



LAURA DOUD

October 3, 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 March 31, 2017.

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, 2017.

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 that reads "Laura L. Doud". The signature is written in a cursive style.

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, 2017

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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, 2017. The City of Long Beach’s management is responsible for the cash and investment balances. As of March 31, 2017, the City’s cash and investment 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 March 31, 2017 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, 2017.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City’s cash and investment 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, 2017 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, 2017 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 2017 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, 2017 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, 2017 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 March 31, 2017, 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 were not booked in FAMIS to properly reflect the cash and investment balances at March 31, 2017. The following summarizes our findings:

\$1,017,541 Cash funds received in the Union Bank cash concentration account were not recorded in FAMIS as of March 31, 2017 as the City was still in the process of determining which City department had rights to the cash receipts. This lead to an understatement of pooled cash in the following funds:

\$ 733,916	Fund 470 - Agency Special Assessment CFD #5 LB Towne Center
233,625	Fund 181 - Special Revenue Gas Tax Street Improvement
<u>50,000</u>	Fund 410 - Queen Mary

\$ 1,017,541 Total

The City's cash and investment balances as of March 31, 2017, after the adjustment noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,542,914,030
Non-Pooled Cash and Investments	<u>230,364,147</u>
Total Cash and Investments	<u>\$ 1,773,278,177</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, 2017, materially agree as to the amount and description with outside depositories. We also 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 thanks the City Auditor for their review.

For the \$733,916 and \$233,625: These two items were received on 3/30, a Thursday, within the Union Bank concentration account. The amounts were posted during the month of April. We will further develop procedures that will improve the timeliness for recognizing these unaccounted for cash deposits.

For the \$50,000: We will work with the receiving Department to further develop the procedures necessary to both recognize amounts that need to be posted to FAMIS and ensure that future deposits are processed in a timely manner.

Management concurs that investment activity for the subject period was in full compliance with the applicable sections of the California Government Code and City's Investment Policy.

*Winder, Inc.*

Long Beach, California  
September 14, 2017



**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT MARCH 31, 2017  
WITH COMPARATIVE TOTALS FOR MARCH 31, 2016**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled March 31, 2017</b>	<b>Non-Pooled March 31, 2017</b>	<b>Total at March 31, 2017</b>	<b>Total at March 31, 2016</b>
100	General Fund, General	\$ 68,178,502	\$ 6,096,871	\$ 74,275,373	\$ 84,775,480
103	General Fund, Library	233,374	3,145	236,519	27,025
105	General Fund, Parks and Recreation	4,133,828	6,716	4,140,544	3,018,628
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,238,957	-	2,238,957	7,667,498
121	Special Revenue, Police & Fire	1,878,678	230	1,878,908	1,799,497
130	Special Revenue, Health	6,193,608	500	6,194,108	3,419,434
131	Special Revenue, CUPA	2,473,233	54	2,473,287	2,246,694
132	Special Revenue, Parking & Business	531,064	103	531,167	541,207
133	Special Advertising & Promotion	10,687,162	404	10,687,566	10,416,030
134	Special Revenue, Upland Oil	12,582,430	-	12,582,430	11,646,217
135	Housing Development	40,865,129	27,274	40,892,403	28,921,306
136	Belmont Shore Parking Meters	958,710	71,872	1,030,582	1,041,637
149	Special Revenue, Business Assistance	1,095,502	-	1,095,502	1,428,693
150	Community Development Grants	617,649	12,353	630,002	(281,640)
151	Housing Authority	9,781,143	1,815,119	11,596,262	9,484,063
181	Gas Tax Street Improvement	12,169,209	1,228	12,170,437	16,387,783
182	Special Revenue, Transportation	35,754,151	6,727	35,760,878	31,227,628
201	Capital Projects	14,615,319	6,841,162	21,456,481	31,279,583
202	Assessment District-Capital Projects	1,689,105	687,320	2,376,425	2,438,839
209	Capital Projects - Legislative SA-RD	6,715,355	-	6,715,355	6,869,822
270	Obligation Retirement FD Operation				
	Retirement FD Operations	9,824,848	798,238	10,623,086	10,611,391
277	SA-RD Obligation Retirement FD Debt SVC	462,026	35,468,130	35,930,156	35,015,116
301	Gas Revenue	34,703,104	2,348,789	37,051,893	33,531,772
303	Gas Prepaid	125,297	18,424,193	18,549,490	18,439,730
310	Water	32,095,865	2,693,928	34,789,793	37,106,472
311	Sewer	11,344,595	28,717	11,373,312	12,015,027
320	Airport	71,330,043	15,894,928	87,224,971	78,218,477
330	Refuse/Recycling	15,526,266	8,215	15,534,481	16,694,419
331	SERRF	20,570,870	-	20,570,870	21,145,133
337	Development Services	31,621,397	779	31,622,176	22,256,437
339	SERRF JPA	781	11,835,513	11,836,294	11,830,743
340	Towing Operations	1,387,697	1,738	1,389,435	1,341,024
380	Civic Center	4,075,539	1,507	4,077,046	8,696,349

**ATTACHMENT I**

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES  
BY FUND AT MARCH 31, 2017  
WITH COMPARATIVE TOTALS FOR MARCH 31, 2016  
(Continued)**

<b>Fund Number</b>	<b>Name of Fund</b>	<b>Pooled March 31, 2017</b>	<b>Non-Pooled March 31, 2017</b>	<b>Total at March 31, 2017</b>	<b>Total at March 31, 2016</b>
385	General Services	39,342,332	560,524	39,902,856	33,954,928
386	Fleet Services Fund	43,654,123	1,808	43,655,931	52,566,236
390	Insurance	53,095,909	3,283	53,099,192	59,927,404
391	Employee Benefits	114,539,303	13,007	114,552,310	105,370,761
401	Tidelands Operations	136,419,625	17,302,311	153,721,936	162,813,292
403	Tidelands-Marina	16,984,609	33,054,717	50,039,326	64,365,287
410	Queen Mary	2,796,218	-	2,796,218	686,369
411	Tidelands Operating - Rainbow Harbor Area	6,600,936	19,264	6,620,200	9,554,171
420	Tidelands Oil Revenue	25,298,337	-	25,298,337	21,364,337
421	Tidelands Reserve - Subsidence	177,329,955	31,738	177,361,693	175,407,765
430	Harbor - Operations	2,886,452,947	900	2,886,453,847	2,666,924,913
431	Harbor - Capital	(2,531,314,783)	-	(2,531,314,783)	(2,292,166,102)
432	Harbor Debt Service	83,770,190	67,748,516	151,518,706	234,975,664
440	Expandable Trusts	872,852	203	873,055	891,130
451	ICTF JPA	7,259,075	872	7,259,947	6,768,466
452	Earthquake Assessment Agency Funds	761,382	316	761,698	750,633
453	Other Special Assessment	138,826	424	139,250	136,920
455	Other Agency	3,915,660	1,851	3,917,511	3,772,649
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	331,590	331,590	41,579
470	Agency Special Assessment CFD #5 Long Beach Towne Center	821,620	1,284,639	2,106,259	1,395,298
472	Agency Special Assessment CFD#6 Pike Public Improvements	47,855	4,243,317	4,291,172	4,323,279
473	Agency Special Assessment - Douglas Park	902,271	1,100,315	2,002,586	1,835,301
474	CFD 2007 Belmont 2004 Splc Tx Bd	176,504	356,875	533,379	537,958
475	AD 2008-1 Toledo Underground Utility 20B	108,823	114,159	222,982	211,507
476	Douglas Park North	195,129	-	195,129	145,846
600	Debt Service	869,157	1,117,765	1,986,922	3,236,149
999	Accrued Interest Receivable	(3,585,261)	-	(3,585,261)	(3,491,701)
	<b>TOTAL CASH AND INVESTMENTS</b>	<b>\$ 1,542,914,030</b>	<b>\$ 230,364,147</b>	<b>\$ 1,773,278,177</b>	<b>\$ 1,886,557,553</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, 2017 WITH COMPARATIVE TOTALS FOR MARCH 31, 2016

	<u>Pooled March 31, 2017</u>	<u>Non-Pooled March 31, 2017</u>	<u>Total at March 31, 2017</u>	<u>Total at March 31, 2016</u>
<b>CASH</b>				
Cash in Banks	\$ 220,911,443	\$ 2,103,166	\$ 223,014,609	\$ 94,126,007
Cash with Fiscal Agents	<u>-</u>	<u>210,025,107</u>	<u>210,025,107</u>	<u>291,811,555</u>
 Total Cash	 <u>\$ 220,911,443</u>	 <u>\$ 212,128,273</u>	 <u>\$ 433,039,716</u>	 <u>\$ 385,937,562</u>
<b>INVESTMENTS</b>				
U.S. Treasury Notes	\$ 193,457,686	\$ -	\$ 193,457,686	\$ 325,124,159
Federal Farm Credit Bank	43,959,219	-	43,959,219	72,631,197
Federal Home Loan Bank	306,312,809	-	306,312,809	294,333,822
Federal National Mortgage Association (FNMA)	347,445,515	-	347,445,515	327,570,580
Federal Home Loan Mortgage Corporation (FHLMC)	237,255,062	-	237,255,062	280,395,539
Federal Home Loan Discount	3,248,239	-	3,248,239	80,972,507
Local Agency Investment Fund	189,873,204	-	189,873,204	101,135,762
Guaranteed Investment Contracts	-	18,235,874	18,235,874	18,139,614
Money Market	<u>450,853</u>	<u>-</u>	<u>450,853</u>	<u>316,811</u>
 Total Investments	 <u>\$ 1,322,002,587</u>	 <u>\$ 18,235,874</u>	 <u>\$ 1,340,238,461</u>	 <u>\$ 1,500,619,991</u>
 <b>TOTAL CASH AND INVESTMENTS</b>	 <u>\$ 1,542,914,030</u>	 <u>\$ 230,364,147</u>	 <u>\$ 1,773,278,177</u>	 <u>\$ 1,886,557,553</u>