



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-1

LAURA L. DOUD, CPA
City Auditor

January 13, 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, 2014.

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, 2014.

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, 2014**

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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, 2014. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 2014, 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 June 30, 2014 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

On September 22, 2009, the City Council approved an agreement with Chandler Asset Management (“Chandler”) to provide investment advisory and management services relating to the City’s pooled investment portfolio. The term of the agreement is two (2) years, with options to extend for three (3) one (1) year periods, at the discretion of the City Manager. Chandler manages approximately 25 percent of 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, 2014.

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, 2014 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, 2014 to the City’s general ledger.
- Obtained bank and investment reconciliations at June 30, 2014 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, 2014 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, 2014 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, 2014, 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 and the Schedule of Pooled and Non-Pooled Cash and Investment Balances by Security Type are attached for informational purposes only.

RESULTS AND CONCLUSIONS

The City’s cash and investment balances as of June 30, 2014 are summarized as follows:


Pooled Cash and Investments	\$ 1,655,965,275
Non-Pooled Cash and Investments	<u>257,166,092</u>
Total Cash and Investments	<u>\$ 1,913,131,367</u>

RESULTS AND CONCLUSIONS (CONTINUED)

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at June 30, 2014, 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 thanks the City Auditor for the review. 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. The City believes that, as of June 30, 2014, the general ledger account balances and adjustments fairly represent the City's cash and investment position.



Long Beach, California
November 21, 2014

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT JUNE 30, 2014 WITH COMPARATIVE TOTALS FOR JUNE 30, 2013

Fund Number	Name of Fund	Pooled June 30, 2014	Non-Pooled June 30, 2014	Total at June 30, 2014	Total at June 30, 2013
100	General Fund, General	\$ 138,130,304	\$ 443,524	\$ 138,573,828	\$ 155,047,897
103	General Fund, Library	(9,813,566)	21,020	(9,792,546)	758,504
105	General Fund, Parks and Recreation	(10,014,538)	34,365	(9,980,173)	1,803,276
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	4,942,321	-	4,942,321	(782,285)
121	Special Revenue, Police & Fire	644,586	-	644,586	961,682
130	Special Revenue, Health	2,878,466	15,150	2,893,616	1,372,364
131	Special Revenue, CUPA	1,649,426	-	1,649,426	1,596,503
132	Special Revenue, Parking & Business	669,405	-	669,405	976,604
133	Special Advertising & Promotion	6,184,597	-	6,184,597	4,801,279
134	Special Revenue, Upland Oil	15,710,187	-	15,710,187	16,101,015
135	Housing Development	12,889,192	6,972	12,896,164	11,649,116
136	Belmont Shore Parking Meters	984,493	76,975	1,061,468	989,648
137	Planning & Building Department	-	-	-	13,606,040
149	Special Revenue, Business Assistance	1,582,911	-	1,582,911	1,442,229
150	Community Development Grants	1,644,462	12,442	1,656,904	1,246,158
151	Housing Authority	10,185,983	37,810	10,223,793	9,252,208
181	Gas Tax Street Improvement	21,723,531	-	21,723,531	18,622,929
182	Special Revenue, Transportation	23,805,135	-	23,805,135	28,880,728
201	Capital Projects	28,074,065	7,117,218	35,191,283	25,983,925
202	Assessment District-Capital Projects	1,550,194	689,131	2,239,325	2,240,273
203	Blight Removal	2	-	2	2
209	Capital Projects - Legislative	10,985,830	-	10,985,830	5,400,000
270	SA-RD Obligation Retirement FD Operation	40,517,402	23,768,608	64,286,010	58,297,735
277	SA-RD Obligation Retirement FD Debt SVC	6	31,882,056	31,882,062	32,403,838
301	Gas Revenue	8,104,113	5,500	8,109,613	9,090,081
303	Gas Prepaid	239,038	12,818,538	13,057,576	13,560,802
310	Water	38,301,457	3,183,036	41,484,493	44,495,067
311	Sewer	7,843,796	-	7,843,796	6,318,069
320	Airport	54,029,837	13,994,677	68,024,514	65,338,934
330	Refuse/Recycling	16,851,560	3,000	16,854,560	17,821,980
331	SERRF	21,846,557	-	21,846,557	25,134,943
337	Development Services	16,067,745	-	16,067,745	-
339	SERRF JPA	364	11,723,532	11,723,896	11,780,593
340	Towing Operations	963,836	3,700	967,536	626,896
380	Civic Center	6,681,011	180	6,681,191	8,560,547
385	General Services	21,297,287	5,000	21,302,287	8,182,806
386	Fleet Services Fund	40,287,200	7,500	40,294,700	30,951,341
390	Insurance	43,849,226	61	43,849,287	38,355,357

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013
(Continued)**

Fund Number	Name of Fund	Pooled June 30, 2014	Non-Pooled June 30, 2014	Total at June 30, 2014	Total at June 30, 2013
391	Employee Benefits	92,297,691	-	92,297,691	76,186,599
401	Tidelands Operations	184,592,118	15,224,640	199,816,758	194,336,311
403	Tidelands-Marina	13,519,884	15,600	13,535,484	6,510,320
410	Queen Mary	1,379,690	-	1,379,690	2,014,789
411	Tidelands Operating – Rainbow Harbor Area	9,731,923	4,302,738	14,034,661	9,226,621
420	Tidelands Oil Revenue	50,276,108	-	50,276,108	79,848,070
421	Tidelands Reserve - Subsidence	170,790,488	2,070,991	172,861,479	160,071,593
430	Harbor - Operations	2,167,796,657	35,000	2,167,831,657	1,465,033,412
431	Harbor - Capital	(1,789,070,080)	-	(1,789,070,080)	(1,263,687,050)
432	Harbor Debt Service	165,736,710	122,006,376	287,743,086	146,590,900
433	Harbor - Clean Air Action Plan	(10,752,259)	-	(10,752,259)	(8,542,548)
440	Expandable Trusts	919,847	-	919,847	934,523
451	ICTF JPA	4,583,438	-	4,583,438	4,356,451
452	Earthquake Assessment Agency Funds	902,263	-	902,263	1,358,170
453	Other Special Assessment	133,107	-	133,107	131,725
455	Other Agency	3,387,111	1,500	3,388,611	3,321,992
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	109,648	109,648	61,475
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	(8,988)	1,144,450	1,135,462	1,324,071
471	Agency Special Assessment LBBFA Local Agency	-	10,012	10,012	10,012
472	Agency Special Assessment CFD#6 Pike Public Improvements	189,552	3,245,256	3,434,808	3,413,465
473	Agency Special Assessment – Douglas Park	908,796	1,085,597	1,994,393	6,668,166
474	CFD 2007 Belmont 2004 Spcl Tx Bd	220,292	264,225	484,517	498,987
475	AD 2008-1 Toledo Underground Utility 20B	105,309	113,965	219,274	226,562
476	Douglas Park North	103,254	-	103,254	73,232
600	Debt Service	1,018,748	1,686,099	2,704,847	3,986,168
999	Accrued Interest Receivable	(3,083,805)	-	(3,083,805)	(3,583,056)
Total Cash and Investments		\$ 1,655,965,275*	\$ 257,166,092	\$ 1,913,131,367	\$ 1,572,240,044

* 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, 2014
WITH COMPARATIVE TOTALS FOR JUNE 30, 2013**

	<u>Pooled June 30, 2014</u>	<u>Non-Pooled June 30, 2014</u>	<u>Total at June 30, 2014</u>	<u>Total at June 30, 2013</u>
CASH				
Cash in banks	\$ 186,053,715	\$ 649,379	\$ 186,703,094	\$ 171,183,777
Cash with fiscal agents	-	218,589,036	218,589,036	151,919,266
Total cash	<u>\$ 186,053,715</u>	<u>\$ 219,238,415</u>	<u>\$ 405,292,130</u>	<u>\$ 323,103,043</u>
INVESTMENTS				
U.S. Treasury Bills	19,995,438	-	19,995,438	6,998,770
U.S. Treasury Notes	305,661,904	-	305,661,904	335,791,082
Federal Farm Credit Bank (FFCB)	75,019,361	-	75,019,361	58,065,678
Federal Home Loan Bank	407,785,871	-	407,785,871	176,518,184
Federal National Mortgage Association (FNMA)	205,812,830	-	205,812,830	224,476,920
FNMA Discounts Notes	54,990,930	-	54,990,930	19,988,889
FFCB Discount Note	-	-	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	169,713,761	-	169,713,761	209,834,458
FHLMC Discount Notes	14,995,683	-	14,995,683	29,989,342
Federal Home Loan Discount Certificate of Deposit	93,679,968	-	93,679,968	14,999,569
Local Agency Investment Fund	-	10,000,000	10,000,000	10,000,000
Guaranteed Investment Contracts	120,546,209	-	120,546,209	120,284,808
Special Assessment Bonds	-	25,856,685	25,856,685	38,371,696
Money Market	-	2,070,992	2,070,992	1,979,086
Savers Loan	364,033	-	364,033	214,553
Total Investments	<u>1,345,572</u>	<u>-</u>	<u>1,345,572</u>	<u>1,623,966</u>
	<u>1,469,911,560</u>	<u>37,927,677</u>	<u>\$ 1,507,839,237</u>	<u>\$ 1,249,137,001</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,655,965,275</u>	<u>\$ 257,166,092</u>	<u>\$ 1,913,131,367</u>	<u>\$ 1,572,240,044</u>