966	-	3,047,966	3,247,595
Total Investments	<u>\$ 1,721,284,942</u>	<u>\$ 49,260,510</u>	<u>\$ 1,770,545,452</u>	<u>\$ 1,550,500,197</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,720,673,452</u>	<u>\$ 263,329,784</u>	<u>\$ 1,984,003,236</u>	<u>\$ 1,768,087,669</u>

* All amounts presented as of 12/31/2006 include accrued interest; the amounts presented as of 12/31/2007 exclude accrued interest.