



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

September 15, 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 March 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 March 31, 2015.

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

12 SEP -3 6:30 PM
CITY OF LONG BEACH
OFFICE OF THE CITY AUDITOR

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

QUARTERLY AUDIT OF CASH AND INVESTMENTS

March 31, 2015

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 March 31, 2015. The City of Long Beach's management is responsible for the cash and investments balances. As of March 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 March 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, 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 March 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 March 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 (APS2) at March 31, 2015 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 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 (APS2) at March 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 (APS2) at March 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 March 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 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 March 31, 2015. The following summarizes our findings:

- \$272,745 – A deposit into the US Bank Towne Center account received in March 2015 was not recorded in FAMIS. This lead to an understatement in cash with fiscal agent in the Agency Special Assessment CFD #5 Long Beach Towne Center Fund (Fund 470). Cash with fiscal agent is considered part of the non-pooled cash and investments.

- \$469,087 – A deposit into the Tideland Operations fund received in March 2015 was not recorded in FAMIS. This lead to an understatement in cash with fiscal agent account reported in the Tideland Operations Fund (Fund 401). Cash with fiscal agent is considered part of the non-pooled cash and investments.

- \$1,703,367 – A deposit into the Union Bank cash concentration account in February 2015 was not recorded in FAMIS. This lead to an understatement of cash of General Fund (Fund 100) in the pooled cash account.

- \$1,503,892 – Debt service payment made in the current quarter was not recorded in FAMIS. 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.

- \$78,764 – Net adjustment to the SERRF JPA fund for the current quarter not reflected in FAMIS. This lead to an understatement in the FAMIS cash with fiscal agent account reported in the SERRF JPA (Fund 339). Cash with fiscal agent is considered part of the non-pooled cash and investments.

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

Pooled Cash and Investments	\$ 1,580,944,315
Non-Pooled Cash and Investments	<u>256,911,766</u>
Total Cash and Investments	<u>\$ 1,837,856,081</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 March 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 and the items have been addressed. Staff continues to receive supplemental training as changes to the underlying processes continue to be evaluated. These efforts will result in a more timely, accurate and efficient process.

The reconciling items identified by the audit report represent intra-period routine timing differences whose impacts offset within the accounting period. 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.

Winder, Inc.

Long Beach, California
August 14, 2015

ATTACHMENT I

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

Fund Number	Name of Fund	Pooled March 31, 2015	Non-Pooled March 31, 2015	Total at March 31, 2015	Total at March 31, 2014
100	General Fund, General	\$ 95,003,086	\$ 350,056	\$ 95,353,142	\$ 88,824,007
103	General Fund, Library	665,859	21,145	687,004	(6,296,302)
105	General Fund, Parks and Recreation	3,403,178	34,365	3,437,543	(6,395,597)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	7,196,445	-	7,196,445	2,815,573
121	Special Revenue, Police & Fire	267,067	-	267,067	108,877
130	Special Revenue, Health	2,887,230	15,150	2,902,380	2,218,487
131	Special Revenue, CUPA	2,436,801	-	2,436,801	1,926,106
132	Special Revenue, Parking & Business	599,557	-	599,557	676,103
133	Special Advertising & Promotion	8,744,083	-	8,744,083	6,394,535
134	Special Revenue, Upland Oil	11,850,746	-	11,850,746	15,581,978
135	Housing Development	26,087,492	7,000	26,094,492	13,753,470
136	Belmont Shore Parking Meters	948,331	81,654	1,029,985	963,190
137	Planning & Building Department	-	-	-	13,777,774
149	Special Revenue, Business Assistance	1,449,649	-	1,449,649	1,601,273
150	Community Development Grants	2,251,955	15,884	2,267,839	907,358
151	Housing Authority	10,253,011	45,568	10,298,579	9,120,598
181	Gas Tax Street Improvement	19,337,425	-	19,337,425	18,275,304
182	Special Revenue, Transportation	29,706,135	-	29,706,135	23,861,850
201	Capital Projects	39,614,098	6,835,662	46,449,760	37,874,357
202	Assessment District-Capital Projects	1,750,040	687,208	2,437,248	2,239,006
203	Blight Removal	2	-	2	2
209	Capital Projects - Legislative	9,529,461	-	9,529,461	14,706,027
270	SA-RD Obligation Retirement FD Operation	22,481,309	10,227,546	32,708,855	43,618,564
277	SA-RD Obligation Retirement FD Debt SVC	6	46,014,442	46,014,448	31,939,762
301	Gas Revenue	12,755,558	5,500	12,761,058	6,136,564
303	Gas Prepaid	207,904	17,918,922	18,126,826	18,256,600
310	Water	32,396,404	3,134,139	35,530,543	46,615,559
311	Sewer	8,201,402	-	8,201,402	8,046,738
320	Airport	59,566,908	15,656,528	75,223,436	72,698,558
330	Refuse/Recycling	17,652,310	3,000	17,655,310	17,670,315
331	SERRF	22,742,483	-	22,742,483	20,266,112
337	Development Services	19,926,719	-	19,926,719	2,469,275
339	SERRF JPA	525	11,750,906	11,751,431	11,741,011
340	Towing Operations	1,065,646	1,700	1,067,346	937,172
380	Civic Center	2,748,644	180	2,748,824	6,469,585
385	General Services	21,901,400	5,000	21,906,400	20,405,118
386	Fleet Services Fund	44,508,243	-	44,508,243	36,830,786
390	Insurance	39,227,087	61	39,227,148	40,938,617
391	Employee Benefits	90,570,576	-	90,570,576	86,506,887

ATTACHMENT I

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

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled March 31, 2015</u>	<u>Non-Pooled March 31, 2015</u>	<u>Total at March 31, 2015</u>	<u>Total at March 31, 2014</u>
401	Tidelands Operations	166,397,190	13,379,487	179,776,677	191,234,485
403	Tidelands-Marina	19,716,285	15,600	19,731,885	7,201,839
410	Queen Mary	1,264,548	—	1,264,548	1,585,886
411	Tidelands Operating - Rainbow Harbor Area	8,373,201	4,305,420	12,678,621	17,279,304
420	Tidelands Oil Revenue	25,245,430	—	25,245,430	40,990,293
421	Tidelands Reserve - Subsidence	171,755,170	2,139,919	173,895,089	172,609,465
430	Harbor - Operations	2,391,312,812	17,650	2,391,330,462	1,961,521,756
431	Harbor - Capital	(2,064,301,980)	—	(2,064,301,980)	(1,749,962,002)
432	Harbor Debt Service	183,065,218	114,967,221	298,032,439	135,632,751
433	Harbor - Clean Air Action Plan	(13,358,302)	—	(13,358,302)	(10,584,131)
440	Expandable Trusts	904,239	—	904,239	918,306
451	ICTF JPA	8,941,399	—	8,941,399	4,577,216
452	Earthquake Assessment Agency Funds	902,422	—	902,422	889,658
453	Other Special Assessment	134,840	—	134,840	131,423
455	Other Agency	3,560,710	1,500	3,562,210	3,387,656
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	—	85,385	85,385	120,469
470	Agency Special Assessment CFD #5 Long Beach Towne Center (27,755)	1,417,835	1,390,080	1,285,393
471	Agency Special Assessment LBBFA Local Agency	—	—	—	10,012
472	Agency Special Assessment CFD#6 Pike Public Improvements	46,925	4,305,785	4,352,710	4,381,061
473	Agency Special Assessment - Douglas Park	643,688	1,084,917	1,728,605	1,646,206
474	CFD 2007 Belmont 2004 Spcl Tx Bd	185,957	359,527	545,484	565,748
475	AD 2008-1 Toledo Underground Utility 20B	98,873	113,965	212,838	197,835
476	Douglas Park North	109,732	—	109,732	86,618
477	Uptown Property & Business Improvement District	5	—	5	—
600	Debt Service	71,147	1,905,939	1,977,086	3,221,540
999	Accrued Interest Receivable	(3,032,214)	—	(3,032,214)	(2,247,150)
	Total Cash and Investments	\$ 1,580,944,315*	\$ 256,911,766	\$ 1,837,856,081	\$ 1,510,162,836

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

	<u>Pooled March 31, 2015</u>	<u>Non-Pooled March 31, 2015</u>	<u>Total at March 31, 2015</u>	<u>Total at March 31, 2014</u>
CASH				
Cash in banks	\$ 132,425,055	\$ 535,794	\$ 132,960,849	\$ 169,791,040
Cash with fiscal agents	<u>—</u>	<u>223,310,919</u>	<u>223,310,919</u>	<u>151,320,139</u>
Total Cash	<u>\$ 132,425,055</u>	<u>\$ 223,846,713</u>	<u>\$ 356,271,768</u>	<u>\$ 321,111,179</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 24,998,268	—	\$ 24,998,268	\$ 114,988,843
U.S. Treasury Notes	251,558,967	—	251,558,967	135,430,827
Federal Farm Credit Bank	69,498,819	—	69,498,819	48,528,825
Federal Home Loan Bank	407,884,566	—	407,884,566	245,492,259
Federal National Mortgage Association (FNMA)	218,840,516	—	218,840,516	220,817,834
FNMA Discounts Notes	56,192,317	—	56,192,317	16,998,263
Federal Home Loan Mortgage Corporation (FHLMC)	238,291,396	—	238,291,396	174,209,153
FHLMC Discount Notes	16,995,428	—	16,995,428	25,997,033
Federal Home Loan Discount	31,997,362	—	31,997,362	29,998,081
Certificate of Deposit	10,000,000	—	10,000,000	10,000,000
Local Agency Investment Fund	120,763,516	—	120,763,516	120,477,726
Guaranteed Investment Contracts	—	\$ 30,925,135	30,925,135	42,418,452
Special Assessment Bonds	—	2,139,918	2,139,918	2,048,014
Money Market	1,498,105	—	1,498,105	231,176
Savers Loan	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,415,171</u>
Total Investments	<u>\$ 1,448,519,260</u>	<u>\$ 33,065,053</u>	<u>\$ 1,481,584,313</u>	<u>\$ 1,189,051,657</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,580,944,315</u>	<u>\$ 256,911,766</u>	<u>\$ 1,837,856,081</u>	<u>\$ 1,510,162,836</u>