



LAURA DOUD

December 19, 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 June 30, 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 June 30, 2017.

TIMING CONSIDERATIONS:

This item is not time sensitive.

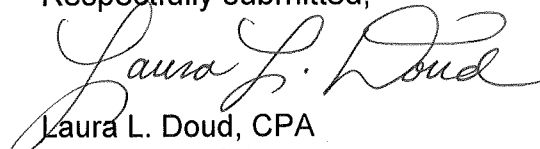
FISCAL IMPACT:

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

June 30, 2017

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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 June 30, 2017. The City of Long Beach's management is responsible for the cash and investments balances. As of June 30, 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 June 30, 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 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 June 30, 2017.

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 June 30, 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 June 30, 2017 to the City's general ledger.
- Obtained bank and investment reconciliations at June 30, 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 June 30, 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 June 30, 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 June 30, 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

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 June 30, 2017, the market value of the collateralized securities was approximately 104.70%. The City rectified the shortfall on July 6, 2017 with additional securities to reach a total market value of approximately 105.70%.

During our audit, we noted the City had three separate accounts invested in Local Agency Investment Funds (LAIF) each with a balance approximating \$63 million at June 30, 2017. Per the City's annually approved Investment Policy, LAIF accounts are limited to a maximum of \$50 million per account. As such, the City was not in compliance with its own Investment Policy as of June 30, 2017.

The City's cash and investment balances as of June 30, 2017, after the adjustment noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,533,170,449
Non-Pooled Cash and Investments	<u>389,396,954</u>
Total Cash and Investments	<u>\$ 1,922,567,403</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at June 30, 2017, materially agree as to the amount and description with outside depositories. Also, other than the compliance findings 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

Compliance

Management acknowledges the under-collateralization of the Guaranteed Investment Contract (GIC) as of June 30, 2017, and offers that the GIC requires recapitalization within ten business days of notification. On July 6, 2017, six business days after notification, the collateral requirement was met in accordance with the prescribed remedies of the GIC Agreement, by the placement of additional securities in trust.

Management acknowledges the three City LAIF account balances exceeded the 2017 City Investment Policy limit at June 30, 2017 while in compliance with the State Treasurer's LAIF Balance Policy. On August 22, 2017, account balances were brought into compliance with City Investment Policy. The intent of the City's Investment LAIF Policy was and is to follow the State Treasurer's LAIF balance policy. The 2018 Investment Policy has been resynchronized to align with the State Treasurer's LAIF balance policy.

Winder, Inc.

Long Beach, California
November 3, 2017

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR JUNE 30, 2016**

Fund Number	Name of Fund	Pooled June 30, 2017	Non-Pooled June 30, 2017	Total at June 30, 2017	Total at June 30, 2016
100	General Fund, General	\$ 90,721,398	\$ 6,082,947	\$ 96,804,345	\$ 118,640,132
103	General Fund, Library	347,016	3,245	350,261	78,675
105	General Fund, Parks and Recreation	3,225,947	6,716	3,232,663	3,091,426
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	349,610	-	349,610	8,190,752
121	Special Revenue, Police & Fire	2,089,365	-	2,089,365	1,734,971
130	Special Revenue, Health	5,598,138	800	5,598,938	5,046,604
131	Special Revenue, CUPA	2,150,420	-	2,150,420	1,998,314
132	Special Revenue, Parking & Business	349,592	-	349,592	1,409,071
133	Special Advertising & Promotion	10,761,714	-	10,761,714	10,423,721
134	Special Revenue, Upland Oil	13,530,533	-	13,530,533	9,504,545
135	Housing Development	41,295,341	32,370	41,327,711	29,199,716
136	Belmont Shore Parking Meters	1,106,987	-	1,106,987	1,046,941
149	Special Revenue, Business Assistance	1,119,484	-	1,119,484	1,474,470
150	Community Development Grants	429,685	11,877	441,562	(510,432)
151	Housing Authority	10,024,331	1,732,673	11,757,004	9,798,005
181	Gas Tax Street Improvement	12,459,491	-	12,459,491	16,152,224
182	Special Revenue, Transportation	37,237,237	-	37,237,237	32,752,799
201	Capital Projects	6,890,688	6,839,881	13,730,569	41,821,589
202	Assessment District-Capital Projects	1,676,238	687,636	2,363,874	2,440,096
209	Capital Projects - Legislative	6,410,769	-	6,410,769	9,168,092
270	SA-RD Obligation Retirement FD Operation				
	Retirement FD Operations	13,589,984	789,933	14,379,917	27,806,334
277	SA-RD Obligation Retirement FD Debt SVC	458,761	34,361,078	34,819,839	33,729,583
301	Gas Revenue	39,706,198	2,341,383	42,047,581	29,753,753
303	Gas Prepaid	125,412	14,074,557	14,199,969	13,762,614
310	Water	30,362,929	2,691,841	33,054,770	34,650,034
311	Sewer	11,092,429	8,391	11,100,820	10,679,185
320	Airport	75,554,140	12,293,712	87,847,852	73,777,595
330	Refuse/Recycling	16,025,038	3,000	16,028,038	15,677,327
331	SERRF	22,483,657	-	22,483,657	21,245,765
337	Development Services	32,642,448	-	32,642,448	20,069,651
339	SERRF JPA	819	11,833,278	11,834,097	11,829,234
340	Towing Operations	1,111,954	1,700	1,113,654	1,192,502
380	Civic Center	4,456,054	-	4,456,054	7,688,523
385	General Services	37,736,780	416,771	38,153,551	33,892,234
386	Fleet Services Fund	45,596,230	-	45,596,230	54,535,798
390	Insurance	53,583,742	-	53,583,742	57,903,017
391	Employee Benefits	132,367,470	-	132,367,470	98,923,571

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR JUNE 30, 2016
(Continued)**

Fund Number	Name of Fund	Pooled June 30, 2017	Non-Pooled June 30, 2017	Total at June 30, 2017	Total at June 30, 2016
401	Tidelands Operations	123,288,768	19,243,220	142,531,988	160,859,104
403	Tidelands-Marina	16,566,941	28,004,848	44,571,789	55,466,544
410	Queen Mary	5,202,828	-	5,202,828	2,428,731
411	Tidelands Operating - Rainbow Harbor Area	12,273,306	18,665	12,291,971	11,301,734
420	Tidelands Oil Revenue	32,251,100	-	32,251,100	33,271,121
421	Tidelands Reserve - Subsidence	177,702,357	-	177,702,357	175,756,641
430	Harbor - Operations	2,912,427,570	900	2,912,428,470	2,698,405,689
431	Harbor - Capital	(2,577,860,253)	-	(2,577,860,253)	(2,368,564,558)
432	Harbor Debt Service	36,343,119	240,503,713	276,846,832	159,528,688
440	Expandable Trusts	875,052	-	875,052	894,497
451	ICTF JPA	8,437,001	-	8,437,001	8,003,529
452	Earthquake Assessment Agency Funds	765,493	-	765,493	756,590
453	Other Special Assessment	139,429	-	139,429	137,590
455	Other Agency	3,981,315	1,500	3,982,815	3,706,602
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	261,524	261,524	20,276
470	Agency Special Assessment CFD #5 Long Beach Towne Center	84,797	1,049,438	1,134,235	1,134,307
472	Agency Special Assessment CFD#6 Pike Public Improvements	190,100	3,246,930	3,437,030	3,435,184
473	Agency Special Assessment - Douglas Park	1,286,107	1,102,099	2,388,206	2,210,283
474	CFD 2007 Belmont 2004 Spcl Tx Bd	193,666	264,361	458,027	463,479
475	AD 2008-1 Toledo Underground Utility 20B	130,894	114,318	245,212	229,654
476	Douglas Park North	211,583	-	211,583	168,120
600	Debt Service	8,293,289	1,371,649	9,664,938	2,115,913
999	Accrued Interest Receivable	(3,282,042)	-	(3,282,042)	(2,828,661)
TOTAL CASH AND INVESTMENTS		\$ 1,533,170,449	\$ 389,306,954	\$ 1,922,567,403	\$ 1,808,479,488

* 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 JUNE 30, 2017
WITH COMPARATIVE TOTALS FOR JUNE 30, 2016**

	<u>Pooled June 30, 2017</u>	<u>Non-Pooled June 30, 2017</u>	<u>Total at June 30, 2017</u>	<u>Total at June 30, 2016</u>
CASH				
Cash in Banks	\$ 292,711,791	\$ 2,032,764	\$ 294,744,555	\$ 121,193,958
Cash with Fiscal Agents	-	<u>373,490,150</u>	<u>373,490,150</u>	<u>241,965,090</u>
 Total Cash	 <u>\$ 292,711,791</u>	 <u>\$ 375,522,914</u>	 <u>\$ 668,234,705</u>	 <u>\$ 363,159,048</u>
INVESTMENTS				
U.S. Treasury Notes	\$ 186,075,150	\$ -	\$ 186,075,150	\$ 272,531,775
Federal Farm Credit Bank	35,561,672	-	35,561,672	82,611,557
Federal Home Loan Bank	261,739,577	-	261,739,577	342,147,699
Federal National Mortgage Association (FNMA)	357,455,063	-	357,455,063	301,451,958
FNMA Discounts Notes	-	-	-	4,990,803
Federal Home Loan Mortgage Corporation (FHLMC)	209,196,006	-	209,196,006	263,667,595
FHLMC Discount Notes	-	-	-	4,990,683
Federal Home Loan Discount	-	-	-	73,117,070
Local Agency Investment Fund	190,139,645	-	190,139,645	85,274,830
Guaranteed Investment Contracts	-	13,874,040	13,874,040	13,451,038
Money Market	<u>291,545</u>	-	<u>291,545</u>	<u>1,085,432</u>
 Total Investments	 <u>\$ 1,240,458,658</u>	 <u>\$ 13,874,040</u>	 <u>\$ 1,254,332,698</u>	 <u>\$ 1,445,320,440</u>
 TOTAL CASH AND INVESTMENTS	 <u>\$ 1,533,170,449</u>	 <u>\$ 389,396,954</u>	 <u>\$ 1,922,567,403</u>	 <u>\$ 1,808,479,488</u>