



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

December 7, 2010

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, 2010.

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, 2010.

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

Office of the City Auditor

Audit Report

Quarterly Audit of Cash & Investments

As of June 30, 2010

December 2010



Audit Staff

City Auditor: Laura L. Doud
Assistant City Auditor: Deborah K. Ellis
Deputy City Auditor: Janet Day
Audit Manager: Patrice Launay
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EXECUTIVE SUMMARY

The Office of the City Auditor has completed the quarterly audit of the cash and investment balances of the City of Long Beach as of June 30, 2010. The City of Long Beach's management is responsible for the schedules of cash and investments. Our responsibility is to verify cash on a quarterly basis and provide a written report to the City Council. As of June 30, 2010, the City's cash and investment portfolio totaled approximately \$2 billion.

Based on the results of audit procedures performed as described below, cash and investment balances as recorded on the City's books as of June 30, 2010 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.

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 in the City Treasury on a quarterly basis and providing a written report to the City Council.

This performance audit of the 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 within 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.

Non-pooled Cash and Investments

Generally, non-pooled cash is 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, for a period of two years with options for

three one-year extensions, at the discretion of the City Manager. Per the agreement, Chandler actively manages approximately 25 percent of the City's pooled funds as well as provides ongoing oversight of investments, financial markets, regulatory developments, investment strategy reviews and performance management.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of our audit were to agree 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 and the City's Investment Policy.

The scope of this audit was limited to the quarter ending June 30, 2010.

We performed the following procedures in our audit:

- Obtained an understanding of the internal controls surrounding the City's cash and investments;
- 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, 2010 and agreed them to the City's general ledger;
- Traced the balance of total investments on the City Treasurer's Investment Holdings Report as of June 30, 2010 to the City's general ledger;
- Analyzed the bank account and investment reconciliations as of June 30, 2010 and agreed them to the City's general ledger. This included testing, on a sample basis, the various adjustments made on the reconciliations;
- Compared investments listed on the City Treasurer's Investment Activity Portfolio Statistics Report as of June 30, 2010 to the types of investments authorized for the City in accordance with the City's Investment Policy and California Government Code Section 53601;
- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report as of June 30, 2010 to the portfolio mix limitations imposed by the City's Investment Policy and California Government Code Section 53601 for specific investment types;
- Recomputed and reviewed supporting documentation, on a sample basis, relevant to the purchase, sale and maturity of individual pooled investments to determine compliance with the following provisions of the California Government Code Section 53601, and the City's Investment Policy:
 - Purchase 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 our fourth quarter cash and investments audit. As such, we did not test accrued interest, which is excluded from the balance of Total Cash and Investments as of June 30, 2010, 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.

We conducted this 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.

RESULTS AND CONCLUSIONS

The City's cash and investment balances as of June 30, 2010 are summarized as follows:

Pooled Cash and Investments	\$ 1,694,778,233
Non-Pooled Cash and Investments	<u>307,443,528</u>
Total Cash and Investments	<u>\$ 2,002,221,761</u>

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.

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books as of June 30, 2010, agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with the California Government Code Section 53601 and the City's Investment Policy, with regards to the audit procedures described in the Audit Objectives, Scope, and Methodology Section

MANAGEMENT COMMENTS

Management concurs with the result of this audit report.

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR JUNE 30, 2009**

Fund #	Name of Fund	Pooled 6/30/2010	Non-Pooled 6/30/2010	Total at 6/30/2010	Total at 6/30/2009
100	General Fund, General	\$ 81,750,024	\$ 4,258,008	\$ 86,008,032	\$ 97,339,808
103	General Fund, Library	623,186	21,020	644,206	1,303,529
105	General Fund, Parks and Recreation	4,458,031	1,741,131	6,199,162	6,781,106
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	1,421,697	-	1,421,697	4,509,516
121	Special Revenue, Police & Fire	(61,914)	-	(61,914)	867,932
130	Special Revenue, Health	(495,039)	12,421	(482,618)	(1,293,044)
131	Special Revenue, CUPA	683,091	-	683,091	561,857
132	Special Revenue, Parking & Business	1,078,804	-	1,078,804	906,664
133	Special Advertising & Promotion	452,429	281	452,710	281,176
134	Special Revenue, Upland Oil	10,438,293	-	10,438,293	10,698,409
135	Housing Development	36,509,789	16,936	36,526,725	50,210,152
136	Belmont Shore Parking Meters	707,813	47,869	755,682	702,597
137	Planning & Building Department	4,182,415	-	4,182,415	3,289,213
149	Special Revenue, Business Assistance	473,784	-	473,784	487,197
150	Community Development Grants	(903,703)	16,121	(887,582)	170,504
151	Housing Authority	11,908,384	180,330	12,088,714	12,087,981
180	Special Revenue, Park Development	437,517	-	437,517	79,025
181	Gas Tax Street Improvement	7,287,966	-	7,287,966	8,920,012
182	Special Revenue, Transportation	33,444,548	-	33,444,548	37,921,632
201	Capital Projects	18,642,971	14,608,040	33,251,011	33,693,217
202	Assessment District-Capital Projects	1,192,302	1,460,223	2,652,525	2,515,828
220	RDA-LB Bond Authority	-	-	-	31,555
221	RDA-Poly High	460,817	219,013	679,830	1,142,912
222	RDA-West Beach	2,391,508	774,017	3,165,525	3,318,656
223	RDA-West Long Beach	20,815,580	3,142,159	23,957,739	24,538,242
224	RDA-Downtown	16,315,609	8,241,767	24,557,376	31,428,857
225	RDA-Project Income	5,423,657	-	5,423,657	3,989,837
227	RDA-Los Altos	544,863	407,967	952,830	893,724
228	RDA-Central	8,345,513	7,550,174	15,895,687	20,465,446
230	RDA-North	28,542,759	53,072,255	81,615,014	53,533,294
232	RDA-Housing	18,460	28,507,521	28,525,981	29,840,217
301	Gas Revenue	15,208,496	655,500	15,863,996	11,038,318
303	Gas Prepaid	4,342,058	14,872,436	19,214,494	17,232,812
310	Water	29,210,876	20,000	29,230,876	22,434,783
311	Sewer	6,814,324	1,864,925	8,679,249	3,004,840
320	Airport	29,357,746	57,187,907	86,545,653	31,349,390
330	Refuse/Recycling	24,884,135	3,000	24,887,135	23,916,286
331	SERRF	31,527,353	-	31,527,353	34,907,444
339	SERRF JPA	99,139	11,378,042	11,477,181	11,249,338
340	Towing Operations	630,778	3,700	634,478	440,374
380	Civic Center	8,252,951	2,975,974	11,228,925	12,628,882
385	General Services	7,988,132	5,000	7,993,132	7,899,131

ATTACHMENT I
(CONTINUED)

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND
AT JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR JUNE 30, 2009

Fund #	Name of Fund	Pooled 6/30/2010	Non-Pooled 6/30/2010	Total at 6/30/2010	Total at 6/30/2009
386	Fleet Services Fund	\$ 15,336,404	\$ 2,865,610	\$ 18,202,014	\$ 12,419,769
390	Insurance	28,453,124	61	28,453,185	17,728,223
391	Employee Benefits	77,768,587	-	77,768,587	64,305,221
401	Tidelands Operations	59,669,744	14,014,042	73,683,786	55,994,152
403	Tidelands-Marina	15,334,348	15,600	15,349,948	11,363,304
410	Queen Mary	1,701,084	-	1,701,084	3,434,922
411	Tidelands Operating - Rainbow Harbor Area	4,074,407	4,585,755	8,660,162	8,067,850
420	Tidelands Oil Revenue	43,178,039	-	43,178,039	34,088,929
421	Tidelands Reserve - Subsidence	154,150,088	1,703,373	155,853,461	165,099,386
430	Harbor - Operations	559,363,554	35,000	559,398,554	645,311,335
431	Harbor - Capital	(170,769,005)	-	(170,769,005)	(106,131,039)
432	Harbor Debt Service	429,746,652	63,557,308	493,303,960	438,952,951
433	Harbor - Clean Air Action Plan	3,095,662	-	3,095,662	(1,346,748)
440	Expandable Trusts	1,028,214	-	1,028,214	1,068,959
451	ICTF JPA	8,530,279	-	8,530,279	11,966,930
452	Earthquake Assessment Agency Funds	2,303,019	-	2,303,019	2,003,939
453	Other Special Assessment	1,884,529	-	1,884,529	2,588,997
455	Other Agency	2,977,049	1,500	2,978,549	2,880,546
460	Los Cerritos Wetlands Authority Agency Special Assessment DFD #5 LB	-	65,041	65,041	24,794
470	Agency Special Assessment CFD #5 Long Beach Town Center	77,935	1,288,720	1,366,655	1,409,988
471	Agency Special Assessment LBBFA Local Agency	-	681,997	681,997	795,614
472	Agency Special Assessment CFD#6 Pike Public Improvements	189,772	3,279,939	3,469,711	3,502,444
473	Agency Special Assessment - Douglas Park	242,142	1,543,060	1,785,202	3,518,526
474	CFD 2007 Belmont 2004 Spcl Tx Bd	-	562,785	562,785	-
475	AD2008-1 Toledo Underground Utility 20B	206	-	206	-
999	Accrued Interest Receivable	(7,964,742)	-	(7,964,742)	(7,067,383)
TOTAL CASH AND INVESTMENTS		\$ 1,694,778,233 *	\$ 307,443,528	\$ 2,002,221,761	\$ 1,998,300,258

* We tested the City's Pooled Investment Fund in aggregate; the City's allocation of Pooled Investments is presented for informational purposes only.

ATTACHMENT II

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY SECURITY TYPE
AT JUNE 30, 2010 WITH COMPARATIVE TOTALS FOR JUNE 30, 2009**

	Pooled 6/30/2010	Non-Pooled 6/30/2010	Total 6/30/2010	Total 6/30/2009
CASH:				
Cash in Banks	\$ 52,918,304	\$ 736,887	\$ 53,655,191	\$ 104,667,496
Cash with Fiscal Agents	-	252,256,766	252,256,766	161,397,331
	<u>\$ 52,918,304</u>	<u>\$ 252,993,653</u>	<u>\$ 305,911,957</u>	<u>\$ 266,064,827</u>
INVESTMENTS:				
U.S. Treasury Bills	\$ 79,976,774	\$ -	\$ 79,976,774	\$ 558,958,972
U.S. Treasury Notes	316,025,880	-	316,025,880	261,832,522
Federal Farm Credit Bank (FFCB)	150,469,499	-	150,469,499	25,553,372
Federal Home Loan Bank (FHLB)	334,153,924	-	334,153,924	121,395,007
Federal Home Loan Discount (FHLD)	-	-	-	21,922,483
Federal National Mortgage Association (FNMA)	293,108,100	-	293,108,100	179,764,101
FNMA Discounts Notes	45,955,525	-	45,955,525	150,471,136
Federal Home Loan Mortgage Corporation (FHLMC)	273,996,475	-	273,996,475	123,519,259
FHLMC Discount Notes	34,930,811	-	34,930,811	149,828,876
Certificate of Deposit	-	10,000,000	10,000,000	-
Local Agency Investment Fund (LAIF)	50,000,035	-	50,000,035	-
Guaranteed Investment Contracts (GIC)	-	42,746,502	42,746,502	66,254,953
Special Assessment Bonds	-	1,703,373	1,703,373	(567,766)
Dreyfus Money Market	574,644	-	574,644	-
Savrs Loan	2,448,744	-	2,448,744	2,691,927
Guaranteed Rate Management Account (GRMA)	219,518	-	219,518	70,610,589
Time Deposit	60,000,000	-	60,000,000	-
Total Investments	<u>\$ 1,641,859,929</u>	<u>\$ 54,449,875</u>	<u>\$ 1,696,309,804</u>	<u>\$ 1,732,235,431</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,694,778,233</u>	<u>\$ 307,443,528</u>	<u>\$ 2,002,221,761</u>	<u>\$ 1,998,300,258</u>