



LAURA DOUD

June 21, 2016

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, 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 December 31, 2015.

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".

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, 2015

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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, 2015. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 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 December 31, 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 December 31, 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 December 31, 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 (Sympro) at December 31, 2015 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 31, 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 (Sympro) at December 31, 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 (Sympro) at December 31, 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 December 31, 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 December 31, 2015. The following summarizes our findings:

\$13,545,569	Debt service payments made, deposits made, and accrued interest received during the quarter were not properly recorded in FAMIS as of December 31, 2015. 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.
\$106,835	Payments made during the quarter were not properly recorded in FAMIS as of December 31, 2015. This lead to an overstatement in the FAMIS non-pooled cash with the banks reported in the Community Development Grants Fund (Fund 150).
\$27,284	Payments made during the quarter were not properly recorded in FAMIS as of December 31, 2015. This lead to an overstatement in the FAMIS non-pooled cash with the banks reported in the General Fund (Fund 100).
\$5,662	Deposits received and payments made during December were not properly recorded in FAMIS as of December 31, 2015. This lead to an understatement in the FAMIS non-pooled cash with the banks reported in the Housing Development Fund (Fund 135).

The City's cash and investment balances as of December 31, 2015, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,519,608,260
Non-Pooled Cash and Investments	<u>271,735,113</u>
Total Cash and Investments	<u>\$ 1,791,343,373</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, 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 related to transitions in staff and changes in procedures. The reconciling items identified by the audit represent intra-period timing differences whose impacts are offset within the annual Comprehensive Financial Report (CAFR) reporting period. The responsible departments have been notified, and are conducting supplemental training while changes are implemented to their month end processes.

Winder, Inc.

Long Beach, California
May 10, 2016

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014**

Fund Number	Name of Fund	Pooled December 31, 2015	Non-Pooled December 31, 2015	Total at December 31, 2015	Total at December 31, 2014
100	General Fund, General	\$ 56,899,395	\$ 228,213	\$ 57,127,608	\$ 94,836,967
103	General Fund, Library	83,976	3,145	87,121	(2,305,528)
105	General Fund, Parks and Recreation	2,853,292	34,365	2,887,657	(1,538,541)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	10,036,727	-	10,036,727	8,794,804
121	Special Revenue, Police & Fire	1,659,584	-	1,659,584	1,166,694
130	Special Revenue, Health	2,776,658	1,000	2,777,658	3,575,739
131	Special Revenue, CUPA	2,427,360	-	2,427,360	2,462,595
132	Special Revenue, Parking & Business	1,180,680	-	1,180,680	935,102
133	Special Advertising & Promotion	10,406,095	-	10,406,095	8,560,752
134	Special Revenue, Upland Oil	15,149,381	-	15,149,381	9,934,553
135	Housing Development	29,046,361	31,286	29,077,647	26,389,742
136	Belmont Shore Parking Meters	1,061,416	71,674	1,133,090	1,151,445
149	Special Revenue, Business Assistance	1,405,405	-	1,405,405	1,350,469
150	Community Development Grants	(760,567)	11,396	(749,171)	2,786,563
151	Housing Authority	6,605,875	5,008,760	11,614,635	8,916,791
181	Gas Tax Street Improvement	17,755,229	-	17,755,229	23,020,429
182	Special Revenue, Transportation	29,850,834	-	29,850,834	26,666,506
201	Capital Projects	31,934,285	6,835,973	38,770,258	36,848,504
202	Assessment District-Capital Projects	1,752,178	687,239	2,439,417	2,436,727
203	Blight Removal	-	-	-	2
209	Capital Projects - Legislative	7,169,417	-	7,169,417	6,011,934
270	SA-RD Obligation Retirement FD Operation				
	Retirement FD Operations	9,625,305	4,634,658	14,259,963	32,548,417
277	SA-RD Obligation Retirement FD Debt SVC	6	13,584,771	13,584,777	32,628,720
301	Gas Revenue	15,653,990	15,928,454	31,582,444	7,061,525
303	Gas Prepaid	154,893	6,725,138	6,880,031	6,150,872
310	Water	30,017,043	2,676,307	32,693,350	42,436,809
311	Sewer	10,952,180	-	10,952,180	8,192,944
320	Airport	60,634,459	13,416,162	74,050,621	66,454,182
330	Refuse/Recycling	15,844,114	3,000	15,847,114	16,940,966
331	SERRF	21,185,284	-	21,185,284	19,326,684
337	Development Services	21,264,045	-	21,264,045	20,324,336
339	SERRF JPA	681	11,793,757	11,794,438	11,757,534
340	Towing Operations	1,207,717	1,700	1,209,417	1,215,852
380	Civic Center	9,075,437	-	9,075,437	6,446,105
385	General Services	33,986,198	-	33,986,198	21,600,748
386	Fleet Services Fund	51,230,297	-	51,230,297	43,740,981

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2015
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014
(Continued)**

Fund Number	Name of Fund	Pooled December 31, 2015	Non-Pooled December 31, 2015	Total at December 31, 2015	Total at December 31, 2014
390	Insurance	53,210,253	61	53,210,314	39,830,311
391	Employee Benefits	107,022,689	(1,074)	107,021,615	86,732,541
401	Tidelands Operations	147,176,723	16,131,584	163,308,307	186,189,011
403	Tidelands-Marina	13,550,023	53,787,027	67,337,050	22,356,702
410	Queen Mary	847,927	-	847,927	1,297,298
411	Tidelands Operating - Rainbow Harbor Area	4,689,810	4,279,376	8,969,186	11,183,487
420	Tidelands Oil Revenue	19,319,042	-	19,319,042	31,386,898
421	Tidelands Reserve - Subsidence	175,101,716	-	175,101,716	173,744,078
430	Harbor - Operations	2,612,902,193	900	2,612,903,093	2,352,504,119
431	Harbor - Capital	(2,266,427,152)	-	(2,266,427,152)	(2,001,575,583)
432	Harbor Debt Service	116,503,868	108,288,342	224,792,210	278,182,832
433	Harbor - Clean Air Action Plan	-	-	-	(12,478,469)
440	Expandable Trusts	879,596	-	879,596	897,726
451	ICTF JPA	11,536,385	-	11,536,385	8,934,734
452	Earthquake Assessment Agency Funds	749,266	-	749,266	887,106
453	Other Special Assessment	136,682	-	136,682	134,740
455	Other Agency	3,514,559	1,500	3,516,059	3,456,402
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	42,006	42,006	100,356
470	Agency Special Assessment CFD #5 Long Beach Towne Center	42,106	1,073,711	1,115,817	1,128,392
472	Agency Special Assessment CFD#6 Pike Public Improvements	150,266	3,245,340	3,395,606	3,372,523
473	Agency Special Assessment - Douglas Park	922,941	1,089,463	2,012,404	1,876,565
474	CFD 2007 Belmont 2004 Spcl Tx Bd	62,861	264,225	327,086	338,318
475	AD 2008-1 Toledo Underground Utility 20B	90,386	113,965	204,351	211,018
476	Douglas Park North	141,360	-	141,360	109,562
477	Uptown Property & Business Improvement District	-	-	-	58,086
600	Debt Service	1,078,955	1,741,689	2,820,644	1,708,749
999	Accrued Interest Receivable	(2,719,425)	-	(2,719,425)	(3,152,062)
TOTAL CASH AND INVESTMENTS		\$ 1,519,608,260	\$ 271,735,113	\$ 1,791,343,373	\$ 1,797,244,364

* 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, 2015
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2014**

	<u>Pooled December 31, 2015</u>	<u>Non-Pooled December 31, 2015</u>	<u>Total at December 31, 2015</u>	<u>Total at December 31, 2014</u>
CASH				
Cash in Banks	\$ 96,296,390	\$ 5,364,004	\$ 101,660,394	\$ 157,466,034
Cash with Fiscal Agents	-	260,458,009	260,458,009	205,331,471
Total Cash	\$ 96,296,390	\$ 265,822,013	\$ 362,118,403	\$ 362,797,505
INVESTMENTS				
U.S. Treasury Bills	\$ -	\$ -	\$ -	\$ 24,994,643
U.S. Treasury Notes	337,688,764	-	337,688,764	300,867,640
Federal Farm Credit Bank	77,630,004	-	77,630,004	62,106,555
Federal Home Loan Bank	267,537,692	-	267,537,692	373,435,698
Federal National Mortgage Association (FNMA)	287,254,151	-	287,254,151	206,611,122
Farmer Mac Discount Notes	4,999,900	-	4,999,900	-
FNMA Discounts Notes	24,998,500	-	24,998,500	26,975,051
Federal Home Loan Mortgage Corporation (FHLMC)	232,363,087	-	232,363,087	210,687,524
FHLMC Discount Notes	17,497,910	-	17,497,910	16,990,566
Federal Home Loan Discount	51,238,619	-	51,238,619	59,986,747
Certificate of Deposit	-	-	-	10,000,000
Local Agency Investment Fund	121,023,750	-	121,023,750	120,686,186
Guaranteed Investment Contracts	-	5,913,100	5,913,100	18,962,052
Special Assessment Bonds	-	-	-	2,116,943
Money Market	1,079,493	-	1,079,493	26,132
Total Investments	\$ 1,423,311,870	\$ 5,913,100	\$ 1,429,224,970	\$ 1,434,446,859
TOTAL CASH AND INVESTMENTS	\$ 1,519,608,260	\$ 271,735,113	\$ 1,791,343,373	\$ 1,797,244,364