



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

May 11, 2011

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 September 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 September 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 September 30, 2010

May 2011



Audit Staff

City Auditor: Laura L. Doud
Assistant City Auditor: Deborah K. Ellis
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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 September 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 September 30, 2010, the City's cash and investment portfolio totaled approximately \$1.93 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 September 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. The Treasury Bureau invests pooled funds that are not needed for operations. 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 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, 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 September 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 third-party written confirmations of cash held by banks and investments held by the City Treasurer's safekeeping agent and other custodians as of September 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 September 30, 2010 to the City's general ledger;
- Analyzed the bank account and investment reconciliations as of September 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 September 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 September 30, 2010 to the portfolio mix limitations imposed by the City's Investment Policy and California Government Code Section 53601 for specific investment types; and
- Recomputed and reviewed supporting documentation, on a sample basis, relevant to the purchase, sale and maturity of individual 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.); and
- Recalculated accrued interest to determine whether accrued interest for investments held as of September 30, 2010 was accurately stated on the City's general ledger. However, the allocation of interest between funds was outside the scope of our 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 September 30, 2010 are summarized as follows:

Pooled Cash and Investments	\$ 1,623,491,141
Non-Pooled Cash and Investments	<u>310,953,880</u>
Total Cash and Investments	<u>\$ 1,934,445,021</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 September 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 results of this audit report.

ATTACHMENT I

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

Fund #	Name of Fund	Pooled 9/30/2010	Non-Pooled 9/30/2010	Total at 9/30/2010	Total at 9/30/2009
100	General Fund, General	\$ 45,760,663	\$ 4,264,554	\$ 50,025,217	\$ 50,546,555
103	General Fund, Library	35,422	21,020	56,442	312,813
105	General Fund, Parks and Recreation	2,784,034	2,003,744	4,787,778	5,028,898
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	1,677,911	-	1,677,911	2,720,894
121	Special Revenue, Police & Fire	355,080	-	355,080	198,234
130	Special Revenue, Health	815,248	15,650	830,898	7,861
131	Special Revenue, CUPA	438,734	-	438,734	235,089
132	Special Revenue, Parking & Business	289,652	-	289,652	1,016,615
133	Special Advertising & Promotion	1,002,971	281	1,003,252	632,154
134	Special Revenue, Upland Oil	11,588,182	-	11,588,182	6,351,682
135	Housing Development	31,953,018	19,797	31,972,815	47,903,611
136	Belmont Shore Parking Meters	775,494	51,008	826,502	810,327
137	Planning & Building Department	5,070,707	-	5,070,707	3,905,816
149	Special Revenue, Business Assistance	821,585	-	821,585	388,671
150	Community Development Grants	(4,719)	15,940	11,221	14,943
151	Housing Authority	12,699,624	16,151	12,715,775	11,256,186
180	Special Revenue, Park Development	941,466	-	941,466	70,063
181	Gas Tax Street Improvement	4,799,062	-	4,799,062	5,116,579
182	Special Revenue, Transportation	32,817,849	-	32,817,849	33,671,429
201	Capital Projects	15,218,213	12,180,968	27,399,181	32,649,376
202	Assessment District-Capital Projects	699,991	2,497,211	3,197,202	1,636,535
221	RDA-Poly High	396,713	219,111	615,824	904,038
222	RDA-West Beach	1,638,393	780,352	2,418,745	2,311,527
223	RDA-West Long Beach	18,936,756	3,158,868	22,095,624	21,897,243
224	RDA-Downtown	10,817,157	8,259,862	19,077,019	25,780,106
225	RDA-Project Income	4,401,188	-	4,401,188	3,815,124
227	RDA-Los Altos	333,952	411,656	745,608	689,668
228	RDA-Central	6,501,919	6,963,493	13,465,412	14,252,119
230	RDA-North	24,984,893	51,665,649	76,650,542	37,492,445
232	RDA-Housing	22,371	27,263,832	27,286,203	29,411,185
301	Gas Revenue	15,016,435	655,500	15,671,935	2,203,162
303	Gas Prepaid	5,409	23,207,180	23,212,589	45,471,018
310	Water	40,772,625	3,113,601	43,886,226	26,035,526
311	Sewer	6,274,597	1,864,925	8,139,522	6,895,543
320	Airport	29,298,285	52,843,852	82,142,137	31,983,175
330	Refuse/Recycling	23,722,247	3,000	23,725,247	24,644,134
331	SERRF	31,536,148	-	31,536,148	35,758,073
339	SERRF JPA	120,519	11,422,779	11,543,298	11,407,736
340	Towing Operations	568,167	4,000	572,167	971,455
380	Civic Center	6,874,686	180	6,874,866	10,436,030
385	General Services	9,681,846	5,000	9,686,846	7,910,302

ATTACHMENT I
(Continued)

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

Fund #	Name of Fund	Pooled 9/30/2010	Non-Pooled 9/30/2010	Total at 9/30/2010	Total at 9/30/2009
386	Fleet Services Fund	\$ 14,142,981	\$ 2,897,607	\$ 17,040,588	\$ 14,276,718
390	Insurance	26,846,704	61	26,846,765	18,507,450
391	Employee Benefits	66,465,625	-	66,465,625	65,178,454
401	Tidelands Operations	61,019,952	15,752,185	76,772,137	63,283,302
403	Tidelands-Marina	14,218,652	15,600	14,234,252	10,338,074
410	Queen Mary	1,610,420	-	1,610,420	2,454,551
411	Tidelands Operating - Rainbow Harbor Area	3,707,121	4,638,389	8,345,510	7,980,347
420	Tidelands Oil Revenue	36,617,859	-	36,617,859	38,556,837
421	Tidelands Reserve - Subsidence	155,487,496	1,726,349	157,213,845	166,202,216
430	Harbor - Operations	633,156,548	35,000	633,191,548	495,135,960
431	Harbor - Capital	(225,619,763)	-	(225,619,763)	-
432	Harbor Debt Service	407,452,651	63,840,549	471,293,200	465,176,286
433	Harbor - Clean Air Action Plan	141,524	-	141,524	-
440	Expandable Trusts	971,904	-	971,904	1,036,202
451	ICTF JPA	8,576,610	-	8,576,610	12,009,045
452	Earthquake Assessment Agency Funds	2,170,736	-	2,170,736	1,829,491
453	Other Special Assessment	1,320,965	-	1,320,965	1,288,333
455	Other Agency	3,383,255	1,500	3,384,755	2,960,244
460	Los Cerritos Wetlands Authority Agency Special Assessment DFD #5 LB	-	70,072	70,072	64,112
470	Agency Special Assessment CFD #5 Long Beach Towne Center	47,786	1,302,924	1,350,710	2,283,983
471	Agency Special Assessment LBBFA Local Agency	-	181,618	181,618	676,689
472	Agency Special Assessment CFD#6 Pike Public Improvements	49,351	5,368,746	5,418,097	5,340,621
473	Agency Special Assessment - Douglas Park	233,887	1,517,368	1,751,255	2,527,997
474	CFD 2007 Belmont 2004 Spcl Tx Bd	-	562,785	562,785	-
475	AD2008-1 Toledo Underground Utility 20B	44,384	113,963	158,347	-
TOTAL CASH AND INVESTMENTS		\$ 1,623,491,141 *	\$ 310,953,880	\$ 1,934,445,021	\$ 1,930,850,852

* 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 SEPTEMBER 30, 2010 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2009**

	Pooled 9/30/2010	Non-Pooled 9/30/2010	Total 9/30/2010	Total 9/30/2009
CASH:				
Cash in Banks	\$ 100,958,577	\$ 579,667	\$ 101,538,244	\$ 7,037,979
Cash with Fiscal Agents	-	119,789,957	119,789,957	68,369,705
	<u>\$ 100,958,577</u>	<u>\$ 120,369,624</u>	<u>\$ 221,328,201</u>	<u>\$ 75,407,684</u>
INVESTMENTS:				
U.S. Treasury Bills	\$ 79,981,252	\$ -	\$ 79,981,252	\$ 712,333,128
U.S. Treasury Notes	253,418,287	80,481,725	333,900,012	276,658,294
Federal Farm Credit Bank (FFCB)	195,234,441	-	195,234,441	20,823,066
Federal Home Loan Bank (FHLB)	329,560,535	44,081,547	373,642,082	120,497,344
Federal National Mortgage Association (FNMA)	292,765,452	3,391,139	296,156,591	250,104,738
Federal Home Loan Mortgage Corporation (FHLMC)	318,717,542	2,311,802	321,029,344	236,412,039
Certificate of Deposit	-	10,000,000	10,000,000	10,000,000
Local Agency Investment Fund (LAIF)	50,115,576	-	50,115,576	-
Guaranteed Investment Contracts (GIC)	-	48,591,694	48,591,694	55,964,758
Special Assessment Bonds	-	1,726,349	1,726,349	1,634,444
Dreyfus Money Market	137,300	-	137,300	3,164,925
Savers Loan	2,382,573	-	2,382,573	2,653,774
Municipal Bonds	-	-	-	530,000
Guaranteed Rate Managed Account (GRMA)	219,606	-	219,606	164,666,658
Total Investments	<u>\$ 1,522,532,564</u>	<u>\$ 190,584,256</u>	<u>\$ 1,713,116,820</u>	<u>\$ 1,855,443,168</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,623,491,141</u>	<u>\$ 310,953,880</u>	<u>\$ 1,934,445,021</u>	<u>\$ 1,930,850,852</u>