



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

November 8, 2011

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, 2011.

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, 2011.

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, 2011**



**WINDES & McCLAUGHEY
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 June 30, 2011. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2011, the City's cash and investments portfolio totaled approximately \$2.1 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, 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, in addition, 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, 2011.

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, 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 June 30, 2011 to the City’s general ledger.
- Obtained bank and investment reconciliations at June 30, 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 June 30, 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 June 30, 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 this 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, 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

During our audit, we noted the following reconciling items that were not properly booked in FAMIS to reflect the cash and investment balances at June 30, 2011. The following summarizes our findings:

\$ 2,960,793 Several journal vouchers relating to June 2011 were posted in July 2011 due to delays in the initiation of the reconciliation process for accounts relating to the airport. This resulted in an overstatement in the FAMIS cash with fiscal agent accounts of \$2,960,793 in the Airport Fund (EF320). Cash with fiscal agents is considered part of non-pooled cash and investments.

MANAGEMENT RESPONSE

Financial Management concurs that the overstatement of cash occurred as described. The one-month delay resulted from short-term problems with the transition of the reconciliation process from Financial Management Department to Airport Department staff. Subsequently, Airport staff has successfully assumed responsibility for the process and no further issues are anticipated.

The City's cash and investment balances as of June 30, 2011, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,819,944,025
Non-Pooled Cash and Investments	<u>271,940,975</u>
Total Cash and Investments	<u>\$ 2,091,885,000</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at June 30, 2011, 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.



Long Beach, California
October 27, 2011

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2011
WITH COMPARATIVE TOTALS FOR JUNE 30, 2010**

Fund Number	Name of Fund	Pooled June 30, 2011	Non-Pooled June 30, 2011	Total at June 30, 2011	Total at June 30, 2010
100	General Fund, General	\$ 102,691,682	\$ 4,281,932	\$ 106,973,614	\$ 86,008,032
103	General Fund, Library	1,088,406	21,020	1,109,426	644,206
105	General Fund, Parks and Recreation	3,952,971	2,090,738	6,043,709	6,199,162
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,395,207	-	2,395,207	1,421,697
121	Special Revenue, Police & Fire	569,640	-	569,640	(61,914)
130	Special Revenue, Health	1,049,652	9,419	1,059,071	(482,618)
131	Special Revenue, CUPA	1,065,093	-	1,065,093	683,091
132	Special Revenue, Parking & Business	485,123	-	485,123	1,078,804
133	Special Advertising & Promotion	1,666,053	281	1,666,334	452,710
134	Special Revenue, Upland Oil	20,613,513	-	20,613,513	10,438,293
135	Housing Development	47,468,874	17,329	47,486,203	36,526,725
136	Belmont Shore Parking Meters	981,955	54,084	1,036,039	755,682
137	Planning & Building Department	5,363,907	-	5,363,907	4,182,415
149	Special Revenue, Business Assistance	924,537	-	924,537	473,784
150	Community Development Grants	(837,313)	29,059	(808,254)	(887,582)
151	Housing Authority	14,006,222	67,920	14,074,142	12,088,714
180	Special Revenue, Park Development	294,830	-	294,830	437,517
181	Gas Tax Street Improvement	11,968,547	-	11,968,547	7,287,966
182	Special Revenue, Transportation	33,439,372	-	33,439,372	33,444,548
201	Capital Projects	18,132,801	8,987,596	27,120,397	33,251,011
202	Assessment District-Capital Projects	967,239	1,508,765	2,476,004	2,652,525
203	Blight Removal	71,591,991	10,929,071	82,521,062	-
221	RDA-Poly High	236,782	219,474	456,256	679,830
222	RDA-West Beach	952,726	787,148	1,739,874	3,165,525
223	RDA-West Long Beach	2,168,673	3,158,355	5,327,028	23,957,739
224	RDA-Downtown	2,760,268	8,213,736	10,974,004	24,557,376
225	RDA-Project Income	937,825	-	937,825	5,423,657
227	RDA-Los Altos	392,247	407,967	800,214	952,830
228	RDA-Central	3,616,333	4,079,795	7,696,128	15,895,687
230	RDA-North	10,567,180	21,319,953	31,887,133	81,615,014
232	RDA-Housing	22,413	22,800,629	22,823,042	28,525,981
301	Gas Revenue	14,960,272	655,500	15,615,772	15,863,996
303	Gas Prepaid	702,208	14,816,832	15,519,040	19,214,494
310	Water	45,475,288	3,113,601	48,588,889	29,230,876
311	Sewer	10,197,809	-	10,197,809	8,679,249
320	Airport	35,944,157	58,540,278	94,484,435	86,545,653
330	Refuse/Recycling	23,033,663	3,000	23,036,663	24,887,135
331	SERRF	24,622,618	-	24,622,618	31,527,353
339	SERRF JPA	120,561	11,505,727	11,626,288	11,477,181
340	Towing Operations	193,126	4,000	197,126	634,478
380	Civic Center	7,567,371	180	7,567,551	11,228,925
385	General Services	10,394,212	5,000	10,399,212	7,993,132
386	Fleet Services Fund	17,341,452	2,865,524	20,206,976	18,202,014

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2011
WITH COMPARATIVE TOTALS FOR JUNE 30, 2010
(Continued)**

Fund Number	Name of Fund	Pooled June 30, 2011	Non-Pooled June 30, 2011	Total at June 30, 2011	Total at June 30, 2010
390	Insurance	\$ 31,679,165	\$ 61	\$ 31,679,226	\$ 28,453,185
391	Employee Benefits	84,428,657	-	84,428,657	77,768,587
401	Tidelands Operations	94,346,833	14,739,935	109,086,768	73,683,786
403	Tidelands-Marina	17,897,106	15,600	17,912,706	15,349,948
410	Queen Mary	1,648,603	-	1,648,603	1,701,084
411	Tidelands Operating - Rainbow Harbor Area	4,794,379	4,330,293	9,124,672	8,660,162
420	Tidelands Oil Revenue	76,319,204	-	76,319,204	43,178,039
421	Tidelands Reserve - Subsidence	155,545,158	1,795,276	157,340,434	155,853,461
430	Harbor - Operations	818,959,237	35,000	818,994,237	559,398,554
431	Harbor - Capital	(343,941,982)	-	(343,941,982)	(170,769,005)
432	Harbor Debt Service	313,015,981	63,727,342	376,743,323	493,303,960
433	Harbor - Clean Air Action Plan	(2,821,398)	-	(2,821,398)	3,095,662
440	Expandable Trusts	993,623	-	993,623	1,028,214
451	ICTF JPA	6,391,511	-	6,391,511	8,530,279
452	Earthquake Assessment Agency Funds	1,039,991	-	1,039,991	2,303,019
453	Other Special Assessment	1,458,657	-	1,458,657	1,884,529
455	Other Agency	3,242,580	1,500	3,244,080	2,978,549
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	46,264	46,264	65,041
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	47,646	1,304,871	1,352,517	1,366,655
471	Agency Special Assessment LBBFA Local Agency	-	182,628	182,628	681,997
472	Agency Special Assessment CFD#6 Pike Public Improvements	143,612	3,287,879	3,431,491	3,469,711
473	Agency Special Assessment - Douglas Park	471,310	1,500,839	1,972,149	1,785,202
474	CFD 2007 Belmont 2004 Spcl Tx Bd	45,103	365,610	410,713	562,785
475	AD 2008-1 Toledo Underground Utility 20B	97,275	113,964	211,239	206
999	Accrued Interest Receivable	(6,945,712)	-	(6,945,712)	(7,964,742)
Total Cash and Investments		\$ 1,819,944,025*	\$ 271,940,975	\$ 2,091,885,000	\$ 2,002,221,761

* 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, 2011
WITH COMPARATIVE TOTALS FOR JUNE 30, 2010**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled June 30, 2011</u>	<u>Non-Pooled June 30, 2011</u>	<u>Total at June 30, 2011</u>	<u>Total at June 30, 2010</u>
CASH					
	Cash in banks	\$ 136,049,048	\$ 636,794	\$ 136,685,842	\$ 53,655,191
	Cash with fiscal agents	-	219,655,943	219,655,943	252,256,766
	Total cash	<u>\$ 136,049,048</u>	<u>\$ 220,292,737</u>	<u>\$ 356,341,785</u>	<u>\$ 305,911,957</u>
INVESTMENTS					
	U.S. Treasury Bills	\$ 9,996,423	\$ -	\$ 9,996,423	\$ 79,976,774
	U.S. Treasury Notes	301,259,921	-	301,259,921	316,025,880
	Federal Farm Credit Bank	241,482,176	-	241,482,176	150,469,499
	Federal Home Loan Bank	311,351,101	-	311,351,101	334,153,924
	Federal National Mortgage Association (FNMA)	265,382,170	-	265,382,170	293,108,100
	FNMA Discounts Notes	84,922,664	-	84,922,664	45,955,525
	FFCB Discount Note	19,991,215	-	19,991,215	
	Federal Home Loan Mortgage Corporation (FHLMC)	241,915,168	-	241,915,168	273,996,475
	FHLMC Discount Notes	94,963,461	-	94,963,461	34,930,811
	Federal Home Loan Discount	9,988,356	-	9,988,356	
	Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
	Local Agency Investment Fund (LAIF)	100,251,463	-	100,251,463	50,000,035
	Guaranteed Investment Contracts (GIC)	-	39,852,962	39,852,962	42,746,502
	Special Assessment Bonds	-	1,795,276	1,795,276	1,703,373
	Money Market	212,819	-	212,819	574,644
	Savers Loan	2,178,040	-	2,178,040	2,448,744
	Guaranteed Rate Management Account (GRMA)	-	-	-	219,518
	Time Deposit	-	-	-	60,000,000
	Total investments	<u>\$ 1,683,894,977</u>	<u>\$ 51,648,238</u>	<u>\$ 1,735,543,215</u>	<u>\$ 1,696,309,804</u>
TOTAL CASH AND INVESTMENTS		<u>\$ 1,819,944,025</u>	<u>\$ 271,940,975</u>	<u>\$ 2,091,885,000</u>	<u>\$ 2,002,221,761</u>