



LAURA DOUD

C-4

May 3, 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 September 30, 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 September 30, 2015.

TIMING CONSIDERATIONS:

This item is not time sensitive.

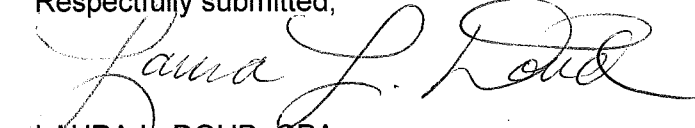
FISCAL IMPACT:

There is no fiscal impact.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,


LAURA L. DOUD, CPA
CITY AUDITOR

Attachment

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

QUARTERLY AUDIT OF CASH AND INVESTMENTS

September 30, 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 September 30, 2015. The City of Long Beach's management is responsible for the cash and investments balances. As of September 30, 2015, the City's cash and investments portfolio totaled approximately \$2 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, 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

On January 31, 2015, the City Council approved an agreement with Chandler Asset Management (“Chandler”) to provide investment advisory and management services relating to the City’s pooled investment portfolio. The term of the agreement is two (2) years, with termination on 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, 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 September 30, 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 September 30, 2015 to the City’s general ledger.
- Obtained bank and investment reconciliations at September 30, 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 September 30, 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 September 30, 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.)
- Recalculated accrued interest (in aggregate) to determine if accrued interest for Investments held at September 30, 2015 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

The City’s cash and investment balances as of September 30, 2015 are summarized as follows:

Pooled Cash and Investments	\$ 1,547,299,099
Non-Pooled Cash and Investments	<u>404,782,437</u>
Total Cash and Investments	<u>\$ 1,952,081,536</u>

RESULTS AND CONCLUSIONS (CONTINUED)

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at September 30, 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 thanks the City Auditor for their review. 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.

Winder, Inc.

Long Beach, California
March 25, 2016

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2015
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2014**

Fund Number	Name of Fund	Pooled September 30, 2015	Non-Pooled September 30, 2015	Total at September 30, 2015	Total at September 30, 2014
100	General Fund, General	\$ 78,761,910	\$ 291,802	\$ 79,053,712	\$ 82,330,399
103	General Fund, Library	665,240	3,145	668,385	465,272
105	General Fund, Parks and Recreation	3,685,404	34,365	3,719,769	3,342,525
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	8,648,147	-	8,648,147	1,827,711
121	Special Revenue, Police & Fire	1,265,638	-	1,265,638	1,199,846
130	Special Revenue, Health	3,130,968	1,000	3,131,968	1,018,056
131	Special Revenue, CUPA	1,392,981	-	1,392,981	1,415,429
132	Special Revenue, Parking & Business	327,592	-	327,592	353,333
133	Special Advertising & Promotion	9,491,642	-	9,491,642	7,538,793
134	Special Revenue, Upland Oil	12,597,946	-	12,597,946	20,042,391
135	Housing Development	28,863,983	30,897	28,894,880	22,619,127
136	Belmont Shore Parking Meters	975,182	71,674	1,046,856	1,066,335
149	Special Revenue, Business Assistance	1,480,257	-	1,480,257	1,514,261
150	Community Development Grants	351,088	13,602	364,690	209,067
151	Housing Authority	11,279,545	35,089	11,314,634	10,383,863
181	Gas Tax Street Improvement	18,421,700	-	18,421,700	21,808,956
182	Special Revenue, Transportation	27,160,787	-	27,160,787	22,965,245
201	Capital Projects	33,687,792	6,835,870	40,523,662	34,927,263
202	Assessment District-Capital Projects	1,754,651	687,229	2,441,880	2,436,302
203	Blight Removal	-	-	-	2
209	Capital Projects - Legislative	7,869,150	-	7,869,150	7,707,908
270	SA-RD Obligation Retirement FD Operation	10,418,059	8,425,297	18,843,356	39,776,668
277	SA-RD Obligation Retirement FD Debt SVC	6	20,338,935	20,338,941	32,477,495
301	Gas Revenue	15,327,602	15,921,509	31,249,111	7,492,155
303	Gas Prepaid	160,668	20,270,707	20,431,375	20,316,699
310	Water	31,645,166	2,678,855	34,324,021	42,067,723
311	Sewer	9,905,534	-	9,905,534	7,566,176
320	Airport	59,918,946	14,482,178	74,401,124	68,346,657
330	Refuse/Recycling	13,822,305	3,000	13,825,305	14,667,887
331	SERRF	28,174,486	-	28,174,486	25,648,653
337	Development Services	20,150,305	-	20,150,305	17,021,816
339	SERRF JPA	615	11,793,757	11,794,372	11,672,538
340	Towing Operations	820,661	1,700	822,361	1,012,587
380	Civic Center	9,196,107	-	9,196,107	7,633,861
385	General Services	33,305,404	325	33,305,729	21,568,074
386	Fleet Services Fund	52,410,377	-	52,410,377	43,046,304
390	Insurance	53,614,468	61	53,614,529	41,379,082
391	Employee Benefits	109,889,279	(1,074)	109,888,205	95,805,074

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2015
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2014
(Continued)**

Fund Number	Name of Fund	Pooled September 30, 2015	Non-Pooled September 30, 2015	Total at September 30, 2015	Total at September 30, 2014
401	Tidelands Operations	153,602,105	17,284,543	170,886,648	195,371,681
403	Tidelands-Marina	14,967,961	54,312,551	69,280,512	21,462,630
410	Queen Mary	1,079,677	-	1,079,677	1,447,144
411	Tidelands Operating – Rainbow Harbor Area	4,436,847	4,302,162	8,739,009	11,387,242
420	Tidelands Oil Revenue	21,196,728	-	21,196,728	46,371,428
421	Tidelands Reserve - Subsidence	172,977,352	-	172,977,352	173,522,388
430	Harbor - Operations	2,521,196,549	17,478	2,521,214,027	2,219,227,233
431	Harbor - Capital	(2,200,482,869)	-	(2,200,482,869)	(1,906,045,037)
432	Harbor Debt Service	131,926,802	216,144,967	348,071,769	309,075,274
433	Harbor - Clean Air Action Plan	-	-	-	(11,524,305)
440	Expandable Trusts	863,401	-	863,401	877,957
451	ICTF JPA	10,144,973	-	10,144,973	4,587,152
452	Earthquake Assessment Agency Funds	743,000	-	743,000	887,957
453	Other Special Assessment	136,161	-	136,161	133,489
455	Other Agency	3,742,241	1,500	3,743,741	3,335,262
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	13,056	13,056	118,164
470	Agency Special Assessment CFD #5 Long Beach Towne Center	43,642	2,070,747	2,114,389	2,111,803
472	Agency Special Assessment CFD#6 Pike Public Improvements	142	5,400,803	5,400,945	5,398,158
473	Agency Special Assessment – Douglas Park	611,249	1,092,267	1,703,516	1,571,446
474	CFD 2007 Belmont 2004 Spcl Tx Bd	41,391	424,528	465,919	482,187
475	AD 2008-1 Toledo Underground Utility 20B	53,947	113,965	167,912	149,426
476	Douglas Park North	124,717	-	124,717	95,586
600	Debt Service	321,492	1,683,947	2,005,439	2,784,572
	Total Cash and Investments	\$ 1,547,299,099*	\$ 404,782,437	\$ 1,952,081,536	\$ 1,834,500,370

* 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, 2015 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2014

	Pooled September 30, 2015	Non-Pooled September 30, 2015	Total at September 30, 2015	Total at September 30, 2014
CASH				
Cash in banks	\$ 159,064,819	\$ 471,988	\$ 159,536,807	\$ 120,984,191
Cash with fiscal agents	-	384,162,247	384,162,247	221,628,368
Total Cash	\$ 159,064,819	\$ 384,634,235	\$ 543,699,054	\$ 342,612,559
INVESTMENTS				
U.S. Treasury Bills	-	-	-	9,999,800
U.S. Treasury Notes	331,077,663	-	331,077,663	305,610,751
Federal Farm Credit Bank	62,745,803	-	62,745,803	67,028,854
Federal Home Loan Bank	242,375,411	-	242,375,411	399,539,893
Federal National Mortgage Association (FNMA)	240,381,874	-	240,381,874	224,186,677
FNMA Discounts Notes	34,992,000	-	34,992,000	56,995,960
Farmer Mac Discount Notes	4,997,867	-	4,997,867	-
Federal Home Loan Mortgage Corporation (FHLMC)	229,013,893	-	229,013,893	207,437,440
FHLMC Discount Notes	12,122,754	-	12,122,754	21,992,910
Federal Home Loan Discount Certificate of Deposit	98,872,591	-	98,872,591	32,997,286
Local Agency Investment Fund	9,998,138	-	9,998,138	9,966,672
Guaranteed Investment Contracts	121,009,067	-	121,009,067	120,677,719
Special Assessment Bonds	-	20,148,202	20,148,202	33,132,104
Money Market	-	-	-	2,093,967
	647,219	-	647,219	227,778
Total Investments	1,388,234,280	20,148,202	1,408,382,482	1,491,887,811
TOTAL CASH AND INVESTMENTS	\$ 1,547,299,099	\$ 404,782,437	\$ 1,952,081,536	\$ 1,834,500,370