

LAURA DOUD

December 22, 2015

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, 2015.

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, 2015.

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, 2015

WINDES

TABLE OF CONTENTS

Executive Summary 1

Background1-2

Audit Objectives, Scope, and Methodology2-3

Results and Conclusions4-5

Attachment I: Pooled and Non-Pooled Cash and Investment Balances By Fund6-7

Attachment II: Pooled and Non-Pooled Cash and Investment Balances
By Security Type 8

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, 2015. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2015, 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, 2015 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, 2015.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City's cash and investments process.
- Obtained confirmations of all cash held by banks and investments held by the City Treasurer's safekeeping agent and other custodians as of June 30, 2015 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 (APS2) at June 30, 2015 to the City's general ledger.
- Obtained bank and investment reconciliations at June 30, 2015 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 (APS2) at June 30, 2015 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 (APS2) at June 30, 2015 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, 2015, 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 June 30, 2015. The following summarizes our findings:

- \$131,847 – Investments for the Long Beach Marina Bond purchased during the quarter ended June 30, 2015 were not properly recorded in FAMIS. This lead to an understatement in cash with fiscal agent account reported in the Tidelands Marina (Fund 403). Cash with fiscal agent is considered part of the non-pooled cash and investments.

- \$558,188 – ACH payments made in prior periods were not properly recorded in FAMIS. This lead to an overstatement of cash of General Fund (Fund 100) in the pooled cash account.

- \$8,653,483 – Debt service payments made during the quarter ended June 30, 2015 were not properly recorded in FAMIS. 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 June 30, 2015, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,562,375,816
Non-Pooled Cash and Investments	<u>283,067,846</u>
Total Cash and Investments	<u>\$ 1,845,443,662</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, 2015, 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 entries and the items have been addressed. Staff continues to receive supplemental training as changes to the underlying processes continue to be evaluated. These efforts will result in a more timely, accurate and efficient process.

The reconciling items identified by the audit represent intra-period routine timing differences whose impacts 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.

Winder, Inc.

Long Beach, California
December 2, 2015

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014**

Fund Number	Name of Fund	Pooled June 30, 2015	Non-Pooled June 30, 2015	Total at June 30, 2015	Total at June 30, 2014
100	General Fund, General	\$ 138,841,904	\$ 407,064	\$ 139,248,968	\$ 138,573,828
103	General Fund, Library	314,508	3,145	317,653	(9,792,546)
105	General Fund, Parks and Recreation	3,055,868	34,365	3,090,233	(9,980,173)
110	Budget Stabilization	9,000,000	—	9,000,000	9,000,000
120	Special Revenue, General Grants	6,953,472	—	6,953,472	4,942,321
121	Special Revenue, Police & Fire	705,721	—	705,721	644,586
130	Special Revenue, Health	3,114,341	15,150	3,129,491	2,893,616
131	Special Revenue, CUPA	2,206,593	—	2,206,593	1,649,426
132	Special Revenue, Parking & Business	655,535	—	655,535	669,405
133	Special Advertising & Promotion	9,006,561	—	9,006,561	6,184,597
134	Special Revenue, Upland Oil	10,127,559	—	10,127,559	15,710,187
135	Housing Development	25,835,142	21,504	25,856,646	12,896,164
136	Belmont Shore Parking Meters	899,963	81,664	981,627	1,061,468
149	Special Revenue, Business Assistance	1,533,379	—	1,533,379	1,582,911
150	Community Development Grants	1,454,060	12,442	1,466,502	1,656,904
151	Housing Authority	10,787,510	323,203	11,110,713	10,223,793
181	Gas Tax Street Improvement	19,512,646	—	19,512,646	21,723,531
182	Special Revenue, Transportation	26,448,922	—	26,448,922	23,805,135
201	Capital Projects	36,937,870	6,835,766	43,773,636	35,191,283
202	Assessment District-Capital Projects	1,750,780	687,218	2,437,998	2,239,325
203	Blight Removal	—	—	—	2
209	Capital Projects - Legislative	8,133,177	—	8,133,177	10,985,830
270	SA-RD Obligation Retirement FD Operation	21,161,702	10,227,805	31,389,507	64,286,010
277	SA-RD Obligation Retirement FD Debt SVC	6	45,962,364	45,962,370	31,882,062
301	Gas Revenue	12,556,205	5,500	12,561,705	8,109,613
303	Gas Prepaid	186,718	12,932,697	13,119,415	13,057,576
310	Water	31,393,420	2,668,913	34,062,333	41,484,493
311	Sewer	8,206,033	—	8,206,033	7,843,796
320	Airport	59,613,434	12,138,889	71,752,323	68,024,514
330	Refuse/Recycling	17,887,627	3,000	17,890,627	16,854,560
331	SERRF	23,131,974	—	23,131,974	21,846,557
337	Development Services	19,835,961	—	19,835,961	16,067,745
339	SERRF JPA	614	11,765,134	11,765,748	11,723,896
340	Towing Operations	1,173,419	1,700	1,175,119	967,536
380	Civic Center	8,164,550	180	8,164,730	6,681,191
385	General Services	22,688,754	5,000	22,693,754	21,302,287
386	Fleet Services Fund	48,271,046	—	48,271,046	40,294,700
390	Insurance	39,230,980	61	39,231,041	43,849,287
391	Employee Benefits	98,503,864	—	98,503,864	92,297,691

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014
(Continued)**

Fund Number	Name of Fund	Pooled June 30, 2015	Non-Pooled June 30, 2015	Total at June 30, 2015	Total at June 30, 2014
401	Tidelands Operations	\$ 160,105,059	\$ 15,107,624	\$ 175,212,683	\$ 199,816,758
403	Tidelands-Marina	17,002,525	58,969,064	75,971,589	13,535,484
410	Queen Mary	990,266	--	990,266	1,379,690
411	Tidelands Operating - Rainbow Harbor Area	10,342,650	4,290,082	14,632,732	14,034,661
420	Tidelands Oil Revenue	36,904,199	--	36,904,199	50,276,108
421	Tidelands Reserve - Subsidence	172,000,443	2,162,895	174,163,338	172,861,479
430	Harbor - Operations	2,430,517,057	17,650	2,430,534,707	2,167,831,657
431	Harbor - Capital	(2,130,372,116)	--	(2,130,372,116)	(1,789,070,080)
432	Harbor Debt Service	131,879,100	90,704,761	222,583,861	287,743,086
433	Harbor - Clean Air Action Plan	(13,562,322)	--	(13,562,322)	(10,752,259)
440	Expandable Trusts	906,252	--	906,252	919,847
451	ICTF JPA	8,179,359	--	8,179,359	4,583,438
452	Earthquake Assessment Agency Funds	895,588	--	895,588	902,263
453	Other Special Assessment	135,786	--	135,786	133,107
455	Other Agency	3,692,852	1,500	3,694,352	3,388,611
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	--	68,261	68,261	109,648
470	Agency Special Assessment CFD #5 Long Beach Towne Center	(34,940)	1,149,570	1,114,630	1,135,462
471	Agency Special Assessment LBBFA Local Agency	--	--	--	10,012
472	Agency Special Assessment CFD #6 Pike Public Improvements	189,102	3,245,338	3,434,440	3,434,808
473	Agency Special Assessment - Douglas Park	982,200	1,089,003	2,071,203	1,994,393
474	CFD 2007 Belmont 2004 Spcl Tx Bd	203,449	264,225	467,674	484,517
475	AD 2008-1 Toledo Underground Utility 20B	119,476	113,965	233,441	219,274
476	Douglas Park North	126,628	--	126,628	103,254
477	Uptown Property & Business Improvement District	5	--	5	--
600	Debt Service	4,973,880	1,751,144	6,725,024	2,704,847
999	Accrued Interest Receivable	(3,082,500)	--	(3,082,500)	(3,083,805)
Total Cash and Investments		\$ 1,562,375,816*	\$ 283,067,846	\$ 1,845,443,662	\$ 1,913,131,367

* 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, 2015
WITH COMPARATIVE TOTALS FOR JUNE 30, 2014**

	<u>Pooled June 30, 2015</u>	<u>Non-Pooled June 30, 2015</u>	<u>Total at June 30, 2015</u>	<u>Total at June 30, 2014</u>
CASH				
Cash in banks	\$ 150,918,689	\$ 804,667	\$ 151,723,356	\$ 186,703,094
Cash with fiscal agents	—	254,172,477	254,172,477	218,589,036
Total Cash	\$ 150,918,689	\$ 254,977,144	\$ 405,895,833	\$ 405,292,130
INVESTMENTS				
U.S. Treasury Bills	\$ —	\$ —	\$ —	\$ 19,995,438
U.S. Treasury Notes	274,862,790	—	274,862,790	305,661,904
Federal Farm Credit Bank	66,869,430	—	66,869,430	75,019,361
Federal Home Loan Bank	304,398,981	—	304,398,981	407,785,871
Federal National Mortgage Association (FNMA)	225,068,219	—	225,068,219	205,812,830
Farmer Mac Discount Notes	4,999,988	—	4,999,988	—
FNMA Discounts Notes	59,483,462	—	59,483,462	54,990,930
Federal Home Loan Mortgage Corporation (FHLMC)	265,540,826	—	265,540,826	169,713,761
FHLMC Discount Notes	6,998,845	—	6,998,845	14,995,683
Federal Home Loan Mortgage Corp Floater	—	—	—	—
Federal Home Loan Discount	70,535,446	—	70,535,446	93,679,968
Certificate of Deposit	10,000,000	—	10,000,000	10,000,000
Local Agency Investment Fund	120,840,963	—	120,840,963	120,546,209
Guaranteed Investment Contracts	—	25,927,807	25,927,807	25,856,685
Special Assessment Bonds	—	2,162,895	2,162,895	2,070,992
Money Market	1,858,177	—	1,858,177	364,033
Savers Loan	—	—	—	1,345,572
Total Investments	\$ 1,411,457,127	\$ 28,090,702	\$ 1,439,547,829	\$ 1,507,839,237
TOTAL CASH AND INVESTMENTS	\$ 1,562,375,816	\$ 283,067,846	\$ 1,845,443,662	\$ 1,913,131,367