



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-3

LAURA L. DOUD, CPA
City Auditor

June 9, 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 December 31, 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 December 31, 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

December 31, 2014

WINDES

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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 December 31, 2014. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 2014, 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 December 31, 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

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, which expired January 2015. On January 20, 2015, the City Council approved a new agreement with Chandler and 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 December 31, 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 December 31, 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 December 31, 2014 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 31, 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 December 31, 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 December 31, 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 December 31, 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

During our audit, we noted the following reconciling items that were not booked in FAMIS to reflect the cash and investment balances at December 31, 2014. The following summarizes our findings:

- \$978,615 – Debt payments made in October 2014, but not recorded in FAMIS. This lead to an overstatement at December 31, 2014 of non-pooled cash in fund 470.

- \$13,479,866 – Activity in the Gas Prepay fund for the current quarter was not recorded in FAMIS. This lead to an overstatement at December 31, 2014 on non-pooled cash in fund 303.

- \$84,877 – Activity in the Southeast Resources Recovery Facility fund for the current quarter was not recorded in FAMIS. This lead to an understatement at December 31, 2014 of non-pooled cash in fund 339.

The City's cash and investment balances as of December 31, 2014, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,570,266,122
Non-Pooled Cash and Investments	<u>226,978,242</u>
Total Cash and Investments	<u>\$ 1,797,244,364</u>

Based on the results of audit procedures performed and adjustments made, cash and investment balances as recorded on the City's books at December 31, 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.

CITY'S RESPONSE TO ADJUSTMENTS

The City's response to the adjustments identified in our performance audit is noted below. The City's response was not subjected to the auditing procedures applied in the performance audit of the cash and investment balances and, accordingly, we express no opinion on it.

MANAGEMENT COMMENTS

Management acknowledges the three delayed general ledger entries and the items have been addressed. Staff has received additional training to avoid a reoccurrence, and emphasize the importance of timely activity.

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. The reconciling items identified by the City Auditor's Office represent intra-period routine timing differences whose impacts offset within the accounting period.

Winder, Inc.
Long Beach, California
May 11, 2015

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2013**

Fund Number	Name of Fund	Pooled December 31, 2014	Non-Pooled December 31, 2014	Total at December 31, 2014	Total at December 31, 2013
100	General Fund, General	\$ 94,488,304	\$ 348,663	\$ 94,836,967	\$ 113,985,615
103	General Fund, Library	(2,326,673)	21,145	(2,305,528)	(2,446,306)
105	General Fund, Parks and Recreation	(1,572,906)	34,365	(1,538,541)	(1,614,862)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	8,794,804	-	8,794,804	4,629,579
121	Special Revenue, Police & Fire	1,166,694	-	1,166,694	1,131,577
130	Special Revenue, Health	3,560,589	15,150	3,575,739	2,985,403
131	Special Revenue, CUPA	2,462,595	-	2,462,595	2,132,819
132	Special Revenue, Parking & Business	935,102	-	935,102	1,396,603
133	Special Advertising & Promotion	8,560,752	-	8,560,752	6,191,481
134	Special Revenue, Upland Oil	9,934,553	-	9,934,553	12,409,638
135	Housing Development	26,382,742	7,000	26,389,742	13,597,186
136	Belmont Shore Parking Meters	1,070,721	80,724	1,151,445	1,065,928
137	Planning & Building Department	-	-	-	13,807,488
149	Special Revenue, Business Assistance	1,350,469	-	1,350,469	1,523,532
150	Community Development Grants	2,774,121	12,442	2,786,563	1,082,196
151	Housing Authority	8,851,756	65,035	8,916,791	8,257,855
181	Gas Tax Street Improvement	23,020,429	-	23,020,429	19,858,919
182	Special Revenue, Transportation	26,666,506	-	26,666,506	25,570,671
201	Capital Projects	29,979,704	6,868,800	36,848,504	22,174,785
202	Assessment District-Capital Projects	1,749,529	687,198	2,436,727	2,240,226
203	Blight Removal	2	-	2	2
209	Capital Projects - Legislative	6,011,934	-	6,011,934	7,736,312
270	SA-RD Obligation Retirement FD Operation	22,274,013	10,274,404	32,548,417	39,037,178
277	SA-RD Obligation Retirement FD Debt SVC	6	32,628,714	32,628,720	33,757,075
301	Gas Revenue	7,056,025	5,500	7,061,525	5,696,740
303	Gas Prepaid	207,924	5,942,948	6,150,872	6,208,528
310	Water	39,302,670	3,134,139	42,436,809	44,770,761
311	Sewer	8,192,944	-	8,192,944	7,952,089
320	Airport	53,109,164	13,345,018	66,454,182	70,001,198
330	Refuse/Recycling	16,937,966	3,000	16,940,966	17,057,782
331	SERRF	19,326,684	-	19,326,684	23,735,256
337	Development Services	20,324,336	-	20,324,336	3,477,289
339	SERRF JPA	525	11,757,009	11,757,534	11,786,188
340	Towing Operations	1,214,152	1,700	1,215,852	867,295
380	Civic Center	6,445,925	180	6,446,105	7,925,879
385	General Services	21,595,748	5,000	21,600,748	9,107,190
386	Fleet Services Fund	43,740,981	-	43,740,981	34,909,815
390	Insurance	39,830,250	61	39,830,311	29,326,798
391	Employee Benefits	86,732,541	-	86,732,541	80,677,998

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2013
(Continued)**

Fund Number	Name of Fund	Pooled December 31, 2014	Non-Pooled December 31, 2014	Total at December 31, 2014	Total at December 31, 2013
401	Tidelands Operations	\$ 173,228,064	\$ 12,960,947	\$ 186,189,011	\$ 195,666,887
403	Tidelands-Marina	22,341,102	15,600	22,356,702	7,674,288
410	Queen Mary	1,297,298	-	1,297,298	1,700,723
411	Tidelands Operating - Rainbow Harbor Area	6,875,250	4,308,237	11,183,487	12,089,943
420	Tidelands Oil Revenue	31,386,898	-	31,386,898	42,864,112
421	Tidelands Reserve - Subsidence	171,627,135	2,116,943	173,744,078	172,482,541
430	Harbor - Operations	2,352,469,119	35,000	2,352,504,119	1,870,303,319
431	Harbor - Capital	(2,001,575,583)	-	(2,001,575,583)	(1,615,275,814)
432	Harbor Debt Service	163,594,601	114,588,231	278,182,832	115,831,685
433	Harbor - Clean Air Action Plan	(12,478,469)	-	(12,478,469)	(10,481,253)
440	Expandable Trusts	897,726	-	897,726	909,154
451	ICTF JPA	8,934,734	-	8,934,734	8,573,675
452	Earthquake Assessment Agency Funds	887,106	-	887,106	883,301
453	Other Special Assessment	134,740	-	134,740	131,344
455	Other Agency	3,454,902	1,500	3,456,402	3,347,188
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	100,356	100,356	105,778
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	(14,016)	1,142,408	1,128,392	1,292,686
471	Agency Special Assessment LBBFA Local Agency	-	-	-	10,012
472	Agency Special Assessment CFD#6 Pike Public Improvements	127,266	3,245,257	3,372,523	3,373,973
473	Agency Special Assessment - Douglas Park	794,741	1,081,824	1,876,565	1,811,887
474	CFD 2007 Belmont 2004 Spcl Tx Bd	74,093	264,225	338,318	357,404
475	AD 2008-1 Toledo Underground Utility 20B	97,053	113,965	211,018	197,068
476	Douglas Park North	109,562	-	109,562	86,836
477	Uptown Property & Business Improvement District	58,086	-	58,086	-
600	Debt Service	(56,805)	1,765,554	1,708,749	2,722,489
999	Accrued Interest Receivable	(3,152,062)	-	(3,152,062)	(2,991,952)
Total Cash and Investments		\$ 1,570,266,122*	\$ 226,978,242	\$ 1,797,244,364	\$ 1,506,678,980

* 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 DECEMBER 31, 2014
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2013**

	<u>Pooled December 31, 2014</u>	<u>Non-Pooled December 31, 2014</u>	<u>Total at December 31, 2014</u>	<u>Total at December 31, 2013</u>
CASH				
Cash in banks	\$ 156,898,258	\$ 567,776	\$ 157,466,034	\$ 142,118,300
Cash with fiscal agents	<u>—</u>	<u>205,331,471</u>	<u>205,331,471</u>	<u>151,340,836</u>
Total cash	<u>\$ 156,898,258</u>	<u>\$ 205,899,247</u>	<u>\$ 362,797,505</u>	<u>\$ 293,459,136</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 24,994,643	—	\$ 24,994,643	\$ 84,984,704
U.S. Treasury Notes	300,867,640	—	300,867,640	151,675,765
Federal Farm Credit Bank	62,106,555	—	62,106,555	48,566,971
Federal Home Loan Bank	373,435,698	—	373,435,698	208,587,229
Federal National Mortgage Association (FNMA)	206,611,122	—	206,611,122	224,249,663
FNMA Discounts Notes	26,975,051	—	26,975,051	36,992,274
Federal Home Loan Mortgage Corporation (FHLMC)	210,687,524	—	210,687,524	162,673,435
FHLMC Discount Notes	16,990,566	—	16,990,566	55,985,150
Federal Home Loan Discount	59,986,747	—	59,986,747	74,991,816
Certificate of Deposit	10,000,000	—	10,000,000	10,000,000
Local Agency Investment Fund	120,686,186	—	120,686,186	120,415,618
Guaranteed Investment Contracts	—	\$ 18,962,052	18,962,052	30,381,939
Special Assessment Bonds	—	2,116,943	2,116,943	2,025,038
Money Market	26,132	—	26,132	205,473
Savers Loan	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,484,769</u>
Total Investments	<u>\$ 1,413,367,864</u>	<u>\$ 21,078,995</u>	<u>\$ 1,434,446,859</u>	<u>\$ 1,213,219,844</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,570,266,122</u>	<u>\$ 226,978,242</u>	<u>\$ 1,797,244,364</u>	<u>\$ 1,506,678,980</u>