



LAURA DOUD

August 16, 2016

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 March 31, 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 March 31, 2016.

TIMING CONSIDERATIONS:

This item is not time sensitive.

FISCAL IMPACT:

There is no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Laura L. Doud".

Laura L. Doud, CPA  
CITY AUDITOR

Attachment

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

**QUARTERLY AUDIT OF CASH AND INVESTMENTS**

March 31, 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 March 31, 2016. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 2016, the City's cash and investments portfolio totaled approximately \$1.9 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 March 31, 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 March 31, 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 March 31, 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 March 31, 2016 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 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 March 31, 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 March 31, 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 March 31, 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 items that were not booked in FAMIS to reflect the cash and investment balances at March 31, 2016. The following summarizes our findings:

\$1,305,960 Debt service payments made, deposits made, and accrued interest received during the quarter were not properly recorded in FAMIS as of March 31, 2016. This lead to an overstatement in the FAMIS cash with fiscal agent account reported in the Gas Prepaid Fund (Fund 303). Cash with fiscal agent is considered part of the non-pooled cash and investments.

The City’s cash and investment balances as of March 31, 2016, after the adjustments noted above, are summarized as follows:

|                                 |                         |
|---------------------------------|-------------------------|
| Pooled Cash and Investments     | \$ 1,576,066,124        |
| Non-Pooled Cash and Investments | <u>310,491,429</u>      |
| Total Cash and Investments      | <u>\$ 1,886,557,553</u> |

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

Long Beach Gas and Oil (LBGO) management has implemented the following steps to assure accurate and timely cash reconciliation’s:

- Prioritize cash reconciliation activity.
- Work with Treasury Management to obtain monthly statements promptly after month end.
- Reconcile on a monthly basis (instead of quarterly) to promptly identify and address discrepancies.

These procedures were implemented in May of 2016, for the April and May reconciliations. Both cash reconciliations were posted in the May 2016 accounting period. The June 2016 cash reconciliation will be reviewed and posted prior to the June monthly closing. LBGO management will monitor this reconciliation procedure to assure continued compliance.

*Winder, Inc.*

Long Beach, California  
July 20, 2016

## ATTACHMENT I

### POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT MARCH 31, 2016 WITH COMPARATIVE TOTALS FOR MARCH 31, 2015

| Fund<br>Number | Name of Fund                             | Pooled<br>March 31,<br>2016 | Non-Pooled<br>March 31,<br>2016 | Total at<br>March 31,<br>2016 | Total at<br>March 31,<br>2015 |
|----------------|--|-----------------------------|---------------------------------|-------------------------------|-------------------------------|
| 100            | General Fund, General                    | \$ 70,660,783               | \$ 14,114,697                   | \$ 84,775,480                 | \$ 95,353,142                 |
| 103            | General Fund, Library                    | 23,880                      | 3,145                           | 27,025                        | 687,004                       |
| 105            | General Fund, Parks and Recreation       | 2,994,263                   | 24,365                          | 3,018,628                     | 3,437,543                     |
| 110            | Budget Stabilization                     | 9,000,000                   | -                               | 9,000,000                     | 9,000,000                     |
| 120            | Special Revenue, General Grants          | 7,667,498                   | -                               | 7,667,498                     | 7,196,445                     |
| 121            | Special Revenue, Police & Fire           | 1,799,497                   | -                               | 1,799,497                     | 267,067                       |
| 130            | Special Revenue, Health                  | 3,418,934                   | 500                             | 3,419,434                     | 2,902,380                     |
| 131            | Special Revenue, CUPA                    | 2,246,694                   | -                               | 2,246,694                     | 2,436,801                     |
| 132            | Special Revenue, Parking & Business      | 541,207                     | -                               | 541,207                       | 599,557                       |
| 133            | Special Advertising & Promotion          | 10,416,030                  | -                               | 10,416,030                    | 8,744,083                     |
| 134            | Special Revenue, Upland Oil              | 11,646,217                  | -                               | 11,646,217                    | 11,850,746                    |
| 135            | Housing Development                      | 28,896,494                  | 24,812                          | 28,921,306                    | 26,094,492                    |
| 136            | Belmont Shore Parking Meters             | 969,945                     | 71,692                          | 1,041,637                     | 1,029,985                     |
| 149            | Special Revenue, Business Assistance     | 1,428,693                   | -                               | 1,428,693                     | 1,449,649                     |
| 150            | Community Development Grants             | (293,993)                   | 12,353                          | (281,640)                     | 2,267,839                     |
| 151            | Housing Authority                        | 9,281,003                   | 203,060                         | 9,484,063                     | 10,298,579                    |
| 181            | Gas Tax Street Improvement               | 16,387,783                  | -                               | 16,387,783                    | 19,337,425                    |
| 182            | Special Revenue, Transportation          | 31,227,628                  | -                               | 31,227,628                    | 29,706,135                    |
| 201            | Capital Projects                         | 24,443,508                  | 6,836,075                       | 31,279,583                    | 46,449,760                    |
| 202            | Assessment District-Capital Projects     | 1,751,590                   | 687,249                         | 2,438,839                     | 2,437,248                     |
| 203            | Blight Removal                           | -                           | -                               | -                             | 2                             |
| 209            | Capital Projects - Legislative           | 6,869,822                   | -                               | 6,869,822                     | 9,529,461                     |
| 270            | SA-RD Obligation Retirement FD Operation |                             |                                 |                               |                               |
|                | Retirement FD Operations                 | 6,051,010                   | 4,560,381                       | 10,611,391                    | 32,708,855                    |
| 277            | SA-RD Obligation Retirement FD Debt SVC  | (113,992)                   | 35,129,108                      | 35,015,116                    | 46,014,448                    |
| 301            | Gas Revenue                              | 17,599,259                  | 15,932,513                      | 33,531,772                    | 12,761,058                    |
| 303            | Gas Prepaid                              | 155,041                     | 18,284,689                      | 18,439,730                    | 18,126,826                    |
| 310            | Water                                    | 34,430,165                  | 2,676,307                       | 37,106,472                    | 35,530,543                    |
| 311            | Sewer                                    | 12,015,027                  | -                               | 12,015,027                    | 8,201,402                     |
| 320            | Airport                                  | 62,473,064                  | 15,745,413                      | 78,218,477                    | 75,223,436                    |
| 330            | Refuse/Recycling                         | 16,691,419                  | 3,000                           | 16,694,419                    | 17,655,310                    |
| 331            | SERRF                                    | 21,145,133                  | -                               | 21,145,133                    | 22,742,483                    |
| 337            | Development Services                     | 22,256,437                  | -                               | 22,256,437                    | 19,926,719                    |
| 339            | SERRF JPA                                | 682                         | 11,830,061                      | 11,830,743                    | 11,751,431                    |
| 340            | Towing Operations                        | 1,339,324                   | 1,700                           | 1,341,024                     | 1,067,346                     |
| 380            | Civic Center                             | 8,696,349                   | -                               | 8,696,349                     | 2,748,824                     |



**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT MARCH 31, 2016  
WITH COMPARATIVE TOTALS FOR MARCH 31, 2015  
(Continued)**

| <b>Fund<br/>Number</b>            | <b>Name of Fund</b>  | <b>Pooled<br/>March 31,<br/>2016</b> | <b>Non-Pooled<br/>March 31,<br/>2016</b> | <b>Total at<br/>March 31,<br/>2016</b> | <b>Total<br/>March 31,<br/>2015</b> |
|-----------------------------------|--|--------------------------------------|--|--|-------------------------------------|
| 385                               | General Services   | 33,954,928                           | -  | 33,954,928                             | 21,906,400                          |
| 386                               | Fleet Services Fund  | 52,566,236                           | -  | 52,566,236                             | 44,508,243                          |
| 390                               | Insurance  | 59,927,343                           | 61                                       | 59,927,404                             | 39,227,148                          |
| 391                               | Employee Benefits  | 105,371,835                          | (1,074)                                  | 105,370,761                            | 90,570,576                          |
| 401                               | Tidelands Operations   | 145,453,686                          | 17,359,606                               | 162,813,292                            | 179,776,677                         |
| 403                               | Tidelands-Marina   | 10,542,203                           | 53,823,084                               | 64,365,287                             | 19,731,885                          |
| 410                               | Queen Mary   | 686,369                              | -  | 686,369                                | 1,264,548                           |
| 411                               | Tidelands Operating - Rainbow Harbor Area                              | 5,268,594                            | 4,285,577                                | 9,554,171                              | 12,678,621                          |
| 420                               | Tidelands Oil Revenue  | 21,364,337                           | -  | 21,364,337                             | 25,245,430                          |
| 421                               | Tidelands Reserve - Subsidence   | 175,407,765                          | -  | 175,407,765                            | 173,895,089                         |
| 430                               | Harbor - Operations  | 2,666,924,013                        | 900                                      | 2,666,924,913                          | 2,391,330,462                       |
| 431                               | Harbor - Capital   | (2,292,166,102)                      | -  | (2,292,166,102)                        | (2,064,301,980)                     |
| 432                               | Harbor Debt Service  | 135,262,975                          | 99,712,689                               | 234,975,664                            | 298,032,439                         |
| 433                               | Harbor - Clean Air Action Plan   | -                                    | -  | -                                      | (13,358,302)                        |
| 440                               | Expandable Trusts  | 891,130                              | -  | 891,130                                | 904,239                             |
| 451                               | ICTF JPA   | 6,768,466                            | -  | 6,768,466                              | 8,941,399                           |
| 452                               | Earthquake Assessment Agency Funds                                     | 750,633                              | -  | 750,633                                | 902,422                             |
| 453                               | Other Special Assessment   | 136,920                              | -  | 136,920                                | 134,840                             |
| 455                               | Other Agency   | 3,771,149                            | 1,500                                    | 3,772,649                              | 3,562,210                           |
| 460                               | Los Cerritos Wetlands Authority Agency Special<br>Assessment CFD #5 LB | -                                    | 41,579                                   | 41,579                                 | 85,385                              |
| 470                               | Agency Special Assessment CFD #5 Long Beach<br>Towne Center            | 63,949                               | 1,331,349                                | 1,395,298                              | 1,390,080                           |
| 472                               | Agency Special Assessment CFD#6 Pike Public<br>Improvements            | 47,606                               | 4,275,673                                | 4,323,279                              | 4,352,710                           |
| 473                               | Agency Special Assessment - Douglas Park                               | 740,502                              | 1,094,799                                | 1,835,301                              | 1,728,605                           |
| 474                               | CFD 2007 Belmont 2004 Spcl Tx Bd                                       | 179,665                              | 358,293                                  | 537,958                                | 545,484                             |
| 475                               | AD 2008-1 Toledo Underground Utility 20B                               | 97,542                               | 113,965                                  | 211,507                                | 212,838                             |
| 476                               | Douglas Park North   | 145,846                              | -  | 145,846                                | 109,732                             |
| 477                               | Uptown Property & Business Improvement District                        | -                                    | -  | -                                      | 5                                   |
| 600                               | Debt Service   | 1,283,841                            | 1,952,308                                | 3,236,149                              | 1,977,086                           |
| 999                               | Accrued Interest Receivable  | (3,491,701)                          | -  | (3,491,701)                            | (3,032,214)                         |
| <b>TOTAL CASH AND INVESTMENTS</b> |  | <b>\$ 1,576,066,124</b>              | <b>\$ 310,491,429</b>                    | <b>\$ 1,886,557,553</b>                | <b>\$ 1,837,856,081</b>             |

\* 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, 2016  
WITH COMPARATIVE TOTALS FOR MARCH 31, 2015**

|  | <u>Pooled<br/>March 31,<br/>2016</u> | <u>Non-Pooled<br/>March 31,<br/>2016</u> | <u>Total at<br/>March 31,<br/>2016</u> | <u>Total at<br/>March 31,<br/>2015</u> |
|--|--------------------------------------|--|--|--|
| <b>CASH</b>                                    |                                      |  |  |  |
| Cash in Banks                                  | \$ 93,585,747                        | \$ 540,260                               | \$ 94,126,007                          | \$ 132,960,849                         |
| Cash with Fiscal Agents                        | -                                    | 291,811,555                              | 291,811,555                            | 223,310,919                            |
| <br>   |                                      |  |  |  |
| Total Cash                                     | <u>\$ 93,585,747</u>                 | <u>\$ 292,351,815</u>                    | <u>\$ 385,937,562</u>                  | <u>\$ 356,271,768</u>                  |
| <br><b>INVESTMENTS</b>                         |                                      |  |  |  |
| U.S. Treasury Bills                            | \$ -                                 | \$ -                                     | \$ -                                   | \$ 24,998,268                          |
| U.S. Treasury Notes                            | 325,124,159                          | -  | 325,124,159                            | 251,558,967                            |
| Federal Farm Credit Bank                       | 72,631,197                           | -  | 72,631,197                             | 69,498,819                             |
| Federal Home Loan Bank                         | 294,333,822                          | -  | 294,333,822                            | 407,884,566                            |
| Federal National Mortgage Association (FNMA)   | 327,570,580                          | -  | 327,570,580                            | 218,840,516                            |
| FNMA Discounts Notes                           | -                                    | -  | -                                      | 56,192,317                             |
| Federal Home Loan Mortgage Corporation (FHLMC) | 280,395,539                          | -  | 280,395,539                            | 238,291,396                            |
| FHLMC Discount Notes                           | -                                    | -  | -                                      | 16,995,428                             |
| Federal Home Loan Discount                     | 80,972,507                           | -  | 80,972,507                             | 31,997,362                             |
| Certificate of Deposit                         | -                                    | -  | -                                      | 10,000,000                             |
| Local Agency Investment Fund                   | 101,135,762                          | -  | 101,135,762                            | 120,763,516                            |
| Guaranteed Investment Contracts                | -                                    | 18,139,614                               | 18,139,614                             | 30,925,135                             |
| Special Assessment Bonds                       | -                                    | -  | -                                      | 2,139,918                              |
| Money Market                                   | 316,811                              | -  | 316,811                                | 1,498,105                              |
| <br>   |                                      |  |  |  |
| Total Investments                              | <u>\$ 1,482,480,377</u>              | <u>\$ 18,139,614</u>                     | <u>\$ 1,500,619,991</u>                | <u>\$ 1,481,584,313</u>                |
| <br>   |                                      |  |  |  |
| <b>TOTAL CASH AND INVESTMENTS</b>              | <u><u>\$ 1,576,066,124</u></u>       | <u><u>\$ 310,491,429</u></u>             | <u><u>\$ 1,886,557,553</u></u>         | <u><u>\$ 1,837,856,081</u></u>         |