



LAURA DOUD

August 7, 2018

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, 2018.

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, 2018.

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 cursive script that reads "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, 2018

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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, 2018. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 2018, the City's cash and investments portfolio totaled approximately \$2.0 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, 2018 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 beginning January 1, 2015 was extended through December 31, 2018. 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, 2018.

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, 2018 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, 2018 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 2018 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, 2018 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, 2018 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, 2018, 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 item was not booked in FAMIS to properly reflect the cash and investment balances at March 31, 2018. The following summarizes our finding:

- (\$2,295,015) Duplicate entries recording the proceeds from the County of Los Angeles to the Successor Agency Fund during March 2018 were posted in FAMIS. This led to an overstatement in the FAMIS cash with fiscal agent account reported in the Successor Agency Fund (Fund 270 and 277). Cash with fiscal agent is considered part of non-pooled cash and investments.

RESULTS AND CONCLUSIONS (CONTINUED)

The City's cash and investment balances as of March 31, 2018, after the adjustment noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,666,197,844
Non-Pooled Cash and Investments	<u>304,743,279</u>
Total Cash and Investments	<u>\$ 1,970,941,123</u>

Based on the results of audit procedures performed and adjustment made, cash and investment balances as recorded on the City's books at March 31, 2018, materially agree as to the amount and description with outside depositories. We 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 concurs that the investment activity for the subject period was in full compliance with the applicable sections of the California Government Code and the City's Investment Policy.

For the (\$2,295,015): A cash receipt of the Successor Agency Fund was booked twice in error. As part of Financial Management's monthly bank reconciliation process, the error was discovered and the correction booked in a subsequent month. The Financial Management Department is improving procedures to detect and/or prevent duplication of entries, and working toward the completion of bank reconciliations before month-end close. This will allow the booking of corrections within the period in which the errors occur. It should be noted that the new financial system currently being implemented is being designed to prevent this type of duplication from occurring due to stronger detective controls primarily related to additional workflow review capabilities.

Winder, Inc.

Long Beach, California
July 2, 2018

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT MARCH 31, 2018
WITH COMPARATIVE TOTALS FOR MARCH 31, 2017**

Fund Number	Name of Fund	Pooled March 31, 2018	Non-Pooled March 31, 2018	Total at March 31, 2018	Total at March 31, 2017
100	General Fund, General	\$ 78,252,225	\$ 6,106,963	\$ 84,359,188	\$ 74,275,373
103	General Fund, Library	(3,780,878)	3,245	(3,777,633)	236,519
105	General Fund, Parks and Recreation	(939,720)	5,369	(934,351)	4,140,544
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	(2,606,039)	-	(2,606,039)	2,238,957
121	Special Revenue, Police & Fire	1,387,709	-	1,387,709	1,878,908
130	Special Revenue, Health	6,977,796	800	6,978,596	6,194,108
131	Special Revenue, CUPA	2,589,337	-	2,589,337	2,473,287
132	Special Revenue, Parking & Business	1,077,387	-	1,077,387	531,167
133	Special Advertising & Promotion	11,018,704	-	11,018,704	10,687,566
134	Special Revenue, Upland Oil	14,647,480	-	14,647,480	12,582,430
135	Housing Development	25,829,998	21,608	25,851,606	40,892,403
136	Belmont Shore Parking Meters	267,182	-	267,182	1,030,582
149	Special Revenue, Business Assistance	759,102	-	759,102	1,095,502
150	Community Development Grants	(2,544,754)	11,912	(2,532,842)	630,002
151	Housing Authority	9,852,706	1,504,983	11,357,689	11,596,262
181	Gas Tax Street Improvement	12,955,858	-	12,955,858	12,170,437
182	Special Revenue, Transportation	42,619,101	-	42,619,101	35,760,878
201	Capital Projects	23,111,466	169,892	23,281,358	21,456,481
202	Assessment District - Capital Projects	1,755,805	454,505	2,210,310	2,376,425
209	Capital Projects - Legislative SA-RD	5,899,159	-	5,899,159	6,715,355
270	Obligation Retirement FD Operation				
	Retirement FD Operations	15,783,915	136,588	15,920,503	10,623,086
277	SA-RD Obligation Retirement FD Debt SVC	4,846	30,950,025	30,954,871	35,930,156
301	Gas Revenue	50,997,205	750	50,997,955	37,051,893
303	Gas Prepaid	99,405	18,836,574	18,935,979	18,549,490
310	Water	36,489,778	2,714,822	39,204,600	34,789,793
311	Sewer	15,318,556	-	15,318,556	11,373,312
320	Airport	78,923,214	14,269,550	93,192,764	87,224,971
330	Refuse/Recycling	15,997,089	3,000	16,000,089	15,534,481
331	SERRF	17,938,604	-	17,938,604	20,570,870
337	Development Services	37,061,432	-	37,061,432	31,622,176
339	SERRF JPA	882	11,872,197	11,873,079	11,836,294
340	Towing Operations	1,135,819	1,700	1,137,519	1,389,435
380	Civic Center	3,772,987	-	3,772,987	4,077,046
385	General Services	37,186,121	24,411	37,210,532	39,902,856

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT MARCH 31, 2018 WITH COMPARATIVE TOTALS FOR MARCH 31, 2017 (Continued)

Fund Number	Name of Fund	Pooled March 31, 2018	Non-Pooled March 31, 2018	Total at March 31, 2018	Total at March 31, 2017
386	Fleet Services Fund	36,688,892	-	36,688,892	43,655,931
390	Insurance	48,024,637	-	48,024,637	53,099,192
391	Employee Benefits	105,265,554	-	105,265,554	114,552,310
401	Tidelands Operations	122,888,099	24,117,610	147,005,709	153,721,936
403	Tidelands - Marina	18,599,625	24,017,656	42,617,281	50,039,326
410	Queen Mary	7,489,845	217,233	7,707,078	2,796,218
411	Tidelands Operating - Rainbow Harbor Area	7,283,590	20,200	7,303,790	6,620,200
420	Tidelands Oil Revenue	35,545,640	-	35,545,640	25,298,337
421	Tidelands Reserve - Subsidence	179,587,964	-	179,587,964	177,361,693
430	Harbor - Operations	3,157,839,562	900	3,157,840,462	2,886,453,847
431	Harbor - Capital	(2,692,948,225)	-	(2,692,948,225)	(2,531,314,783)
432	Harbor Debt Service	78,528,000	153,881,540	232,409,540	151,518,706
440	Expandable Trusts	881,595	-	881,595	873,055
451	ICTF JPA	7,594,867	-	7,594,867	7,259,947
452	Earthquake Assessment Agency Funds	782,063	-	782,063	761,698
453	Other Special Assessment	141,003	-	141,003	139,250
455	Other Agency	5,143,504	1,500	5,145,004	3,917,511
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	189,323	189,323	331,590
470	Agency Special Assessment CFD #5 Long Beach Towne Center	110,655	1,254,310	1,364,965	2,106,259
472	Agency Special Assessment CFD#6 Pike Public Improvements	47,878	4,208,016	4,255,894	4,291,172
473	Agency Special Assessment - Douglas Park	1,130,844	1,106,607	2,237,451	2,002,586
474	CFD 2007 Belmont 2004 Spl Tx Bd	182,315	356,158	538,473	533,379
475	AD 2008 -1 Toledn Underground Utility 208	77,055	160,828	237,883	222,982
476	Douglas Park North	239,150	-	239,150	195,129
600	Debt Service	2,178,051	8,122,504	10,300,555	1,986,922
999	Accrued Interest Receivable	(5,943,796)	-	(5,943,796)	(3,585,261)
TOTAL CASH AND INVESTMENTS		\$ 1,666,197,844	\$ 304,743,279	\$ 1,970,941,123	\$ 1,773,278,177

* 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, 2018
WITH COMPARATIVE TOTALS FOR MARCH 31, 2017**

	<u>Pooled March 31, 2018</u>	<u>Non-Pooled March 31, 2018</u>	<u>Total at March 31, 2018</u>	<u>Total at March 31, 2017</u>
CASH				
Cash in Banks	\$ 130,809,012	\$ 1,793,011	\$ 132,602,023	\$ 223,014,609
Cash with Fiscal Agents	-	284,349,155	284,349,155	210,025,107
Total Cash	\$ 130,809,012	\$ 286,142,166	\$ 416,951,178	\$ 433,039,716
INVESTMENTS				
U.S. Treasury Notes	\$ 706,672,112	\$ -	\$ 706,672,112	\$ 193,457,686
Federal Farm Credit Bank	40,558,291	-	40,558,291	43,959,219
Federal Home Loan Bank	165,849,632	-	165,849,632	306,312,809
Federal National Mortgage Association (FNMA)	336,523,297	-	336,523,297	347,445,515
Federal Home Loan Mortgage Corporation (FHLMC)	136,207,886	-	136,207,886	237,255,062
Federal Home Loan Discount	-	-	-	3,248,239
Local Agency Investment Fund	149,496,378	-	149,496,378	189,873,204
Guaranteed Investment Contracts	-	18,601,113	18,601,113	18,235,874
Money Market	81,236	-	81,236	450,853
Total Investments	\$ 1,535,388,832	\$ 18,601,113	\$ 1,553,989,945	\$ 1,340,238,461
TOTAL CASH AND INVESTMENTS	\$ 1,666,197,844	\$ 304,743,279	\$ 1,970,941,123	\$ 1,773,278,177