

WINDES

AUDIT | TAX | ADVISORY

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

QUARTERLY AUDIT OF CASH & INVESTMENTS

September 30, 2013

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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 September 30, 2013. The City of Long Beach's management is responsible for the cash and investment balances. As of September 30, 2013, the City's cash and investment 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, 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 September 30, 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 September 30, 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 September 30, 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 September 30, 2013 to the City’s general ledger.
- Obtained bank and investment reconciliations at September 30, 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 September 30, 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 September 30, 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.)
- Recalculated accrued interest (in aggregate) to determine if accrued interest for investments held at September 30, 2013 was accurately stated on the City's general ledger.

The allocation of accrued interest and 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 September 30, 2013 are summarized as follows:

Pooled Cash and Investments	\$ 1,322,502,592
Non-Pooled Cash and Investments	<u>215,264,705</u>
Total Cash and Investments	<u>\$ 1,537,767,297</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at September 30, 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 agrees that it is in full compliance with the applicable sections of the California Government Code and City's Investment Policy. The City believes that, as of September 30, 2013, the general ledger account balances and adjustments fairly represent the City's cash and investment position.



Long Beach, California
March 27, 2014

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2012**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled September 30, 2013</u>	<u>Non-Pooled September 30, 2013</u>	<u>Total at September 30, 2013</u>	<u>Total at September 30, 2012</u>
100	General Fund, General	\$ 101,544,050	\$ 318,580	\$ 101,862,630	\$ 52,168,761
103	General Fund, Library	558,462	21,020	579,482	394,239
105	General Fund, Parks and Recreation	3,220,325	34,865	3,255,190	2,980,245
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	1,151,559	-	1,151,559	589,463
121	Special Revenue, Police & Fire	597,544	-	597,544	1,003,487
130	Special Revenue, Health	911,903	15,650	927,553	1,648,598
131	Special Revenue, CUPA	1,074,101	-	1,074,101	1,091,601
132	Special Revenue, Parking & Business	1,247,811	-	1,247,811	418,722
133	Special Advertising & Promotion	5,586,078	-	5,586,078	3,908,976
134	Special Revenue, Upland Oil	21,034,029	-	21,034,029	19,699,077
135	Housing Development	13,754,067	8,839	13,762,906	10,040,778
136	Belmont Shore Parking Meters	991,407	71,523	1,062,930	1,005,889
137	Planning & Building Department	14,389,102	-	14,389,102	10,073,600
149	Special Revenue, Business Assistance	1,523,946	-	1,523,946	1,119,953
150	Community Development Grants	208,342	19,335	227,677	279,458
151	Housing Authority	8,572,116	33,379	8,605,495	10,263,409
181	Gas Tax Street Improvement	18,085,879	-	18,085,879	17,206,043
182	Special Revenue, Transportation	26,924,771	-	26,924,771	29,096,671
201	Capital Projects	13,933,382	7,198,287	21,131,669	23,887,222
202	Assessment District-Capital Projects	1,552,614	689,100	2,241,714	2,241,060
203	Blight Removal	2	-	2	2
209	Legislative - Capital Projects	10,573,453	-	10,573,453	-
270	SA-RD Obligation Retirement FD Operation	22,923,966	23,767,907	46,691,873	157,632,542
277	SA-RD Obligation Retirement FD Debt SVC	1,006,634	32,368,767	33,375,401	32,615,273
301	Gas Revenue	7,508,040	5,500	7,513,540	11,263,621
303	Gas Prepaid	267,865	20,685,751	20,953,616	21,847,621
310	Water	43,374,688	3,159,000	46,533,688	52,006,988
311	Sewer	9,076,463	-	9,076,463	6,625,250
320	Airport	49,216,037	18,378,707	67,594,744	74,423,753
330	Refuse/Recycling	15,824,667	3,000	15,827,667	18,259,137
331	SERRF	31,077,322	-	31,077,322	29,921,910
339	SERRF JPA	28	11,628,477	11,628,505	11,708,992
340	Towing Operations	646,239	3,700	649,939	1,149,585
380	Civic Center	7,064,196	180	7,064,376	7,083,051
385	General Services	10,022,423	5,000	10,027,423	10,617,649
386	Fleet Services Fund	32,701,005	7,500	32,708,505	29,635,531
390	Insurance	36,422,208	61	36,422,269	36,071,801
391	Employee Benefits	83,049,788	-	83,049,788	76,941,878

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2012
(Continued)**

Fund Number	Name of Fund	Pooled September 30, 2013	Non-Pooled September 30, 2013	Total at September 30, 2013	Total at September 30, 2012
401	Tidelands Operations	179,618,580	16,160,633	195,779,213	166,211,718
403	Tidelands-Marina	4,332,268	15,600	4,347,868	7,825,274
410	Queen Mary	2,042,054	-	2,042,054	1,895,657
411	Tidelands Operating – Rainbow Harbor Area	7,524,518	4,357,471	11,881,989	10,560,489
420	Tidelands Oil Revenue	52,812,939	-	52,812,939	74,734,996
421	Tidelands Reserve - Subsidence	170,336,868	2,002,062	172,338,930	159,872,284
430	Harbor - Operations	1,713,933,883	35,000	1,713,968,883	1,258,894,390
431	Harbor - Capital	(1,464,635,826)	-	(1,464,635,826)	(730,085,774)
432	Harbor Debt Service	47,396,615	63,700,495	111,097,110	208,087,332
433	Harbor - Clean Air Action Plan	(9,339,506)	-	(9,339,506)	(6,692,258)
440	Expandable Trusts	895,476	-	895,476	910,205
451	ICTF JPA	4,362,316	-	4,362,316	4,422,306
452	Earthquake Assessment Agency Funds	886,800	-	886,800	1,018,922
453	Other Special Assessment	129,893	-	129,893	1,313,554
455	Other Agency	3,412,586	1,500	3,414,086	3,285,732
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	162,436	162,436	53,840
470	Agency Special Assessment CFD #5 Long Beach Towne Center	12,644	1,288,691	1,301,335	1,319,486
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	10,044
472	Agency Special Assessment CFD#6 Pike Public Improvements	116,216	5,328,054	5,444,270	5,619,587
473	Agency Special Assessment – Douglas Park	425,908	1,079,860	1,505,768	6,296,094
474	CFD 2007 Belmont 2004 Spcl Tx Bd	73,545	421,534	495,079	506,265
475	AD 2008-1 Toledo Underground Utility 20B	47,365	113,965	161,330	161,778
476	Douglas Park North	72,124	-	72,124	36,057
600	Debt Service	1,428,815	2,163,264	3,592,079	7,994,980
	Total Cash and Investments	<u>\$ 1,322,502,592*</u>	<u>\$ 215,264,705</u>	<u>\$ 1,537,767,297</u>	<u>\$ 1,960,174,794</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 SEPTEMBER 30, 2013
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2012**

	<u>Pooled September 30, 2013</u>	<u>Non-Pooled September 30, 2013</u>	<u>Total at September 30, 2013</u>	<u>Total at September 30, 2012</u>
CASH				
Cash in banks	\$ 198,868,678	\$ 566,609	\$ 199,435,287	\$ 195,326,842
Cash with fiscal agents	<u>-</u>	<u>157,580,121</u>	<u>157,580,121</u>	<u>192,959,470</u>
Total cash	<u>\$ 198,868,678</u>	<u>\$ 158,146,730</u>	<u>\$ 357,015,408</u>	<u>\$ 388,286,312</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 36,996,359	\$ -	\$ 36,996,359	\$ 111,962,262
U.S. Treasury Notes	226,157,969	-	226,157,969	426,294,428
Federal Farm Credit Bank (FFCB)	58,348,616	-	58,348,616	153,174,228
Federal Home Loan Bank	155,033,999	-	155,033,999	215,103,233
Federal National Mortgage Association (FNMA)	211,805,439	-	211,805,439	270,041,300
FNMA Discounts Notes	46,993,660	-	46,993,660	44,992,150
FFCB Discount Note	-	-	-	8,000,000
Federal Home Loan Mortgage Corporation (FHLMC)	200,117,330	-	200,117,330	181,000,326
FHLMC Discount Notes	65,993,680	-	65,993,680	-
Federal Home Loan Discount	-	-	-	29,998,983
Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
Local Agency Investment Fund	120,399,498	-	120,399,498	70,162,815
Guaranteed Investment Contracts	-	45,115,913	45,115,913	46,879,422
Special Assessment Bonds	-	2,002,062	2,002,062	1,910,159
Money Market	232,309	-	232,309	535,681
Savers Loan	<u>1,555,055</u>	<u>-</u>	<u>1,555,055</u>	<u>1,833,495</u>
Total investments	<u>\$ 1,123,633,914</u>	<u>\$ 57,117,975</u>	<u>\$ 1,180,751,889</u>	<u>\$ 1,571,888,482</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,322,502,592</u>	<u>\$ 215,264,705</u>	<u>\$ 1,537,767,297</u>	<u>\$ 1,960,174,794</u>