

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

**QUARTERLY AUDIT OF CASH & INVESTMENTS
MARCH 31, 2012**



**WINDES & MCCLAUGHRY
ACCOUNTANCY CORPORATION**

*Certified Public Accountants
& Consultants*

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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 March 31, 2012. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 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 March 31, 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 March 31, 2012.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City’s cash and investment 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, 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 March 31, 2012 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 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 March 31, 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 March 31, 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 March 31, 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

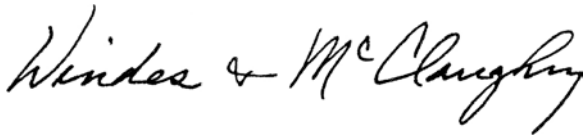
The City's cash and investment balances as of March 31, 2012 are summarized as follows:

Pooled Cash and Investments	\$ 1,788,690,773
Non-Pooled Cash and Investments	<u>258,211,807</u>
Total Cash and Investments	<u>\$ 2,046,902,580</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at March 31, 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

Management agrees with the results and conclusion.



Long Beach, California
August 17, 2012

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2012
WITH COMPARATIVE TOTALS FOR MARCH 31, 2011**

Fund Number	Name of Fund	Pooled March 31, 2012	Non-Pooled March 31, 2012	Total at March 31, 2012	Total at March 31, 2011
100	General Fund, General	\$ 56,182,807	\$ 362,441	\$ 56,545,248	\$ 93,581,840
103	General Fund, Library	437,310	21,020	458,330	1,638,327
105	General Fund, Parks and Recreation	3,362,253	34,865	3,397,118	5,508,511
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,468,071	-	2,468,071	828,231
121	Special Revenue, Police & Fire	867,831	-	867,831	517,739
130	Special Revenue, Health	1,184,287	9,787	1,194,074	1,146,741
131	Special Revenue, CUPA	1,646,939	-	1,646,939	1,403,031
132	Special Revenue, Parking & Business	1,350,279	-	1,350,279	505,150
133	Special Advertising & Promotion	2,821,253	281	2,821,534	1,506,629
134	Special Revenue, Upland Oil	23,180,383	-	23,180,383	18,256,786
135	Housing Development	47,722,370	7,080	47,729,450	41,537,669
136	Belmont Shore Parking Meters	992,358	61,227	1,053,585	1,014,529
137	Planning & Building Department	7,358,639	-	7,358,639	4,436,681
149	Special Revenue, Business Assistance	1,018,656	-	1,018,656	945,770
150	Community Development Grants (468,887)	12,000 (456,887)	198,907
151	Housing Authority	10,400,336	79,374	10,479,710	13,442,652
180	Special Revenue, Park Development	6,338	-	6,338	1,190,696
181	Gas Tax Street Improvement	15,594,217	-	15,594,217	10,515,653
182	Special Revenue, Transportation	37,042,360	-	37,042,360	33,084,550
201	Capital Projects	20,217,963	8,237,007	28,454,970	27,409,321
202	Assessment District-Capital Projects	1,389,632	857,482	2,247,114	2,420,543
203	Blight Removal	2	-	2	73,269,774
221	RDA-Poly High	486,786	-	486,786	490,907
222	RDA-West Beach	1,069,120	-	1,069,120	2,059,933
223	RDA-West Long Beach	11,255,384	-	11,255,384	6,443,513
224	RDA-Downtown	8,281,729	-	8,281,729	12,773,419
225	RDA-Project Income	7,982,033	-	7,982,033	22,542
227	RDA-Los Altos	533,101	-	533,101	768,901
228	RDA-Central	1,809,580	-	1,809,580	8,835,191
230	RDA-North	45,294,301	8,323	45,302,624	33,154,811
232	RDA-Housing	22,276	-	22,276	22,822,435
270	SA-RD Obligation Retirement FD Operation (339,050)	39,675,808	39,336,758	-
277	SA-RD Obligation Retirement FD Debt SVC	-	31,798,676	31,798,676	-
301	Gas Revenue	11,108,596	655,500	11,764,096	15,961,160
303	Gas Prepaid	11,908	19,219,452	19,231,360	20,477,728
310	Water	49,656,796	3,118,695	52,775,491	48,085,886
311	Sewer	9,210,132	-	9,210,132	8,829,643
320	Airport	40,954,015	41,593,063	82,547,078	107,523,293
330	Refuse/Recycling	21,540,770	3,000	21,543,770	23,598,540
331	SERRF	27,724,828	-	27,724,828	24,943,238
339	SERRF JPA	127,979	11,571,242	11,699,221	11,567,794
340	Towing Operations	1,230,696	4,000	1,234,696	873,020

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT MARCH 31, 2012 WITH COMPARATIVE TOTALS FOR MARCH 31, 2011 (Continued)

Fund Number	Name of Fund	Pooled March 31, 2012	Non-Pooled March 31, 2012	Total at March 31, 2012	Total at March 31, 2011
380	Civic Center	\$ 7,478,865	\$ 180	\$ 7,479,045	\$ 7,046,955
385	General Services	9,903,983	5,000	9,908,983	10,586,139
386	Fleet Services Fund	22,912,979	2,880,614	25,793,593	21,029,765
390	Insurance	33,846,517	61	33,846,578	29,718,832
391	Employee Benefits	69,321,807	-	69,321,807	62,278,868
401	Tidelands Operations	135,178,381	13,174,856	148,353,237	99,989,283
403	Tidelands-Marina	13,361,740	15,600	13,377,340	17,737,700
410	Queen Mary	1,816,455	-	1,816,455	1,660,114
411	Tidelands Operating – Rainbow Harbor Area	3,624,230	4,337,299	7,961,529	8,691,536
420	Tidelands Oil Revenue	52,125,463	-	52,125,463	57,982,758
421	Tidelands Reserve - Subsidence	156,620,272	1,864,205	158,484,477	157,090,763
430	Harbor - Operations	1,097,876,083	35,000	1,097,911,083	780,011,791
431	Harbor - Capital	(538,179,159)	-	(538,179,159)	(308,387,746)
432	Harbor Debt Service	232,936,789	63,866,956	296,803,745	436,086,170
433	Harbor - Clean Air Action Plan	(4,187,012)	-	(4,187,012)	(2,124,792)
440	Expandable Trusts	965,768	-	965,768	991,715
451	ICTF JPA	10,397,576	-	10,397,576	6,382,195
452	Earthquake Assessment Agency Funds	974,829	-	974,829	2,362,486
453	Other Special Assessment	1,320,739	-	1,320,739	1,420,165
455	Other Agency	3,358,478	1,500	3,359,978	3,364,632
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	101,043	101,043	45,153
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	25,851	1,305,534	1,331,385	1,369,114
471	Agency Special Assessment LBBFA Local Agency	-	183,834	183,834	181,717
472	Agency Special Assessment CFD#6 Pike Public Improvements	144	4,677,640	4,677,784	4,426,158
473	Agency Special Assessment – Douglas Park	338,681	1,520,106	1,858,787	1,764,978
474	CFD 2007 Belmont 2004 Spcl Tx Bd	62,466	362,280	424,746	498,665
475	AD 2008-1 Toledo Underground Utility 20B	85,024	113,964	198,988	184,791
476	Douglas Park North	33,058	-	33,058	-
600	Debt Service	126,554	6,435,812	6,562,366	-
999	Accrued Interest Receivable	(5,372,165)	-	(5,372,165)	(7,931,815)
Total Cash and Investments		<u>\$ 1,788,690,773*</u>	<u>\$ 258,211,807</u>	<u>\$ 2,046,902,580</u>	<u>\$ 2,087,049,774</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, 2012
WITH COMPARATIVE TOTALS FOR MARCH 31, 2011**

	<u>Pooled March 31, 2012</u>	<u>Non-Pooled March 31, 2012</u>	<u>Total at March 31, 2012</u>	<u>Total at March 31, 2011</u>
CASH				
Cash in banks	\$ 238,244,058	\$ 618,718	\$ 238,862,776	\$ 157,603,802
Cash with fiscal agents	<u>-</u>	<u>201,438,829</u>	<u>201,438,829</u>	<u>242,621,413</u>
 Total cash	 <u>\$ 238,244,058</u>	 <u>\$ 202,057,547</u>	 <u>\$ 440,301,605</u>	 <u>\$ 400,225,215</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 19,999,133	\$ -	\$ 19,999,133	\$ 84,990,247
U.S. Treasury Notes	396,963,185	-	396,963,185	335,584,260
Federal Farm Credit Bank (FFCB)	172,395,965	-	172,395,965	188,591,875
Federal Home Loan Bank	325,818,073	-	325,818,073	343,950,584
Federal National Mortgage Association (FNMA)	301,764,549	-	301,764,549	270,033,606
FNMA Discount Notes	72,977,771	-	72,977,771	19,995,333
FFCB Discount Note	7,994,307	-	7,994,307	-
Federal Home Loan Mortgage Corporation (FHLMC)	230,064,644	-	230,064,644	269,006,272
FHLMC Discount Notes	-	-	-	19,982,894
Federal Home Loan Discount Certificate of Deposit	19,982,578	-	19,982,578	24,999,819
	-	10,000,000	10,000,000	10,000,000
Local Agency Investment Fund	98,947	-	98,947	70,170,901
Guaranteed Investment Contracts	-	44,290,055	44,290,055	44,818,304
Special Assessment Bonds	-	1,864,205	1,864,205	1,772,301
Money Market	415,604	-	415,604	682,310
Savers Loan	<u>1,971,959</u>	<u>-</u>	<u>1,971,959</u>	<u>2,245,853</u>
 Total investments	 <u>\$ 1,550,446,715</u>	 <u>\$ 56,154,260</u>	 <u>\$ 1,606,600,975</u>	 <u>\$ 1,686,824,559</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$ 1,788,690,773</u>	 <u>\$ 258,211,807</u>	 <u>\$ 2,046,902,580</u>	 <u>\$ 2,087,049,774</u>