



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

November 20, 2018

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, 2018.

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, 2018.

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, 2018

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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, 2018. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2018, 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 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, 2018 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 beginning January 1, 2015 was extended through December 31, 2018. 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, 2018.

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, 2018 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, 2018 to the City’s general ledger.
- Obtained bank and investment reconciliations at June 30, 2018 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, 2018 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, 2018 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 fiscal 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, 2018, 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

The City's cash and investment balances as of June 30, 2018 are summarized as follows:

Pooled Cash and Investments	\$ 1,694,615,143
Non-Pooled Cash and Investments	<u>276,141,960</u>
Total Cash and Investments	<u>\$ 1,970,757,103</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at June 30, 2018, materially agree as to the amount and description with outside depositories. Also, we found the City to be in compliance with all other relevant provisions of the California Government Code and the City's Investment Policy.

MANAGEMENT COMMENTS

Management concurs with the City Auditor, that the City's books agree with the external depository records, and that the City is in compliance with all other relevant provisions of the California Government Code and the City's Investment Policy.



Long Beach, California
October 4, 2018

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017**

Fund Number	Name of Fund	Pooled June 30, 2018	Non-Pooled June 30, 2018	Total at June 30, 2018	Total at June 30, 2017
100	General Fund, General	\$ 108,820,027	\$ 1,320,079	\$ 110,140,106	\$ 96,804,345
103	General Fund, Library	304,944	3,245	308,189	350,261
105	General Fund, Parks and Recreation	3,320,199	5,369	3,325,568	3,232,663
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	3,150,431	-	3,150,431	349,610
121	Special Revenue, Police & Fire	1,720,250	-	1,720,250	2,089,365
130	Special Revenue, Health	6,108,227	800	6,109,027	5,598,938
131	Special Revenue, CUPA	2,173,265	-	2,173,265	2,150,420
132	Special Revenue, Parking & Business	1,076,000	-	1,076,000	349,592
133	Special Advertising & Promotion	11,535,862	-	11,535,862	10,761,714
134	Special Revenue, Upland Oil	12,863,302	-	12,863,302	13,530,533
135	Housing Development	26,338,335	37,688	26,376,023	41,327,711
136	Belmont Shore Parking Meters	400,147	-	400,147	1,106,987
149	Special Revenue, Business Assistance	822,089	-	822,089	1,119,484
150	Community Development Grants	(1,472,056)	11,912	(1,460,144)	441,562
151	Housing Authority	10,081,172	1,497,426	11,578,598	11,757,004
181	Gas Tax Street Improvement	12,122,592	-	12,122,592	12,459,491
182	Special Revenue, Transportation	45,677,858	-	45,677,858	37,237,237
201	Capital Projects	43,301,212	169,892	43,471,104	13,730,569
202	Assessment District-Capital Projects	1,401,542	455,733	1,857,275	2,363,874
209	Capital Projects - Legislative	5,869,452	-	5,869,452	6,410,769
270	SA-RD Obligation Retirement FD Operation				
	Retirement FD Operations	26,048,179	137,074	26,185,253	14,379,917
277	SA-RD Obligation Retirement FD Debt SVC	4,851	30,090,474	30,095,325	34,819,839
301	Gas Revenue	36,933,339	750	36,934,089	42,047,581
303	Gas Prepaid	99,726	14,962,260	15,061,986	14,199,969
310	Water	32,679,638	2,714,822	35,394,460	33,054,770
311	Sewer	16,327,554	-	16,327,554	11,100,820
320	Airport	82,206,291	11,109,834	93,316,125	87,847,852
330	Refuse/Recycling	16,189,097	3,000	16,192,097	16,028,038
331	SERRF	21,477,657	-	21,477,657	22,483,657
337	Development Services	39,413,549	-	39,413,549	32,642,448
339	SERRF JPA	905	11,912,747	11,913,652	11,834,097
340	Towing Operations	884,736	1,700	886,436	1,113,654
380	Civic Center	3,502,913	-	3,502,913	4,456,054
385	General Services	35,887,147	1,515,302	37,402,449	38,153,551
386	Fleet Services Fund	38,345,646	974,805	39,320,451	45,596,230
390	Insurance	43,287,628	-	43,287,628	53,583,742
391	Employee Benefits	133,470,999	-	133,470,999	132,367,470

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT JUNE 30, 2018 WITH COMPARATIVE TOTALS FOR JUNE 30, 2017 (Continued)

Fund Number	Name of Fund	Pooled June 30, 2018	Non-Pooled June 30, 2018	Total at June 30, 2018	Total at June 30, 2017
401	Tidelands Operations	123,727,614	18,928,063	142,655,677	142,531,988
403	Tidelands-Marina	18,768,643	19,308,547	38,077,190	44,571,789
410	Queen Mary	6,753,909	819	6,754,728	5,202,828
411	Tidelands Operating - Rainbow Harbor Area	11,929,783	20,273	11,950,056	12,291,971
420	Tidelands Oil Revenue	42,541,580	-	42,541,580	32,251,100
421	Tidelands Reserve - Subsidence	180,181,017	-	180,181,017	177,702,357
430	Harbor - Operations	3,188,381,241	900	3,188,382,141	2,912,428,470
431	Harbor - Capital	(2,757,942,567)	-	(2,757,942,567)	(2,577,860,253)
432	Harbor Debt Service	34,356,989	146,601,831	180,958,820	276,846,832
440	Expandable Trusts	887,198	-	887,198	875,052
451	ICTF JPA	8,605,336	-	8,605,336	8,437,001
452	Earthquake Assessment Agency Funds	786,784	-	786,784	765,493
453	Other Special Assessment	141,641	-	141,641	139,429
455	Other Agency	5,407,573	1,500	5,409,073	3,982,815
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	140,669	140,669	261,524
470	Agency Special Assessment CFD #5 Long Beach Towne Center	106,486	1,037,208	1,143,694	1,134,235
472	Agency Special Assessment CFD#6 Pike Public Improvements	190,221	3,254,142	3,444,363	3,437,030
473	Agency Special Assessment - Douglas Park	1,363,795	1,106,665	2,470,460	2,388,206
474	CFD 2007 Belmont 2004 Spcl Tx Bd	203,527	265,757	469,284	458,027
475	AD 2008-1 Toledo Underground Utility 20B	112,783	161,442	274,225	245,212
476	Douglas Park North	258,572	-	258,572	211,583
600	Debt Service	2,204,719	8,389,232	10,593,951	9,664,938
999	Accrued Interest Receivable	(5,726,406)	-	(5,726,406)	(3,282,042)
TOTAL CASH AND INVESTMENTS		<u>\$ 1,694,615,143</u>	<u>\$ 276,141,960</u>	<u>\$ 1,970,757,103</u>	<u>\$ 1,922,567,403</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, 2018
WITH COMPARATIVE TOTALS FOR JUNE 30, 2017**

	<u>Pooled June 30, 2018</u>	<u>Non-Pooled June 30, 2018</u>	<u>Total at June 30, 2018</u>	<u>Total at June 30, 2017</u>
CASH				
Cash in Banks	\$ 106,866,254	\$ 1,801,534	\$ 108,667,788	\$ 294,744,555
Cash with Fiscal Agents	-	259,627,857	259,627,857	373,490,150
Total Cash	<u>\$ 106,866,254</u>	<u>\$ 261,429,391</u>	<u>\$ 368,295,645</u>	<u>\$ 668,234,705</u>
INVESTMENTS				
U.S. Treasury Notes	\$ 758,391,740	\$ -	\$ 758,391,740	\$ 186,075,150
Federal Farm Credit Bank	26,661,554	-	26,661,554	35,561,672
Federal Home Loan Bank	161,620,018	-	161,620,018	261,739,577
Federal National Mortgage Association (FNMA)	336,734,890	-	336,734,890	357,455,063
Federal Home Loan Mortgage Corporation (FHLMC)	124,244,406	-	124,244,406	209,196,006
Local Agency Investment Fund	180,052,595	-	180,052,595	190,139,645
Guaranteed Investment Contracts	-	14,712,569	14,712,569	13,874,040
Money Market	43,686	-	43,686	291,545
Total Investments	<u>\$ 1,587,748,889</u>	<u>\$ 14,712,569</u>	<u>\$ 1,602,461,458</u>	<u>\$ 1,254,332,698</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,694,615,143</u>	<u>\$ 276,141,960</u>	<u>\$ 1,970,757,103</u>	<u>\$ 1,922,567,403</u>