



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

LAURA L. DOUD, CPA  
City Auditor

September 21, 2010

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 December 31, 2009.

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 December 31, 2009.

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

# Office of the City Auditor

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## Audit Report

# Quarterly Audit of Cash & Investments

As of December 31, 2009

September 2010



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### Audit Staff

City Auditor: Laura L. Doud  
Assistant City Auditor: Deborah K. Ellis  
Deputy City Auditor: Janet Day  
Audit Manager: Patrice Launay  
Senior Auditor: Zadie Cannon  
Audit Intern: Yujing Pan

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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, 2009. 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, 2009, the City's cash and investment portfolio totaled approximately \$1.92 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, 2009 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.

## **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 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 within a pool allows the City to earn a higher rate of return than each fund could receive by itself. The Treasury Bureau invests pooled funds that are not needed for operations. 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 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, for a period of two years with options for three one-year extensions, at the discretion of the City Manager. Per the agreement, Chandler actively manages approximately 25 percent of the City's pooled funds as well as

provides ongoing oversight of investments, financial markets, regulatory developments, investment strategy reviews and performance management.

## **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 the relevant provisions of the California Government Code and the City's Investment Policy.

The scope of this audit was limited to the quarter ending December 31, 2009.

We performed the following procedures in our audit:

- Obtained an understanding of the internal controls surrounding the 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, 2009 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, 2009 to the City's general ledger.
- Analyzed the bank account and investment reconciliations as of December 31, 2009 and agreed them to the City's general ledger. This included testing, on a sample basis, the various adjustments made on the reconciliations.
- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report as of December 31, 2009 to the types of investments authorized for the City in accordance with the City's Investment Policy and California Government Code Section 53601.
- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report as of December 31, 2009 to the portfolio mix limitations imposed by the City's Investment Policy and California Government Code Section 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 Section 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; thus, testing of this 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 balance of Total Cash and Investments as of December 31, 2009, 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.

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, 2009 are summarized as follows:

Pooled Cash and Investments	\$ 1,683,343,022
Non-Pooled Cash and Investments	<u>233,902,590</u>
Total Cash and Investments	<u>\$ 1,917,245,612</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, 2009, agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with California Government Code Section 53601 and the City's Investment Policy, with regards to the audit procedures described in the Audit Objectives, Scope, and Methodology Section.

## **MANAGEMENT COMMENTS**

Management concurs with the results of this audit report.