

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

**QUARTERLY AUDIT OF CASH & INVESTMENTS**

December 31, 2013

## TABLE OF CONTENTS

Executive Summary .....	1
Background .....	1-2
Audit Objectives, Scope, and Methodology .....	2-3
Results and Conclusions .....	3-4
Attachment I: Pooled and Non-Pooled Cash and Investment Balances By Fund .....	5-6
Attachment II: Pooled and Non-Pooled Cash and Investment Balances By Security Type .....	7

## 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, 2013. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 2013, the City's cash and investments portfolio totaled approximately \$1.5 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 and 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, Inc. to perform the December 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 December 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 December 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 December 31, 2013 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 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 December 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 December 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 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, 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

The City’s cash and investment balances as of December 31, 2013, are summarized as follows:

Pooled Cash and Investments	\$ 1,312,400,573
Non-Pooled Cash and Investments	<u>194,278,407</u>
Total Cash and Investments	<u>\$ 1,506,678,980</u>

## **RESULTS AND CONCLUSIONS (CONTINUED)**

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at December 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 thanks the City Auditor for the review. Management concurs that investment activity for the subject period was in full compliance with the applicable sections of the California Government Code and City's Investment Policy. The City believes that, as of December 31, 2013, the general ledger account balances and adjustments fairly represent the City's cash and investment position.

*Winder, Inc.*

Long Beach, California  
June 16, 2014

**ATTACHMENT I**

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

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled December 31, 2013</b>	<b>Non-Pooled December 31, 2013</b>	<b>Total at December 31, 2013</b>	<b>Total at December 31, 2012</b>
100	General Fund, General	\$ 113,653,995	\$ 331,620	\$ 113,985,615	\$ 80,994,780
103	General Fund, Library	( 2,467,326)	21,020	( 2,446,306)	( 2,611,206)
105	General Fund, Parks and Recreation	( 1,649,727)	34,865	( 1,614,862)	( 1,677,899)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	4,629,579	-	4,629,579	710,079
121	Special Revenue, Police & Fire	1,131,577	-	1,131,577	749,132
130	Special Revenue, Health	2,969,753	15,650	2,985,403	351,232
131	Special Revenue, CUPA	2,132,819	-	2,132,819	2,127,475
132	Special Revenue, Parking & Business	1,396,603	-	1,396,603	1,383,253
133	Special Advertising & Promotion	6,191,481	-	6,191,481	4,398,845
134	Special Revenue, Upland Oil	12,409,638	-	12,409,638	12,391,124
135	Housing Development	13,595,514	1,672	13,597,186	12,143,368
136	Belmont Shore Parking Meters	992,743	73,185	1,065,928	1,046,533
137	Planning & Building Department	13,807,488	-	13,807,488	13,642,613
149	Special Revenue, Business Assistance	1,523,532	-	1,523,532	1,242,805
150	Community Development Grants	1,069,605	12,591	1,082,196	479,625
151	Housing Authority	8,245,738	12,117	8,257,855	9,429,056
181	Gas Tax Street Improvement	19,858,919	-	19,858,919	17,260,903
182	Special Revenue, Transportation	25,570,671	-	25,570,671	28,920,006
201	Capital Projects	14,975,348	7,199,437	22,174,785	31,506,172
202	Assessment District-Capital Projects	1,551,116	689,110	2,240,226	2,239,152
203	Blight Removal	2	-	2	2
209	Capital Projects - Legislative	7,736,312	-	7,736,312	-
270	SA-RD Obligation Retirement FD Operation	15,269,037	23,768,141	39,037,178	113,639,319
277	SA-RD Obligation Retirement FD Debt SVC	1,002,996	32,754,079	33,757,075	32,619,223
301	Gas Revenue	5,691,240	5,500	5,696,740	7,918,913
303	Gas Prepaid	261,265	5,947,263	6,208,528	6,357,072
310	Water	41,587,725	3,183,036	44,770,761	51,830,084
311	Sewer	7,952,089	-	7,952,089	6,219,895
320	Airport	52,644,008	17,357,190	70,001,198	72,442,569
330	Refuse/Recycling	17,054,782	3,000	17,057,782	18,310,004
331	SERRF	23,735,256	-	23,735,256	25,499,228
337	Development Services	3,477,289	-	3,477,289	-
339	SERRF JPA	187	11,786,001	11,786,188	11,780,881
340	Towing Operations	863,595	3,700	867,295	1,128,204
380	Civic Center	7,925,699	180	7,925,879	8,209,809
385	General Services	9,102,190	5,000	9,107,190	9,973,551
386	Fleet Services Fund	34,902,315	7,500	34,909,815	27,139,406
390	Insurance	29,326,737	61	29,326,798	34,352,980
391	Employee Benefits	80,677,998	-	80,677,998	68,773,148

**ATTACHMENT I**

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

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled December 31, 2013</b>	<b>Non-Pooled December 31, 2013</b>	<b>Total at December 31, 2013</b>	<b>Total at December 31, 2012</b>
401	Tidelands Operations	\$ 182,718,721	\$ 12,948,166	\$ 195,666,887	\$ 174,830,512
403	Tidelands-Marina	7,658,688	15,600	7,674,288	10,221,705
410	Queen Mary	1,700,723	-	1,700,723	1,984,660
411	Tidelands Operating - Rainbow Harbor Area	7,737,559	4,352,384	12,089,943	10,158,792
420	Tidelands Oil Revenue	42,864,112	-	42,864,112	42,153,512
421	Tidelands Reserve - Subsidence	170,457,503	2,025,038	172,482,541	159,708,645
430	Harbor - Operations	1,870,268,319	35,000	1,870,303,319	1,308,729,786
431	Harbor - Capital	( 1,615,275,814)	-	( 1,615,275,814)	( 892,320,322)
432	Harbor Debt Service	52,328,509	63,503,176	115,831,685	207,095,641
433	Harbor - Clean Air Action Plan	( 10,481,253)	-	( 10,481,253)	( 7,559,242)
440	Expandable Trusts	909,154	-	909,154	925,559
451	ICTF JPA	8,573,675	-	8,573,675	4,347,724
452	Earthquake Assessment Agency Funds	883,301	-	883,301	1,174,625
453	Other Special Assessment	131,344	-	131,344	130,474
455	Other Agency	3,345,688	1,500	3,347,188	3,034,156
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	105,778	105,778	65,597
470	Agency Special Assessment CFD #5 Long Beach Towne Center	7,955	1,284,731	1,292,686	1,318,831
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	10,012
472	Agency Special Assessment CFD#6 Pike Public Improvements	128,749	3,245,224	3,373,973	3,398,330
473	Agency Special Assessment - Douglas Park	731,125	1,080,762	1,811,887	6,602,051
474	CFD 2007 Belmont 2004 Spcl Tx Bd	93,177	264,227	357,404	370,750
475	AD 2008-1 Toledo Underground Utility 20B	83,103	113,965	197,068	198,092
476	Douglas Park North	86,836	-	86,836	52,537
600	Debt Service	641,563	2,080,926	2,722,489	3,355,935
999	Accrued Interest Receivable	( 2,991,952)	-	( 2,991,952)	( 4,272,616)
	<b>Total Cash and Investments</b>	<b>\$ 1,312,400,573*</b>	<b>\$ 194,278,407</b>	<b>\$ 1,506,678,980</b>	<b>\$ 1,757,637,082</b>

\* 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, 2013 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2012

	Pooled December 31, 2013	Non-Pooled December 31, 2013	Total at December 31, 2013	Total at December 31, 2012
<b>CASH</b>				
Cash in banks	\$ 141,587,706	\$ 530,594	\$ 142,118,300	\$ 204,745,225
Cash with fiscal agents	-	151,340,836	151,340,836	174,188,755
<b>Total cash</b>	<b>\$ 141,587,706</b>	<b>\$ 151,871,430</b>	<b>\$ 293,459,136</b>	<b>\$ 378,933,980</b>
<b>INVESTMENTS</b>				
U.S. Treasury Bills	\$ 84,984,704	\$ -	\$ 84,984,704	\$ 91,968,264
U.S. Treasury Notes	151,675,765	-	151,675,765	400,761,680
Federal Farm Credit Bank	48,566,971	-	48,566,971	120,265,606
Federal Home Loan Bank	208,587,229	-	208,587,229	208,766,652
Federal National Mortgage Association (FNMA)	224,249,663	-	224,249,663	241,076,445
FNMA Discounts Notes	36,992,274	-	36,992,274	14,994,688
Federal Home Loan Mortgage Corporation (FHLMC)	162,673,435	-	162,673,435	199,512,387
FHLMC Discount Notes	55,985,150	-	55,985,150	-
Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
Local Agency Investment Fund	120,415,618	-	120,415,618	56,161,799
Guaranteed Investment Contracts	-	30,381,939	30,381,939	31,368,275
Special Assessment Bonds	-	2,025,038	2,025,038	1,933,135
Money Market	205,473	-	205,473	131,007
Savers Loan	1,484,769	-	1,484,769	1,763,164
Federal Home Loan Discount	74,991,816	-	74,991,816	-
<b>Total Investments</b>	<b>\$ 1,170,812,867</b>	<b>\$ 42,406,977</b>	<b>\$ 1,213,219,844</b>	<b>\$ 1,378,703,102</b>
<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$ 1,312,400,573</b>	<b>\$ 194,278,407</b>	<b>\$ 1,506,678,980</b>	<b>\$ 1,757,637,082</b>