



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-7

LAURA L. DOUD, CPA
City Auditor

October 1, 2019

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, 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 December 31, 2018.

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

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**THE CITY OF LONG BEACH
OFFICE OF THE CITY AUDITOR**

QUARTERLY AUDIT OF CASH AND INVESTMENTS

December 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 December 31, 2018. The City of Long Beach's management is responsible for the cash and investment balances. As of December 31, 2018, the City's cash and investment 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, 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 began January 1, 2015 and was extended through December 31, 2019. 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, 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 December 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 December 31, 2018 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 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 December 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 Sympro at December 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 December 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 December 31, 2018. The following summarizes our finding:

- \$27,393,970 Cash received under a leasing arrangement near period-end for the Long Beach Water Department was not included in the reconciliation. This lead to an understatement in the FAMIS cash with fiscal agent account reported in the Successor Agency Fund (Fund 310). 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 December 31, 2018, after the adjustment noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,744,558,543
Non-Pooled Cash and Investments	<u>184,635,221</u>
Total Cash and Investments	<u>\$ 1,929,193,764</u>

Based on the results of audit procedures performed and adjustment made, cash and investment balances as recorded on the City’s books at December 31, 2018, materially agree as to the amount and description with outside depositories. Also, 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 City’s Investment Policy.

Management confirms the cash received by Fiscal Agent on 12/20/2018 for \$27,393,970 was recorded by Water Department in the following quarter as a reconciling entry. The Water Department will review the item for an improved process to ensure that funds received by its Fiscal Agent are booked in a timely manner.

Winder, Inc.

Long Beach, California
July 22, 2019

ATTACHMENT I

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

Fund Number	Name of Fund	Pooled December 31, 2018	Non-Pooled December 31, 2018	Total at December 31, 2018	Total at December 31, 2017
100	General Fund, General	\$ 70,853,427	\$ 1,327,531	\$ 72,180,958	\$ 42,758,340
103	General Fund, Library	(3,831,520)	3,295	(3,828,225)	117,803
105	General Fund, Parks and Recreation	(1,269,876)	4,765	(1,265,111)	3,338,143
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	4,287,593	-	4,287,593	(1,831,763)
121	Special Revenue, Police & Fire	1,047,308	-	1,047,308	1,305,484
130	Special Revenue, Health	17,789,321	800	17,790,121	5,498,529
131	Special Revenue, CUPA	2,466,579	-	2,466,579	2,749,760
132	Special Revenue, Parking & Business	1,177,494	-	1,177,494	2,085,374
133	Special Advertising & Promotion	11,399,303	-	11,399,303	11,898,477
134	Special Revenue, Upland Oil	13,477,399	-	13,477,399	11,439,874
135	Housing Development	27,127,246	22,055	27,149,301	28,122,228
136	Belmont Shore Parking Meters	512,985	-	512,985	390,044
149	Special Revenue, Business Assistance	856,704	-	856,704	1,115,176
150	Community Development Grants	417,464	11,275	428,739	(410,124)
151	Housing Authority	10,609,368	1,413,699	12,023,067	10,967,176
181	Gas Tax Street Improvement	14,760,545	-	14,760,545	12,777,855
182	Special Revenue, Transportation	47,148,439	-	47,148,439	39,907,902
201	Capital Projects	46,324,850	169,892	46,494,742	27,689,322
202	Special Assessment District - Capital Projects	1,773,197	60,733	1,833,930	2,218,360
209	Capital Projects - Legislative	4,859,807	-	4,859,807	6,109,659
270	SA-RD Obligation Retirement FD Operation	15,949,543	138,304	16,087,847	17,875,305
277	SA-RD Obligation Retirement FD Debt SVC	-	10,177,311	10,177,311	13,821,621
301	Gas Revenue	36,815,142	750	36,815,892	40,180,502
303	Gas Prepaid	530,153	6,298,114	6,828,267	6,429,969
310	Water	35,069,149	30,126,673	65,195,822	35,447,532
311	Sewer	16,977,964	-	16,977,964	11,875,425
320	Airport	80,287,362	12,324,192	92,611,554	90,463,995
330	Refuse/Recycling	12,514,405	3,000	12,517,405	14,624,487
331	SERRF	30,203,717	-	30,203,717	17,817,641
337	Development Services	42,221,944	-	42,221,944	36,157,912
339	SERRF JPA	934	-	934	11,876,968
340	Towing Operations	1,138,023	1,700	1,139,723	854,858
380	Civic Center	5,855,590	-	5,855,590	3,949,188
385	General Services	29,244,166	24,814,556	54,058,722	37,066,363
386	Fleet Services Fund	44,887,343	2,799	44,890,142	38,082,725
390	Insurance	46,459,133	-	46,459,133	53,224,925
391	Employee Benefits	75,642,994	-	75,642,994	90,047,548

ATTACHMENT I

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

Fund Number	Name of Fund	Pooled December 31, 2018	Non-Pooled December 31, 2018	Total at December 31, 2018	Total at December 31, 2017
401	Tidelands Operations	124,053,423	15,948,257	140,001,680	149,963,101
403	Tidelands - Marina	21,061,200	16,500,659	37,561,859	42,406,549
410	Queen Mary	2,030,555	221,184	2,251,739	12,895,711
411	Tidelands Operating - Rainbow Harbor Area	6,318,666	23,162	6,341,828	7,029,773
420	Tidelands Oil Revenue	45,192,220	-	45,192,220	37,300,430
421	Tidelands Reserve - Subsidence	182,107,593	-	182,107,593	179,069,962
430	Harbor - Operations	3,428,080,390	900	3,428,081,290	3,102,165,869
431	Harbor - Capital	(2,884,308,541)	-	(2,884,308,541)	(2,652,460,997)
432	Harbor Debt Service	50,209,764	57,126,436	107,336,200	213,909,960
440	Expendable Trusts	857,955	-	857,955	861,418
451	ICTF JPA Fund	7,057,243	-	7,057,243	10,582,449
452	Earthquake Assessment District Agency	793,134	-	793,134	779,683
453	Other Special Assessment Agency	142,945	-	142,945	140,318
455	Other Agency	3,798,453	1,500	3,799,953	4,010,972
460	Los Cerritos Wetlands Authority Agency Special	-	271,581	271,581	177,906
470	Agency Special Assessment CFD #5 Long Beach Towne Center	122,776	1,019,208	1,141,984	1,120,107
472	Agency Special Assessment CFD#6 Pike Public Improvements	152,269	3,258,169	3,410,438	3,400,214
473	Agency Special Assessment - Douglas Park	1,367,819	1,106,734	2,474,553	2,308,014
474	CFD 2007-2 Belmont Shore 2009 Spcl Tx Bd	66,574	266,911	333,485	312,981
475	AD 2008 -1 Toledo Underground Utility 20B	85,169	162,970	248,139	213,464
476	Douglas Park North	280,667	-	280,667	231,502
600	Debt Service	6,480,327	1,826,106	8,306,433	10,479,691
999	Accrued Interest Receivable	(5,977,253)	-	(5,977,253)	(4,841,451)
TOTAL CASH AND INVESTMENTS		<u>\$ 1,744,558,543</u>	<u>\$ 184,635,221</u>	<u>\$ 1,929,193,764</u>	<u>\$ 1,859,102,209</u>

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

	<u>Pooled December 31, 2018</u>	<u>Non-Pooled December 31, 2018</u>	<u>Total at December 31, 2018</u>	<u>Total at December 31, 2017</u>
CASH				
Cash in Banks	\$ 71,384,541	\$ 1,700,584	\$ 73,085,125	\$ 81,105,106
Cash with Fiscal Agents	-	<u>176,666,099</u>	<u>176,666,099</u>	<u>267,815,141</u>
 Total Cash	 <u>71,384,541</u>	 <u>178,366,683</u>	 <u>249,751,224</u>	 <u>348,920,247</u>
INVESTMENTS				
U.S. Treasury Notes	803,179,016	-	803,179,016	625,482,100
Federal Farm Credit Bank	4,991,721	-	4,991,721	40,554,337
Federal Home Loan Bank	159,077,316	-	159,077,316	192,147,363
Federal National Mortgage Association (FNMA)	279,741,834	-	279,741,834	335,649,973
Federal Home Loan Mortgage Corporation (FHLMC)	124,585,250	-	124,585,250	160,935,072
Federal Home Loan Discount	118,802,563	-	118,802,563	-
Local Agency Investment Fund	181,753,154	-	181,753,154	149,043,911
Guaranteed Investment Contracts	-	6,268,538	6,268,538	6,109,019
Money Market	<u>1,043,148</u>	<u>-</u>	<u>1,043,148</u>	<u>260,187</u>
 Total Investments	 <u>1,673,174,002</u>	 <u>6,268,538</u>	 <u>1,679,442,540</u>	 <u>1,510,181,962</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$ 1,744,558,543</u>	 <u>\$ 184,635,221</u>	 <u>\$ 1,929,193,764</u>	 <u>\$ 1,859,102,209</u>