



LAURA DOUD

June 12, 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 December 31, 2017.

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, 2017.

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

December 31, 2017

TABLE OF CONTENTS

Executive Summary 1

Background 1-2

Audit Objectives, Scope, and Methodology 2-3

Results and Conclusions 4-5

Attachment I: Pooled and Non-Pooled Cash and Investment Balances By Fund 6-7

**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 December 31, 2017. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 2017, 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 December 31, 2017 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 began January 1, 2015 and, on September 8, 2017, 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 December 31, 2017.

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 December 31, 2017 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, 2017 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 31, 2017 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, 2017 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, 2017 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 December 31, 2017, 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

Balance adjustments

During our audit, we noted the following reconciling items were not booked in FAMIS to properly reflect the cash and investment balances at December 31, 2017. The following summarizes our findings:

- \$1,781,737 Cash funds received in the Harbor sweep account in December were not recorded in FAMIS until January 2018 due to a delay in processing. This lead to an understatement of cash of the Harbor Debt Service Fund (Fund 432) in the pooled cash account.

- (\$3,263,170) Disbursements made from the Airport Fund during December 2017 were posted in FAMIS as of January 2018. This lead to an overstatement of cash with fiscal agent account reported in the Airport Fund (Fund 320). Cash with fiscal agent is considered part of non-pooled cash and investments.

- (\$7,063,028) Disbursements made from the Successor Agency Fund during December 2017 were posted in FAMIS as of January 2018. This lead to an overstatement in the FAMIS cash with fiscal agent account reported in the Successor Agency Fund (Fund 277). Cash with fiscal agent is considered part of non-pooled cash and investments.

Compliance

During our audit, we noted the City was not in compliance with the requirement to maintain the 105% market value of collateralized securities in excess of guaranteed investment contract held. The purpose of the collateralization is to ensure payment on the guaranteed investment contract to the City when it is eventually redeemed. As of December 31, 2017, the market value of the collateralized securities was approximately 56%. The City rectified the shortfall on January 3, 2018 with additional securities to reach a total market value of approximately 106%.

The City's cash and investment balances as of December 31, 2017, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,582,800,674
Non-Pooled Cash and Investments	<u>276,301,535</u>
Total Cash and Investments	<u>\$ 1,859,102,209</u>

RESULTS AND CONCLUSIONS (CONTINUED)

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, 2017, materially agree as to the amount and description with outside depositories. Also, other than the finding noted above, 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 thanks the City Auditor for the review.

Management concurs that the investment activity for the subject period was in full compliance with the applicable sections of the California Government Code and City's Investment Policy.

For the (\$1,781,737):

The ACH and wire receipts were received in the last days of December. Harbor's prior practice has been to track last minute ACH and wire receipts as reconciling items in its bank reconciliation process. Harbor has effected an improved process to ensure that ACH and wire transfer transactions received in its cash sweep account during the last days of the month are booked in FAMIS in the same month those transactions occurred.

For the (\$3,263,170):

The JVs recorded in January were booked timely in December, errors were identified during the review process which was corrected and posted in January. The Airport Department will work to improve the timeliness for recording the disbursements.

For the (\$7,063,028):

The Department of Financial Management is developing and implementing new procedures that will improve the timeliness for recording the disbursements.

Compliance

Management acknowledges the under-collateralization of the Guaranteed Investment Contract (GIC) as of December 31, 2017. When the City was notified by the custodian bank of the under-collateralization, the City notified AIG of the under-collateralization and the requirement to fully collateralize at the required collateral level. On January 3, 2018, the collateral requirement was met.



Long Beach, California
May 7, 2018

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT DECEMBER 31, 2017 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016

Fund Number	Name of Fund	Posted December 31, 2017	Non-Pooled December 31, 2017	Total at December 31, 2017	Total at December 31, 2016
100	General Fund, General	\$ 36,661,968	\$ 6,096,372	\$ 42,758,340	\$ 58,504,458
103	General Fund, Library	114,558	3,245	117,803	141,060
105	General Fund, Parks and Recreation	3,332,774	5,369	3,338,143	3,852,640
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	(1,831,763)	-	(1,831,763)	6,488,115
121	Special Revenue, Police & Fire	1,305,484	-	1,305,484	2,010,458
130	Special Revenue, Health	5,497,729	800	5,498,529	5,932,519
131	Special Revenue, CUPA	2,749,760	-	2,749,760	2,572,342
132	Special Revenue, Parking & Business	2,085,374	-	2,085,374	1,147,745
133	Special Advertising & Promotion	11,898,477	-	11,898,477	10,531,541
134	Special Revenue, Upland Oil	11,439,874	-	11,439,874	11,752,143
135	Housing Development	28,100,620	21,608	28,122,228	41,105,783
136	Belmont Shore Parking Meters	390,044	-	390,044	1,025,908
149	Special Revenue, Business Assistance	1,115,176	-	1,115,176	1,153,539
150	Community Development Grants	(422,036)	11,912	(410,124)	(3,116,735)
151	Housing Authority	8,877,829	2,089,347	10,967,176	16,803,884
181	Gas Tax Street Improvement	12,777,855	-	12,777,855	12,749,718
182	Special Revenue, Transportation	39,907,902	-	39,907,902	34,072,789
201	Capital Projects	27,012,817	676,505	27,689,322	29,928,549
202	Assessment District - Capital Projects	1,529,176	689,184	2,218,360	2,442,847
209	Capital Projects - Legislative SA-RD	6,109,659	-	6,109,659	7,061,336
270	Obligation Retirement FD Operation				
	Retirement FD Operations	17,739,354	135,951	17,875,305	9,398,982
277	SA-RD Obligation Retirement FD Debt SVC	(4,404)	13,826,025	13,821,621	13,681,631
301	Gas Revenue	40,179,752	750	40,180,502	28,088,477
303	Gas Prepaid	99,392	6,330,577	6,429,969	6,294,570
310	Water	32,732,710	2,714,822	35,447,532	32,770,551
311	Sewer	11,875,425	-	11,875,425	10,670,380
320	Airport	76,775,573	13,688,422	90,463,995	80,815,901
330	Refuse/Recycling	14,621,487	3,000	14,624,487	15,196,009
331	SERRF	17,817,641	-	17,817,641	18,347,432
337	Development Services	36,157,912	-	36,157,912	28,432,882
339	SERRF JPA	847	11,876,121	11,876,968	11,862,526
340	Towing Operations	853,158	1,700	854,858	1,255,321
380	Civic Center	3,949,188	-	3,949,188	4,933,308

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2017
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016
(Continued)**

Fund Number	Name of Fund	Pooled December 31, 2017	Non-Pooled December 31, 2017	Total at December 31, 2017	Total at December 31, 2016
385	General Services	36,998,000	68,363	37,066,363	39,949,838
386	Fleet Services Fund	38,082,725	-	38,082,725	45,016,252
390	Insurance	53,224,925	-	53,224,925	52,733,600
391	Employee Benefits	90,047,548	-	90,047,548	113,836,485
401	Tidelands Operations	123,394,047	26,569,054	149,963,101	152,468,368
403	Tidelands - Marina	18,459,255	23,947,294	42,406,549	51,052,942
410	Queen Mary	12,678,871	216,840	12,895,711	2,598,305
411	Tidelands Operating - Rainbow Harbor Area	7,009,875	19,898	7,029,773	6,271,947
420	Tidelands Oil Revenue	37,300,430	-	37,300,430	33,549,933
421	Tidelands Reserve - Subsidence	179,069,962	-	179,069,962	176,984,275
430	Harbor - Operations	3,102,164,969	900	3,102,165,869	2,837,606,704
431	Harbor - Capital	(2,652,460,997)	-	(2,652,460,997)	(2,487,304,144)
432	Harbor Debt Service	60,141,107	153,768,853	213,909,960	133,369,151
440	Expandable Trusts	861,418	-	861,418	859,119
451	ICTF JPA	10,582,449	-	10,582,449	10,199,350
452	Earthquake Assessment Agency Funds	779,683	-	779,683	759,898
453	Other Special Assessment	140,318	-	140,318	138,556
455	Other Agency	4,009,472	1,500	4,010,972	3,892,862
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	177,906	177,906	243,632
470	Agency Special Assessment CFD #5 Long Beach Towne Center	78,236	1,041,871	1,120,107	1,108,740
472	Agency Special Assessment CFD#6 Pike Public Improvements	150,999	3,249,215	3,400,214	3,395,760
473	Agency Special Assessment - Douglas Park	1,207,052	1,100,962	2,308,014	2,159,128
474	CFD 2007 Belmont 2004 Spcl Tx Bd	48,039	264,942	312,981	321,044
475	AD 2008 -1 Toledo Underground Utility 20B	54,652	158,812	213,464	210,382
476	Douglas Park North	231,502	-	231,502	185,702
600	Debt Service	2,936,276	7,543,415	10,479,691	4,273,984
999	Accrued Interest Receivable	(4,841,451)	-	(4,841,451)	(3,279,380)
TOTAL CASH AND INVESTMENTS		\$ 1,582,800,674	\$ 276,301,535	\$ 1,859,102,209	\$ 1,699,511,042

* 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, 2017
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2016**

	<u>Pooled December 31, 2017</u>	<u>Non-Pooled December 31, 2017</u>	<u>Total at December 31, 2017</u>	<u>Total at December 31, 2016</u>
CASH				
Cash in Banks	\$ 78,727,731	\$ 2,377,375	\$ 81,105,106	\$ 153,130,375
Cash with Fiscal Agents	-	267,815,141	267,815,141	184,508,311
Total Cash	<u>\$ 78,727,731</u>	<u>\$ 270,192,516</u>	<u>\$ 348,920,247</u>	<u>\$ 337,638,686</u>
INVESTMENTS				
U.S. Treasury Notes	\$ 625,482,100	\$ -	\$ 625,482,100	\$ 226,050,670
Federal Farm Credit Bank	40,554,337	-	40,554,337	52,457,550
Federal Home Loan Bank	192,147,363	-	192,147,363	337,850,563
Federal National Mortgage Association (FNMA)	335,649,973	-	335,649,973	379,929,922
Federal Home Loan Mortgage Corporation (FHLMC)	160,935,072	-	160,935,072	253,592,894
Federal Home Loan Discount	-	-	-	3,243,589
Local Agency Investment Fund	149,043,911	-	149,043,911	102,104,828
Guaranteed Investment Contracts	-	6,109,019	6,109,019	5,994,251
Money Market	260,187	-	260,187	648,089
Total Investments	<u>\$ 1,504,072,943</u>	<u>\$ 6,109,019</u>	<u>\$ 1,510,181,962</u>	<u>\$ 1,361,872,356</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,582,800,674</u>	<u>\$ 276,301,535</u>	<u>\$ 1,859,102,209</u>	<u>\$ 1,699,511,042</u>