



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

QUARTERLY AUDIT OF CASH & INVESTMENTS

March 31, 2014

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 March 31, 2014. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 2014, 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 March 31, 2014 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 March 31, 2014.

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 March 31, 2014 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 March 31, 2014 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 2014 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 March 31, 2014 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 March 31, 2014 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 March 31, 2014, 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 March 31, 2014 are summarized as follows:

Pooled Cash and Investments	\$ 1,303,818,352
Non-Pooled Cash and Investments	<u>206,344,484</u>
Total Cash and Investments	<u>\$ 1,510,162,836</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 March 31, 2014, 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 March 31, 2014, the general ledger account balances and adjustments fairly represent the City's cash and investment position.



Long Beach, California
July 18, 2014

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2014
WITH COMPARATIVE TOTALS FOR MARCH 31, 2013**

Fund Number	Name of Fund	Pooled March 31, 2014	Non-Pooled March 31, 2014	Total at March 31, 2014	Total at March 31, 2013
100	General Fund, General	\$ 88,495,805	\$ 328,202	\$ 88,824,007	\$ 110,886,970
103	General Fund, Library	(6,317,322)	21,020	(6,296,302)	(6,307,151)
105	General Fund, Parks and Recreation	(6,430,462)	34,865	(6,395,597)	(7,027,467)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,815,573	-	2,815,573	(406,588)
121	Special Revenue, Police & Fire	108,877	-	108,877	810,265
130	Special Revenue, Health	2,202,837	15,650	2,218,487	99,738
131	Special Revenue, CUPA	1,926,106	-	1,926,106	1,858,305
132	Special Revenue, Parking & Business	676,103	-	676,103	652,815
133	Special Advertising & Promotion	6,394,535	-	6,394,535	4,467,632
134	Special Revenue, Upland Oil	15,581,978	-	15,581,978	21,310,830
135	Housing Development	13,749,548	3,922	13,753,470	11,724,987
136	Belmont Shore Parking Meters	888,110	75,080	963,190	1,127,985
137	Planning & Building Department	13,777,774	-	13,777,774	12,939,794
149	Special Revenue, Business Assistance	1,601,273	-	1,601,273	1,313,984
150	Community Development Grants	894,916	12,442	907,358	1,233,510
151	Housing Authority	9,082,236	38,362	9,120,598	9,968,437
181	Gas Tax Street Improvement	18,275,304	-	18,275,304	18,137,005
182	Special Revenue, Transportation	23,861,850	-	23,861,850	29,401,749
201	Capital Projects	30,673,884	7,200,473	37,874,357	34,238,966
202	Assessment District-Capital Projects	1,549,886	689,120	2,239,006	2,238,827
203	Blight Removal	2	-	2	2
209	Capital Projects - Legislative	14,706,027	-	14,706,027	-
270	SA-RD Obligation Retirement FD Operation	19,850,192	23,768,372	43,618,564	92,408,673
277	SA-RD Obligation Retirement FD Debt SVC	(16,044)	31,955,806	31,939,762	32,485,203
301	Gas Revenue	6,131,064	5,500	6,136,564	11,768,617
303	Gas Prepaid	259,936	17,996,664	18,256,600	18,736,959
310	Water	43,432,523	3,183,036	46,615,559	49,463,875
311	Sewer	8,046,738	-	8,046,738	6,497,897
320	Airport	55,196,931	17,501,627	72,698,558	70,092,170
330	Refuse/Recycling	17,667,315	3,000	17,670,315	18,053,979
331	SERRF	20,266,112	-	20,266,112	23,088,354
337	Development Services	2,469,275	-	2,469,275	-
339	SERRF JPA	187	11,740,824	11,741,011	11,796,247
340	Towing Operations	933,472	3,700	937,172	1,774,783
380	Civic Center	6,469,405	180	6,469,585	7,688,642
385	General Services	20,400,118	5,000	20,405,118	8,448,127
386	Fleet Services Fund	36,823,286	7,500	36,830,786	28,584,975
390	Insurance	40,938,556	61	40,938,617	36,297,901

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2014
WITH COMPARATIVE TOTALS FOR MARCH 31, 2013
(Continued)**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled March 31, 2014</u>	<u>Non-Pooled March 31, 2014</u>	<u>Total at March 31, 2014</u>	<u>Total at March 31, 2013</u>
391	Employee Benefits	86,506,887	-	86,506,887	74,979,822
401	Tidelands Operations	178,520,238	12,714,247	191,234,485	184,532,028
403	Tidelands-Marina	7,186,239	15,600	7,201,839	10,818,322
410	Queen Mary	1,585,886	-	1,585,886	1,975,402
411	Tidelands Operating – Rainbow Harbor Area	12,900,342	4,378,962	17,279,304	8,684,424
420	Tidelands Oil Revenue	40,990,293	-	40,990,293	74,029,702
421	Tidelands Reserve - Subsidence	170,561,451	2,048,014	172,609,465	159,848,717
430	Harbor - Operations	1,961,486,756	35,000	1,961,521,756	1,388,299,675
431	Harbor - Capital	(1,749,962,002)	-	(1,749,962,002)	(1,050,379,020)
432	Harbor Debt Service	72,026,381	63,606,370	135,632,751	227,222,889
433	Harbor - Clean Air Action Plan	(10,584,131)	-	(10,584,131)	(7,744,013)
440	Expandable Trusts	918,306	-	918,306	933,060
451	ICTF JPA	4,577,216	-	4,577,216	4,350,951
452	Earthquake Assessment Agency Funds	889,658	-	889,658	1,186,694
453	Other Special Assessment	131,423	-	131,423	130,801
455	Other Agency	3,386,156	1,500	3,387,656	3,064,758
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	120,469	120,469	39,821
470	Agency Special Assessment CFD #5 Long Beach Towne Center	29	1,285,364	1,285,393	1,633,834
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	10,012
472	Agency Special Assessment CFD#6 Pike Public Improvements	47,408	4,333,653	4,381,061	4,385,512
473	Agency Special Assessment - Douglas Park	563,449	1,082,757	1,646,206	6,372,177
474	CFD 2007 Belmont 2004 Spcl Tx Bd	205,116	360,632	565,748	380,352
475	AD 2008-1 Toledo Underground Utility 20B	83,870	113,965	197,835	202,619
476	Douglas Park North	86,618	-	86,618	54,229
600	Debt Service	1,574,007	1,647,533	3,221,540	2,948,117
999	Accrued Interest Receivable	(2,247,150)	-	(2,247,150)	(3,967,844)
	Total Cash and Investments	<u>\$ 1,303,818,352*</u>	<u>\$ 206,344,484</u>	<u>\$ 1,510,162,836</u>	<u>\$ 1,768,850,038</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 MARCH 31, 2014
WITH COMPARATIVE TOTALS FOR MARCH 31, 2013**

	<u>Pooled March 31, 2014</u>	<u>Non-Pooled March 31, 2014</u>	<u>Total at March 31, 2014</u>	<u>Total at March 31, 2013</u>
CASH				
Cash in banks	\$ 169,233,161	\$ 557,879	\$ 169,791,040	\$ 178,295,971
Cash with fiscal agents	<u>-</u>	<u>151,320,139</u>	<u>151,320,139</u>	<u>160,050,168</u>
Total cash	<u>\$ 169,233,161</u>	<u>\$ 151,878,018</u>	<u>\$ 321,111,179</u>	<u>\$ 338,346,139</u>
INVESTMENTS				
U.S. Treasury Bills	114,988,843	-	114,988,843	66,993,297
U.S. Treasury Notes	135,430,827	-	135,430,827	389,878,953
Federal Farm Credit Bank	48,528,825	-	48,528,825	85,246,737
Federal Home Loan Bank	245,492,259	-	245,492,259	184,713,050
Federal National Mortgage Association (FNMA)	220,817,834	-	220,817,834	228,263,606
FNMA Discounts Notes	16,998,263	-	16,998,263	14,997,850
Federal Home Loan Mortgage Corporation (FHLMC)	174,209,153	-	174,209,153	202,738,163
FHLMC Discount Notes	25,997,033	-	25,997,033	24,992,553
Federal Home Loan Discount Certificate of Deposit	-	-	-	39,996,161
Local Agency Investment Fund	120,477,726	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	-	-	120,477,726	118,208,817
Special Assessment Bonds	-	42,418,452	42,418,452	43,559,128
Corporate Bonds	-	2,048,014	2,048,014	1,956,110
Money Market	231,176	-	-	16,977,865
Savers Loan	1,415,171	-	231,176	288,044
Federal Home Loan Discount	29,998,081	-	1,415,171	1,693,565
Total Investments	<u>\$ 1,134,585,191</u>	<u>\$ 54,466,466</u>	<u>\$ 1,189,051,657</u>	<u>\$ 1,430,503,899</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,303,818,352</u>	<u>\$ 206,344,484</u>	<u>\$ 1,510,162,836</u>	<u>\$ 1,768,850,038</u>