



LAURA DOUD

January 10, 2017

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, 2016.

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, 2016.

TIMING CONSIDERATIONS:

This item is not time sensitive.

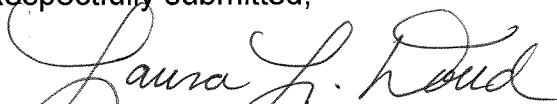
FISCAL IMPACT:

There is no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


Laura L. Doud, CPA
CITY AUDITOR

Attachment

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

QUARTERLY AUDIT OF CASH AND INVESTMENTS

June 30, 2016

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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 June 30, 2016. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2016, the City's cash and investments portfolio totaled approximately \$1.8 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 June 30, 2016 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

The City has an agreement with Chandler Asset Management (“Chandler”) to provide investment advisory and management services related to the City’s pooled investment portfolio. The term of the agreement is three (3) years beginning January 1, 2015 through December 31, 2017. Chandler manages 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 June 30, 2016.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City’s cash and investments process.
- Obtained confirmations of cash held by banks and investments held by the City Treasurer’s safekeeping agent and other custodians as of June 30, 2016 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 (Sympro) at June 30, 2016 to the City’s general ledger.
- Obtained bank and investment reconciliations at June 30, 2016 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 (Sympro) at June 30, 2016 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 (Sympro) at June 30, 2016 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 June 30, 2016, 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 is attached for informational purposes only.

RESULTS AND CONCLUSIONS

During our audit, we noted the following reconciling item was not booked in FAMIS to properly reflect the cash and investment balances at June 30, 2016. The following summarizes our finding:

\$371,036	Cash balances related to the capital computer acquisition account was not properly recorded in FAMIS as of June 30, 2016. This lead to an understatement in the FAMIS cash with fiscal agent account reported in the General Services Fund (Fund 385). Cash with fiscal agent is considered part of the non-pooled cash and investments.
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The City's cash and investment balances as of June 30, 2016, after the adjustment noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,552,413,322
Non-Pooled Cash and Investments	<u>256,066,166</u>
Total Cash and Investments	<u>\$ 1,808,479,488</u>

Based on the results of audit procedures performed and adjustments made, cash and investment balances as recorded on the City's books at June 30, 2016, 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 acknowledges the delayed general ledger entry and that the entry was made. The reconciling item identified by the audit represents an intra-period routine timing difference whose impact is offset within the accounting period. Unlike private industry, the City does not publish interim financial statements. Instead, the City publishes the audited Comprehensive Annual Financial Report (CAFR) that reflects closing balances at fiscal year-end.



Long Beach, California
November 28, 2016

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2016
WITH COMPARATIVE TOTALS FOR JUNE 30, 2015**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled June 30, 2016</u>	<u>Non-Pooled June 30, 2016</u>	<u>Total at June 30, 2016</u>	<u>Total at June 30, 2015</u>
100	General Fund, General	\$ 112,540,207	\$ 6,099,925	\$ 118,640,132	\$ 139,248,968
103	General Fund, Library	75,530	3,145	78,675	317,653
105	General Fund, Parks and Recreation	3,067,101	24,325	3,091,426	3,090,233
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	8,190,752	-	8,190,752	6,953,472
121	Special Revenue, Police & Fire	1,734,971	-	1,734,971	705,721
130	Special Revenue, Health	5,046,104	500	5,046,604	3,129,491
131	Special Revenue, CUPA	1,998,314	-	1,998,314	2,206,593
132	Special Revenue, Parking & Business	1,409,071	-	1,409,071	655,535
133	Special Advertising & Promotion	10,423,721	-	10,423,721	9,006,561
134	Special Revenue, Upland Oil	9,504,545	-	9,504,545	10,127,559
135	Housing Development	29,173,616	26,100	29,199,716	25,856,646
136	Belmont Shore Parking Meters	975,240	71,701	1,046,941	981,627
149	Special Revenue, Business Assistance	1,474,470	-	1,474,470	1,533,379
150	Community Development Grants	(522,785)	12,353	(510,432)	1,466,502
151	Housing Authority	9,458,776	339,229	9,798,005	11,110,713
181	Gas Tax Street Improvement	16,152,224	-	16,152,224	19,512,646
182	Special Revenue, Transportation	32,752,799	-	32,752,799	26,448,922
201	Capital Projects	34,985,410	6,836,179	41,821,589	43,773,636
202	Assessment District-Capital Projects	1,752,836	687,260	2,440,096	2,437,998
209	Capital Projects - Legislative	9,168,092	-	9,168,092	8,133,177
270	SA-RD Obligation Retirement FD Operation Retirement FD Operations	25,801,851	2,004,483	27,806,334	31,389,507
277	SA-RD Obligation Retirement FD Debt SVC	(104,586)	33,834,169	33,729,583	45,962,370
301	Gas Revenue	16,398,895	13,354,858	29,753,753	12,561,705
303	Gas Prepaid	155,322	13,607,292	13,762,614	13,119,415
310	Water	31,973,727	2,676,307	34,650,034	34,062,333
311	Sewer	10,679,185	-	10,679,185	8,206,033
320	Airport	61,583,832	12,193,763	73,777,595	71,752,323
330	Refuse/Recycling	15,674,327	3,000	15,677,327	17,890,627
331	SERRF	21,245,765	-	21,245,765	23,131,974
337	Development Services	20,069,651	-	20,069,651	19,835,961
339	SERRF JPA	730	11,828,504	11,829,234	11,765,748
340	Towing Operations	1,190,802	1,700	1,192,502	1,175,119
380	Civic Center	7,688,523	-	7,688,523	8,164,730

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT JUNE 30, 2016 WITH COMPARATIVE TOTALS FOR JUNE 30, 2015 (Continued)

Fund Number	Name of Fund	Pooled June 30, 2016	Non-Pooled June 30, 2016	Total at June 30, 2016	Total at June 30, 2015
385	General Services	33,521,198	371,036	33,892,234	22,693,754
386	Fleet Services Fund	54,535,798	-	54,535,798	48,271,046
390	Insurance	57,902,396	621	57,903,017	39,231,041
391	Employee Benefits	98,930,131	(6,560)	98,923,571	98,503,864
401	Tidelands Operations	142,686,408	18,172,696	160,859,104	175,212,683
403	Tidelands-Marina	9,230,103	46,236,441	55,466,544	75,971,589
410	Queen Mary	2,428,731	-	2,428,731	990,266
411	Tidelands Operating - Rainbow Harbor Area	7,020,611	4,281,123	11,301,734	14,632,732
420	Tidelands Oil Revenue	33,271,121	-	33,271,121	36,904,199
421	Tidelands Reserve - Subsidence	175,756,641	-	175,756,641	174,163,338
430	Harbor - Operations	2,698,404,789	900	2,698,405,689	2,430,534,707
431	Harbor - Capital	(2,368,564,558)	-	(2,368,564,558)	(2,130,372,116)
432	Harbor Debt Service	83,847,475	75,681,213	159,528,688	222,583,861
433	Harbor - Clean Air Action Plan	-	-	-	(13,562,322)
440	Expandable Trusts	894,497	-	894,497	906,252
451	ICTF JPA	8,003,529	-	8,003,529	8,179,359
452	Earthquake Assessment Agency Funds	756,590	-	756,590	895,588
453	Other Special Assessment	137,590	-	137,590	135,786
455	Other Agency	3,705,102	1,500	3,706,602	3,694,352
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	20,276	20,276	68,261
470	Agency Special Assessment CFD #5 Long Beach Towne Center	57,887	1,076,420	1,134,307	1,114,630
472	Agency Special Assessment CFD#6 Pike Public Improvements	189,846	3,245,338	3,435,184	3,434,440
473	Agency Special Assessment - Douglas Park	1,114,804	1,095,479	2,210,283	2,071,203
474	CFD 2007 Belmont 2004 Spcl Tx Bd	199,253	264,226	463,479	467,674
475	AD 2008-1 Toledo Underground Utility 20B	115,662	113,992	229,654	233,441
476	Douglas Park North	168,120	-	168,120	126,628
477	Uptown Property & Business Improvement District	-	-	-	5
600	Debt Service	209,241	1,906,672	2,115,913	6,725,024
999	Accrued Interest Receivable	(2,828,661)	-	(2,828,661)	(3,082,500)
TOTAL CASH AND INVESTMENTS		<u>\$ 1,552,413,322</u>	<u>\$ 256,066,166</u>	<u>\$ 1,808,479,488</u>	<u>\$ 1,845,443,662</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 JUNE 30, 2016 WITH COMPARATIVE TOTALS FOR JUNE 30, 2015

	<u>Pooled June 30, 2016</u>	<u>Non-Pooled June 30, 2016</u>	<u>Total at June 30, 2016</u>	<u>Total at June 30, 2015</u>
CASH				
Cash in Banks	\$ 120,543,920	\$ 650,038	\$ 121,193,958	\$ 151,723,356
Cash with Fiscal Agents	-	241,965,090	241,965,090	254,172,477
 Total Cash	 <u>\$ 120,543,920</u>	 <u>\$ 242,615,128</u>	 <u>\$ 363,159,048</u>	 <u>\$ 405,895,833</u>
INVESTMENTS				
U.S. Treasury Notes	\$ 272,531,775	\$ -	\$ 272,531,775	\$ 274,862,790
Federal Farm Credit Bank	82,611,557	-	82,611,557	66,869,430
Federal Home Loan Bank	342,147,699	-	342,147,699	304,398,981
Federal National Mortgage Association (FNMA)	301,451,958	-	301,451,958	225,068,219
Farmer Mac Discount Notes	-	-	-	4,999,988
FNMA Discounts Notes	4,990,803	-	4,990,803	59,483,462
Federal Home Loan Mortgage Corporation (FHLMC)	263,667,595	-	263,667,595	265,540,826
FHLMC Discount Notes	4,990,683	-	4,990,683	6,998,845
Federal Home Loan Discount	73,117,070	-	73,117,070	70,535,446
Certificate of Deposit	-	-	-	10,000,000
Local Agency Investment Fund	85,274,830	-	85,274,830	120,840,963
Guaranteed Investment Contracts	-	13,451,038	13,451,038	25,927,807
Special Assessment Bonds	-	-	-	2,162,895
Money Market	1,085,432	-	1,085,432	1,858,177
 Total Investments	 <u>\$ 1,431,869,402</u>	 <u>\$ 13,451,038</u>	 <u>\$ 1,445,320,440</u>	 <u>\$ 1,439,547,829</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$ 1,552,413,322</u></u>	 <u><u>\$ 256,066,166</u></u>	 <u><u>\$ 1,808,479,488</u></u>	 <u><u>\$ 1,845,443,662</u></u>