

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

**QUARTERLY AUDIT OF CASH & INVESTMENTS  
DECEMBER 31, 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 December 31, 2011. The City of Long Beach's management is responsible for the cash and investment balances. As of December 31, 2011, the City's cash and investment 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 December 31, 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 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 December 31, 2011.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City’s cash and investment process.
- Obtained confirmations of all cash held by banks and investments held by the City Treasurer’s safekeeping agent and other custodians as of December 31, 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 December 31, 2011 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 31, 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 December 31, 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 December 31, 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.)

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 December 31, 2011, 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 December 31, 2011 are summarized as follows:

Pooled Cash and Investments	\$ 1,779,574,231
Non-Pooled Cash and Investments	<u>248,860,712</u>
Total Cash and Investments	<u>\$ 2,028,434,943</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at December 31, 2011, 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 with the results and conclusion.



Long Beach, California  
June 19, 2012

**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT DECEMBER 31, 2011  
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2010**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled December 31, 2011</b>	<b>Non-Pooled December 31, 2011</b>	<b>Total at December 31, 2011</b>	<b>Total at December 31, 2010</b>
100	General Fund, General	\$ 48,445,486	\$ 349,430	\$ 48,794,916	\$ 68,334,048
103	General Fund, Library	243,749	21,020	264,769	( 3,396,602)
105	General Fund, Parks and Recreation	3,478,856	34,865	3,513,721	( 372,300)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	3,485,501	-	3,485,501	927,300
121	Special Revenue, Police & Fire	758,899	-	758,899	362,762
130	Special Revenue, Health	2,425,954	9,490	2,435,444	628,033
131	Special Revenue, CUPA	1,893,605	-	1,893,605	1,574,636
132	Special Revenue, Parking & Business	1,340,637	-	1,340,637	1,244,826
133	Special Advertising & Promotion	2,941,616	281	2,941,897	1,428,381
134	Special Revenue, Upland Oil	29,307,967	-	29,307,967	14,596,876
135	Housing Development	53,700,012	10,555	53,710,567	39,245,189
136	Belmont Shore Parking Meters	1,058,214	59,404	1,117,618	935,317
137	Planning & Building Department	6,408,885	-	6,408,885	4,982,633
149	Special Revenue, Business Assistance	959,765	-	959,765	870,960
150	Community Development Grants	821,156	12,030	833,186	( 1,117,422)
151	Housing Authority	11,851,397	2,760	11,854,157	13,358,400
180	Special Revenue, Park Development	250,151	-	250,151	972,235
181	Gas Tax Street Improvement	12,470,719	-	12,470,719	8,939,440
182	Special Revenue, Transportation	35,400,117	-	35,400,117	32,162,784
201	Capital Projects	16,077,476	8,237,007	24,314,483	24,223,875
202	Assessment District-Capital Projects	1,402,322	857,479	2,259,801	2,540,241
203	Blight Removal	2	-	2	-
221	RDA-Poly High	564,042	219,913	783,955	821,049
222	RDA-West Beach	1,283,745	793,310	2,077,055	2,974,998
223	RDA-West Long Beach	14,023,611	3,167,965	17,191,576	24,542,723
224	RDA-Downtown	12,170,541	8,256,286	20,426,827	25,231,022
225	RDA-Project Income	980,008	-	980,008	5,375,556
227	RDA-Los Altos	555,004	407,967	962,971	1,002,551
228	RDA-Central	15,510,237	4,150,472	19,660,709	20,476,199
230	RDA-North	51,248,182	31,895,470	83,143,652	91,308,483
232	RDA-Housing	22,188	22,895,314	22,917,502	23,139,088
301	Gas Revenue	11,172,426	655,500	11,827,926	12,737,045
303	Gas Prepaid	11,903	6,978,672	6,990,575	7,213,699
310	Water	47,649,403	3,118,695	50,768,098	48,167,881
311	Sewer	9,348,564	-	9,348,564	9,898,572
320	Airport	39,236,120	46,749,478	85,985,598	115,120,502
330	Refuse/Recycling	22,772,379	3,000	22,775,379	23,352,319
331	SERRF	23,736,321	-	23,736,321	24,974,715
339	SERRF JPA	127,837	11,533,466	11,661,303	11,566,534
340	Towing Operations	1,832,564	4,000	1,836,564	366,703
380	Civic Center	7,687,980	180	7,688,160	8,068,738
385	General Services	6,192,809	5,000	6,197,809	9,250,181
386	Fleet Services Fund	21,943,095	2,871,751	24,814,846	17,782,434
390	Insurance	29,280,957	61	29,281,018	26,572,084

## ATTACHMENT I

### **POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT DECEMBER 31, 2011 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2010 (Continued)**

Fund Number	Name of Fund	Pooled December 31, 2011	Non-Pooled December 31, 2011	Total at December 31, 2011	Total at December 31, 2010
391	Employee Benefits	\$ 62,518,832	\$ -	\$ 62,518,832	\$ 51,592,802
401	Tidelands Operations	121,067,436	12,326,737	133,394,173	86,972,618
403	Tidelands-Marina	13,913,999	15,600	13,929,599	16,424,461
410	Queen Mary	1,779,741	-	1,779,741	1,645,509
411	Tidelands Operating – Rainbow Harbor Area	4,069,301	4,349,459	8,418,760	8,881,571
420	Tidelands Oil Revenue	62,633,817	-	62,633,817	57,992,404
421	Tidelands Reserve - Subsidence	156,446,091	1,841,229	158,287,320	156,841,409
430	Harbor - Operations	1,031,222,125	35,000	1,031,257,125	714,662,274
431	Harbor - Capital	( 477,905,944)	-	( 477,905,944)	( 261,614,443)
432	Harbor Debt Service	234,455,123	63,672,266	298,127,389	439,925,699
433	Harbor - Clean Air Action Plan	( 4,126,457)	-	( 4,126,457)	( 1,119,875)
440	Expandable Trusts	956,683	-	956,683	982,687
451	ICTF JPA	10,385,978	-	10,385,978	6,372,473
452	Earthquake Assessment Agency Funds	1,245,868	-	1,245,868	2,426,710
453	Other Special Assessment	1,335,542	-	1,335,542	1,313,091
455	Other Agency	3,222,396	1,500	3,223,896	3,243,711
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	72,404	72,404	60,034
470	Agency Special Assessment CFD #5 Long Beach Towne Center	20,552	1,301,475	1,322,027	1,353,724
471	Agency Special Assessment LBBFA Local Agency	-	183,354	183,354	181,657
472	Agency Special Assessment CFD#6 Pike Public Improvements	218,229	3,563,726	3,781,955	3,769,854
473	Agency Special Assessment – Douglas Park	666,536	1,515,271	2,181,807	2,131,425
474	CFD 2007 Belmont 2004 Spcl Tx Bd	58,511	365,610	424,121	487,565
475	AD 2008-1 Toledo Underground Utility 20B	87,659	113,964	201,623	195,478
476	Douglas Park North	16,937	-	16,937	-
600	Debt Service	425,605	6,202,296	6,627,901	-
999	Accrued Interest Receivable	( 6,212,731)	-	( 6,212,731)	( 7,096,826)
Total Cash and Investments		<u>\$ 1,779,574,231*</u>	<u>\$ 248,860,712</u>	<u>\$ 2,028,434,943</u>	<u>\$ 2,019,010,700</u>

\* 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 DECEMBER 31, 2011 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2010

	<u>Pooled December 31, 2011</u>	<u>Non-Pooled December 31, 2011</u>	<u>Total at December 31, 2011</u>	<u>Total at December 31, 2010</u>
<b>CASH</b>				
Cash in banks	\$ 270,029,191	\$ 545,312	\$ 270,574,503	\$ 98,425,271
Cash with fiscal agents	<u>-</u>	<u>205,105,895</u>	<u>205,105,895</u>	<u>265,559,161</u>
Total cash	<u>\$ 270,029,191</u>	<u>\$ 205,651,207</u>	<u>\$ 475,680,398</u>	<u>\$ 363,984,432</u>
<b>INVESTMENTS</b>				
U.S. Treasury Bills	\$ 19,997,111	\$ -	\$ 19,997,111	\$ 127,438,258
U.S. Treasury Notes	267,290,355	-	267,290,355	273,985,469
Federal Farm Credit Bank	201,456,801	-	201,456,801	192,238,466
Federal Home Loan Bank	338,837,925	-	338,837,925	313,108,194
Federal National Mortgage Association (FNMA)	292,069,799	-	292,069,799	297,187,833
FNMA Discounts Notes	52,963,708	-	52,963,708	35,979,667
(FFCB) Discount Note	12,990,766	-	12,990,766	-
Federal Home Loan Mortgage Corporation (FHLMC)	266,682,827	-	266,682,827	299,260,158
FHLMC Discount Notes	34,997,239	-	34,997,239	19,977,153
Federal Home Loan Discount Certificate of Deposit	19,985,814	-	19,985,814	-
Local Agency Investment Fund	-	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	57,266	-	57,266	50,113,341
Special Assessment Bonds	-	31,368,275	31,368,275	31,567,418
Money Market	-	1,841,230	1,841,230	1,749,325
Savers Loan	173,871	-	173,871	107,334
Guaranteed Rate Management Account (GRMA)	2,041,558	-	2,041,558	2,313,638
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14</u>
Total investments	<u>\$ 1,509,545,040</u>	<u>\$ 43,209,505</u>	<u>\$ 1,552,754,545</u>	<u>\$ 1,655,026,268</u>
<b>TOTAL CASH AND INVESTMENTS</b>	<u>\$ 1,779,574,231</u>	<u>\$ 248,860,712</u>	<u>\$ 2,028,434,943</u>	<u>\$ 2,019,010,700</u>