

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

**QUARTERLY AUDIT OF CASH & INVESTMENTS
JUNE 30, 2012**



**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 June 30, 2012. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2012, the City's cash and investments 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 June 30, 2012 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 June 30, 2012.

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, 2012 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, 2012 to the City’s general ledger.
- Obtained bank and investment reconciliations at June 30, 2012 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, 2012 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, 2012 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 June 30, 2012, 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 June 30, 2012 are summarized as follows:

Pooled Cash and Investments	\$ 1,772,460,808
Non-Pooled Cash and Investments	<u>243,636,809</u>
Total Cash and Investments	<u>\$ 2,016,097,617</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at June 30, 2012, 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

In connection with the City Auditor's performance audit of the City of Long Beach's cash and investments balances for the quarter ended June 30, 2012, for the purpose of expressing an opinion that the cash and investments balances is presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America and in compliance with the California Government Code and the City's Investment Policy, management concurs with the audit's conclusion and agrees that cash and investment balances are fairly stated and that the City is in compliance with the relevant provisions of the California Government Code and City Investment Policy.



Long Beach, California
October 30, 2012

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

Fund Number	Name of Fund	Pooled June 30, 2012	Non-Pooled June 30, 2012	Total at June 30, 2012	Total at June 30, 2011
100	General Fund, General	\$ 97,446,837	\$ 330,381	\$ 97,777,218	\$ 106,973,614
103	General Fund, Library	(3,014,904)	21,020	(2,993,884)	1,109,426
105	General Fund, Parks and Recreation	(687,360)	34,865	(652,495)	6,043,709
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	(482,829)	-	(482,829)	2,395,207
121	Special Revenue, Police & Fire	1,098,504	-	1,098,504	569,640
130	Special Revenue, Health	1,639,567	7,268	1,646,835	1,059,071
131	Special Revenue, CUPA	1,414,632	-	1,414,632	1,065,093
132	Special Revenue, Parking & Business	1,158,840	-	1,158,840	485,123
133	Special Advertising & Promotion	3,189,200	281	3,189,481	1,666,334
134	Special Revenue, Upland Oil	19,085,528	-	19,085,528	20,613,513
135	Housing Development	43,338,654	7,000	43,345,654	47,486,203
136	Belmont Shore Parking Meters	1,056,352	62,715	1,119,067	1,036,039
137	Planning & Building Department	8,526,745	-	8,526,745	5,363,907
149	Special Revenue, Business Assistance	1,088,793	-	1,088,793	924,537
150	Community Development Grants	(98,276)	12,030	(86,246)	(808,254)
151	Housing Authority	10,257,739	584,538	10,842,277	14,074,142
180	Special Revenue, Park Development	-	-	-	294,830
181	Gas Tax Street Improvement	15,803,734	-	15,803,734	11,968,547
182	Special Revenue, Transportation	34,458,190	-	34,458,190	33,439,372
201	Capital Projects	17,634,699	8,249,590	25,884,289	27,120,397
202	Assessment District-Capital Projects	1,551,293	689,064	2,240,357	2,476,004
203	Blight Removal	2	-	2	82,521,062
221	RDA-Poly High	-	-	-	456,256
222	RDA-West Beach	-	-	-	1,739,874
223	RDA-West Long Beach	-	-	-	5,327,028
224	RDA-Downtown	-	-	-	10,974,004
225	RDA-Project Income	-	-	-	937,825
227	RDA-Los Altos	-	-	-	800,214
228	RDA-Central	-	-	-	7,696,128
230	RDA-North	-	-	-	31,887,133
232	RDA-Housing	-	-	-	22,823,042
270	SA-RD Obligation Retirement FD Operation	105,251,751	39,652,605	144,904,356	-
277	SA-RD Obligation Retirement FD Debt SVC	-	31,851,461	31,851,461	-
301	Gas Revenue	17,114,324	655,500	17,769,824	15,615,772
303	Gas Prepaid	11,919	14,159,866	14,171,785	15,519,040
310	Water	49,834,633	3,118,695	52,953,328	48,588,889
311	Sewer	8,562,336	-	8,562,336	10,197,809
320	Airport	44,210,914	32,597,765	76,808,679	94,484,435
330	Refuse/Recycling	20,709,905	3,000	20,712,905	23,036,663
331	SERRF	28,632,533	-	28,632,533	24,622,618
339	SERRF JPA	128,348	11,591,901	11,720,249	11,626,288
340	Towing Operations	1,667,354	4,000	1,671,354	197,126

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR JUNE 30, 2011 (Continued)

Fund Number	Name of Fund	Pooled June 30, 2012	Non-Pooled June 30, 2012	Total at June 30, 2012	Total at June 30, 2011
380	Civic Center	8,420,414	180	8,420,594	7,567,551
385	General Services	10,825,592	5,000	10,830,592	10,399,212
386	Fleet Services Fund	24,895,031	2,793,858	27,688,889	20,206,976
390	Insurance	35,976,468	61	35,976,529	31,679,226
391	Employee Benefits	69,463,280	-	69,463,280	84,428,657
401	Tidelands Operations	145,163,363	14,447,031	159,610,394	109,086,768
403	Tidelands-Marina	11,912,884	15,600	11,928,484	17,912,706
410	Queen Mary	1,850,111	-	1,850,111	1,648,603
411	Tidelands Operating – Rainbow Harbor Area	5,481,784	4,319,759	9,801,543	9,124,672
420	Tidelands Oil Revenue	55,695,796	-	55,695,796	76,319,204
421	Tidelands Reserve - Subsidence	156,937,425	1,887,182	158,824,607	157,340,434
430	Harbor - Operations	1,123,685,292	35,000	1,123,720,292	818,994,237
431	Harbor - Capital	(609,214,053)	-	(609,214,053)	(343,941,982)
432	Harbor Debt Service	191,166,203	63,487,901	254,654,104	376,743,323
433	Harbor - Clean Air Action Plan	(5,618,029)	-	(5,618,029)	(2,821,398)
440	Expandable Trusts	968,290	-	968,290	993,623
451	ICTF JPA	4,407,602	-	4,407,602	6,391,511
452	Earthquake Assessment Agency Funds	1,107,603	-	1,107,603	1,039,991
453	Other Special Assessment	1,320,873	-	1,320,873	1,458,657
455	Other Agency	3,400,617	1,500	3,402,117	3,244,080
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	48,378	48,378	46,264
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	17,779	1,301,499	1,319,278	1,352,517
471	Agency Special Assessment LBBFA Local Agency	-	184,151	184,151	182,628
472	Agency Special Assessment CFD#6 Pike Public Improvements	143,538	3,549,793	3,693,331	3,431,491
473	Agency Special Assessment – Douglas Park	456,800	1,522,939	1,979,739	1,972,149
474	CFD 2007 Belmont 2009 Spcl Tx Bd	78,769	264,230	342,999	410,713
475	AD 2008-1 Toledo Underground Utility 20B	108,185	113,964	222,149	211,239
476	Douglas Park North	38,143	-	38,143	-
600	Debt Service	16,861	6,025,238	6,042,099	-
999	Accrued Interest Receivable	(5,835,770)	-	(5,835,770)	(6,945,712)
Total Cash and Investments		<u>\$ 1,772,460,808*</u>	<u>\$ 243,636,809</u>	<u>\$ 2,016,097,617</u>	<u>\$ 2,091,885,000</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 JUNE 30, 2012 WITH COMPARATIVE TOTALS FOR JUNE 30, 2011

	<u>Pooled June 30, 2012</u>	<u>Non-Pooled June 30, 2012</u>	<u>Total at June 30, 2012</u>	<u>Total at June 30, 2011</u>
CASH				
Cash in banks	\$ 215,413,789	\$ 1,107,789	\$ 216,521,578	\$ 136,685,842
Cash with fiscal agents	<u>-</u>	<u>186,351,782</u>	<u>186,351,782</u>	<u>219,655,943</u>
Total cash	<u>\$ 215,413,789</u>	<u>\$ 187,459,571</u>	<u>\$ 402,873,360</u>	<u>\$ 356,341,785</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 73,935,525	-	\$ 73,935,525	\$ 9,996,423
U.S. Treasury Notes	422,945,487	-	422,945,487	301,259,921
Federal Farm Credit Bank (FFCB)	160,021,372	-	160,021,372	241,482,176
Federal Home Loan Bank	274,528,487	-	274,528,487	311,351,101
Federal National Mortgage Association (FNMA)	312,801,486	-	312,801,486	265,382,170
FNMA Discounts Notes	19,994,472	-	19,994,472	84,922,664
FFCB Discount Note	7,997,138	-	7,997,138	19,991,215
Federal Home Loan Mortgage Corporation (FHLMC)	205,330,913	-	205,330,913	241,915,168
FHLMC Discount Notes	-	-	-	94,963,461
Federal Home Loan Discount Certificate of Deposit	19,990,667	-	19,990,667	9,988,356
Local Agency Investment Fund	57,099,035	\$ 10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	-	44,290,055	44,290,055	39,852,962
Special Assessment Bonds	-	1,887,183	1,887,183	1,795,276
Money Market	500,076	-	500,076	212,819
Savers Loan	<u>1,902,361</u>	<u>-</u>	<u>1,902,361</u>	<u>2,178,040</u>
Total investments	<u>\$ 1,557,047,019</u>	<u>\$ 56,177,238</u>	<u>\$ 1,613,224,257</u>	<u>\$ 1,735,543,215</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,772,460,808</u>	<u>\$ 243,636,809</u>	<u>\$ 2,016,097,617</u>	<u>\$ 2,091,885,000</u>