



LAURA DOUD

May 9, 2017

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 September 30, 2016.

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 September 30, 2016.

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

THE CITY OF LONG BEACH OFFICE OF THE CITY AUDITOR

QUARTERLY AUDIT OF CASH AND INVESTMENTS

September 30, 2016

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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 September 30, 2016. The City of Long Beach's management is responsible for the cash and investments balances. As of September 30, 2016, 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 September 30, 2016 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 September 30, 2016.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City’s cash and investments process.
- Obtained confirmations of cash held by banks and investments held by the City Treasurer’s safekeeping agent and other custodians as of September 30, 2016 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 September 30, 2016 to the City’s general ledger.
- Obtained bank and investment reconciliations at September 30, 2016 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 September 30, 2016 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 September 30, 2016 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.)
- Recalculated accrued interest (in aggregate) to determine if accrued interest for investments held at September 30, 2016 was accurately stated on the City's general ledger.

The allocation of accrued interest and 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 item was not booked in FAMIS to properly reflect the cash and investment balances at September 30, 2016. The following summarizes our findings:

\$22,151	Credit card balances were mistakenly posted as cash balances in FAMIS as of September 30, 2016. This led to an overstatement in the FAMIS cash with fiscal agent account reported in the General Fund, General (Fund 100). Cash with fiscal agent is considered part of non-pooled cash and investments.
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The City's cash and investment balances as of September 30, 2016, after the adjustment noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,534,187,612
Non-Pooled Cash and Investments	<u>249,588,958</u>
Total Cash and Investments	<u>\$ 1,783,776,570</u>

Based on the results of audit procedures performed and adjustment made, cash and investment balances as recorded on the City's books at September 30, 2016, 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 thanks the City Auditor for their review. Management acknowledges the issue which resulted from some unique timing issues related to the payment of procurement cards and will review procedural steps to ensure a similar overstatement does not occur in future periods. Management concurs that investment activity for the subject period was in full compliance with the applicable sections of the California Government Code and City's Investment Policy.



Long Beach, California
March 27, 2017

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT SEPTEMBER 30, 2016 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2015

Fund Number	Name of Fund	Pooled September 30, 2016	Non-Pooled September 30, 2016	Total at September 30, 2016	Total at September 30, 2015
100	General Fund, General	\$ 79,425,842	\$ 6,080,031	\$ 85,505,873	\$ 79,053,712
103	General Fund, Library	752,265	3,145	755,410	668,385
105	General Fund, Parks and Recreation	6,669,252	9,879	6,679,131	3,719,769
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	3,648,910	-	3,648,910	8,648,147
121	Special Revenue, Police & Fire	1,421,122	-	1,421,122	1,265,638
130	Special Revenue, Health	3,970,584	500	3,971,084	3,131,968
131	Special Revenue, CUPA	1,604,231	-	1,604,231	1,392,981
132	Special Revenue, Parking & Business	431,502	-	431,502	327,592
133	Special Advertising & Promotion	9,951,058	-	9,951,058	9,491,642
134	Special Revenue, Upland Oil	9,533,038	-	9,533,038	12,597,946
135	Housing Development	41,050,542	24,645	41,075,187	28,894,880
136	Belmont Shore Parking Meters	1,064,989	71,710	1,136,699	1,046,856
149	Special Revenue, Business Assistance	1,221,157	-	1,221,157	1,480,257
150	Community Development Grants	948	12,353	13,301	364,690
151	Housing Authority	8,222,333	2,377,332	10,599,665	11,314,634
181	Gas Tax Street Improvement	14,166,664	-	14,166,664	18,421,700
182	Special Revenue, Transportation	31,640,448	-	31,640,448	27,160,787
201	Capital Projects	30,339,954	6,836,283	37,176,237	40,523,662
202	Assessment District-Capital Projects	1,759,529	687,270	2,446,799	2,441,880
209	Capital Projects - Legislative SA-RD	8,094,880	-	8,094,880	7,869,150
270	SA-RD Obligation Retirement FD Operation				
	Retirement FD Operations	8,687,831	787,559	9,475,390	18,843,356
277	SA-RD Obligation Retirement FD Debt SVC	6	20,596,922	20,596,928	20,338,941
301	Gas Revenue	18,834,309	10,895,448	29,729,757	31,249,111
303	Gas Prepaid	146,070	21,087,035	21,233,105	20,431,375
310	Water	33,677,880	2,697,443	36,375,323	34,324,021
311	Sewer	10,391,718	29,261	10,420,979	9,905,534
320	Airport	64,068,223	14,549,313	78,617,536	74,401,124
330	Refuse/Recycling	13,923,001	3,000	13,926,001	13,825,305
331	SERRF	25,228,890	-	25,228,890	28,174,486
337	Development Services	22,271,910	-	22,271,910	20,150,305
339	SERRF JPA	734	11,876,854	11,877,588	11,794,372
340	Towing Operations	810,231	1,700	811,931	822,361
380	Civic Center	4,566,022	-	4,566,022	9,196,107

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2016
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2015
(Continued)**

Fund Number	Name of Fund	Pooled September 30, 2016	Non-Pooled September 30, 2016	Total at September 30, 2016	Total at September 30, 2015
385	General Services	39,140,403	97,126	39,237,529	33,305,729
386	Fleet Services Fund	53,784,277	-	53,784,277	52,410,377
390	Insurance	58,675,585	-	58,675,585	53,614,529
391	Employee Benefits	113,986,486	-	113,986,486	109,888,205
401	Tidelands Operations	144,640,892	17,695,052	162,335,944	170,886,648
403	Tidelands-Marina	6,571,237	46,287,096	52,858,333	69,280,512
410	Queen Mary	2,530,021	-	2,530,021	1,079,677
411	Tidelands Operating - Rainbow Harbor Area	5,292,338	18,663	5,311,001	8,739,009
420	Tidelands Oil Revenue	29,768,936	-	29,768,936	21,196,728
421	Tidelands Reserve - Subsidence	177,140,964	-	177,140,964	172,977,352
430	Harbor - Operations	2,781,464,373	900	2,781,465,273	2,521,214,027
431	Harbor - Capital	(2,446,011,459)	-	(2,446,011,459)	(2,200,482,869)
432	Harbor Debt Service	82,064,126	75,610,824	157,674,950	348,071,769
440	Expandable Trusts	833,791	-	833,791	863,401
451	ICTF JPA	9,127,008	-	9,127,008	10,144,973
452	Earthquake Assessment Agency Funds	760,390	-	760,390	743,000
453	Other Special Assessment	138,282	-	138,282	136,161
455	Other Agency	3,979,894	1,500	3,981,394	3,743,741
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	314,064	314,064	13,056
470	Agency Special Assessment CFD #5 Long Beach Towne Center	32,043	2,089,598	2,121,641	2,114,389
472	Agency Special Assessment CFD#6 Pike Public Improvements	47,662	5,430,691	5,478,353	5,400,945
473	Agency Special Assessment - Douglas Park	732,531	1,097,962	1,830,493	1,703,516
474	CFD 2007 Belmont 2004 Spcl Tx Bd	34,698	428,300	462,998	465,919
475	AD 2008-1 Toledo Underground Utility 20B	58,000	114,002	172,002	167,912
476	Douglas Park North	167,945	-	167,945	124,717
600	Debt Service	2,651,116	1,775,497	4,426,613	2,005,439
	TOTAL CASH AND INVESTMENTS	\$ 1,534,187,612	\$ 249,588,958	\$ 1,783,776,570	\$ 1,952,081,536

* 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 SEPTEMBER 30, 2016
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2015**

	<u>Pooled September 30, 2016</u>	<u>Non-Pooled September 30, 2016</u>	<u>Total at September 30, 2016</u>	<u>Total at September 30, 2015</u>
CASH				
Cash in Banks	\$ 216,578,409	\$ 2,673,908	\$ 219,252,317	\$ 159,536,807
Cash with Fiscal Agents	<u>-</u>	<u>226,005,073</u>	<u>226,005,073</u>	<u>384,162,247</u>
 Total Cash	 <u>\$ 216,578,409</u>	 <u>\$ 228,678,981</u>	 <u>\$ 445,257,390</u>	 <u>\$ 543,699,054</u>
INVESTMENTS				
U.S. Treasury Notes	\$ 246,619,572	\$ -	\$ 246,619,572	\$ 331,077,663
Federal Farm Credit Bank	59,763,636	-	59,763,636	62,745,803
Federal Home Loan Bank	359,991,242	-	359,991,242	242,375,411
Federal National Mortgage Association (FNMA)	332,459,965	-	332,459,965	240,381,874
Farmer Mac Discount Notes	-	-	-	4,997,867
FNMA Discounts Notes	4,997,850	-	4,997,850	34,992,000
Federal Home Loan Mortgage Corporation (FHLMC)	260,430,857	-	260,430,857	229,013,893
FHLMC Discount Notes	8,597,128	-	8,597,128	12,122,754
Federal Home Loan Discount	17,236,453	-	17,236,453	98,872,591
Certificate of Deposit	-	-	-	9,998,138
Local Agency Investment Fund	27,049,236	-	27,049,236	121,009,067
Guaranteed Investment Contracts	-	20,909,977	20,909,977	20,148,202
Money Market	<u>463,264</u>	<u>-</u>	<u>463,264</u>	<u>647,219</u>
 Total Investments	 <u>\$ 1,317,609,203</u>	 <u>\$ 20,909,977</u>	 <u>\$ 1,338,519,180</u>	 <u>\$ 1,408,382,482</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$ 1,534,187,612</u>	 <u>\$ 249,588,958</u>	 <u>\$ 1,783,776,570</u>	 <u>\$ 1,952,081,536</u>