



LAURA DOUD

July 11, 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 December 31, 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 December 31, 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

December 31, 2016

TABLE OF CONTENTS

Executive Summary	1
Background	1-2
Audit Objectives, Scope, and Methodology	2-3
Results and Conclusions	4-5
Attachment I: Pooled and Non-Pooled Cash and Investment Balances By Fund	6-7
Attachment II: Pooled and Non-Pooled Cash and Investment Balances By Security Type	8

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, 2016. The City of Long Beach's management is responsible for the cash and investments balances. As of December 31, 2016, the City's cash and investments portfolio totaled approximately \$1.7 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, 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 December 31, 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 December 31, 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 December 31, 2016 to the City’s general ledger.
- Obtained bank and investment reconciliations at December 31, 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 December 31, 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 December 31, 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.)

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, 2016, 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

Balance adjustments

During our audit, we noted the following reconciling items were not booked in FAMIS to properly reflect the cash and investment balances at December 31, 2016. The following summarizes our findings:

\$15,163	Credit card balances were mistakenly posted as cash balances in FAMIS as of December 31, 2016. This lead 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.
\$2,933,635	Cash funds received in the Union Bank cash concentration account were not recoded in FAMIS as of December 31, 2016 as the City was still in the process of determining which City department had rights to the cash receipts. This lead to an understatement of cash of the General Fund, General (Fund 100) in the pooled cash account.

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 December 31, 2016, the market value of the collateralized securities was approximately 57%. The City rectified the shortfall on January 4, 2017 with additional securities to reach a total market value of approximately 107%.

The City's cash and investment balances as of December 31, 2016, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,501,260,450
Non-Pooled Cash and Investments	<u>198,250,592</u>
Total Cash and Investments	<u>\$ 1,699,511,042</u>

Based on the results of audit procedures performed and adjustments made, cash and investment balances as recorded on the City's books at December 31, 2016, materially agree as to the amount and description with outside depositories. Also, other than the finding 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

Balance adjustments

Management acknowledges the \$15,163 intra-period timing issue related to the payment of procurement cards recognizing that the timing issue self-corrects 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. Management acknowledges receipt and reconciliation of cash comprising the \$2,933,635, will review procedures and implement revisions to promote more timely, accurate and efficient reporting process.

Compliance

Management acknowledges the under-collateralization of the Guaranteed Investment Contract (GIC) as of December 31, 2016, and offers that on January 4, 2017 the collateral requirement was met in accordance with the prescribed remedies of the GIC Agreement, by the placement of additional securities in trust.

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
June 7, 2017

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015**

Fund Number	Name of Fund	Pooled December 31, 2016	Non-Pooled December 31, 2016	Total at December 31, 2016	Total at December 31, 2015
100	General Fund, General	\$ 52,424,839	\$ 6,079,619	\$ 58,504,458	\$ 57,127,608
103	General Fund, Library	137,915	3,145	141,060	87,121
105	General Fund, Parks and Recreation	3,845,924	6,716	3,852,640	2,887,657
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	6,488,115	-	6,488,115	10,036,727
121	Special Revenue, Police & Fire	2,010,458	-	2,010,458	1,659,584
130	Special Revenue, Health	5,932,019	500	5,932,519	2,777,658
131	Special Revenue, CUPA	2,572,342	-	2,572,342	2,427,360
132	Special Revenue, Parking & Business	1,147,745	-	1,147,745	1,180,680
133	Special Advertising & Promotion	10,531,541	-	10,531,541	10,406,095
134	Special Revenue, Upland Oil	11,752,143	-	11,752,143	15,149,381
135	Housing Development	41,091,864	13,919	41,105,783	29,077,647
136	Belmont Shore Parking Meters	954,198	71,710	1,025,908	1,133,090
149	Special Revenue, Business Assistance	1,153,539	-	1,153,539	1,405,405
150	Community Development Grants	(3,080,695)	(36,040)	(3,116,735)	(749,171)
151	Housing Authority	9,289,646	7,514,238	16,803,884	11,614,635
181	Gas Tax Street Improvement	12,749,718	-	12,749,718	17,755,229
182	Special Revenue, Transportation	34,072,789	-	34,072,789	29,850,834
201	Capital Projects	23,092,163	6,836,386	29,928,549	38,770,258
202	Assessment District-Capital Projects	1,755,566	687,281	2,442,847	2,439,417
209	Capital Projects - Legislative SA-RD	7,061,336	-	7,061,336	7,169,417
270	Obligation Retirement FD Operation				
	Retirement FD Operations	8,610,913	788,069	9,398,982	14,259,963
277	SA-RD Obligation Retirement FD Debt SVC	6	13,681,625	13,681,631	13,584,777
301	Gas Revenue	25,155,455	2,933,022	28,088,477	31,582,444
303	Gas Prepaid	125,053	6,169,517	6,294,570	6,880,031
310	Water	30,078,710	2,691,841	32,770,551	32,693,350
311	Sewer	10,642,299	28,081	10,670,380	10,952,180
320	Airport	67,281,907	13,533,994	80,815,901	74,050,621
330	Refuse/Recycling	15,193,009	3,000	15,196,009	15,847,114
331	SERRF	18,347,432	-	18,347,432	21,185,284
337	Development Services	28,432,882	-	28,432,882	21,264,045
339	SERRF JPA	780	11,861,746	11,862,526	11,794,438
340	Towing Operations	1,253,621	1,700	1,255,321	1,209,417
380	Civic Center	4,933,308	-	4,933,308	9,075,437

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT DECEMBER 31, 2016
WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015
(Continued)**

Fund Number	Name of Fund	Pooled December 31, 2016	Non-Pooled December 31, 2016	Total at December 31, 2016	Total at December 31, 2015
385	General Services	39,296,259	653,579	39,949,838	33,986,198
386	Fleet Services Fund	45,016,252	-	45,016,252	51,230,297
390	Insurance	52,733,600	-	52,733,600	53,210,314
391	Employee Benefits	113,836,485	-	113,836,485	107,021,615
401	Tidelands Operations	136,464,447	16,003,921	152,468,368	163,308,307
403	Tidelands-Marina	18,055,379	32,997,563	51,052,942	67,337,050
410	Queen Mary	2,598,305	-	2,598,305	847,927
411	Tidelands Operating - Rainbow Harbor Area	6,253,383	18,564	6,271,947	8,969,186
420	Tidelands Oil Revenue	33,549,933	-	33,549,933	19,319,042
421	Tidelands Reserve - Subsidence	176,984,275	-	176,984,275	175,101,716
430	Harbor - Operations	2,837,605,804	900	2,837,606,704	2,612,903,093
431	Harbor - Capital	(2,487,304,144)	-	(2,487,304,144)	(2,266,427,152)
432	Harbor Debt Service	65,725,958	67,643,193	133,369,151	224,792,210
440	Expandable Trusts	859,119	-	859,119	879,596
451	ICTF JPA	10,199,350	-	10,199,350	11,536,385
452	Earthquake Assessment Agency Funds	759,898	-	759,898	749,266
453	Other Special Assessment	138,556	-	138,556	136,682
455	Other Agency	3,891,362	1,500	3,892,862	3,516,059
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	243,632	243,632	42,006
470	Agency Special Assessment CFD #5 Long Beach Towne Center	30,795	1,077,945	1,108,740	1,115,817
472	Agency Special Assessment CFD#6 Pike Public Improvements	150,420	3,245,340	3,395,760	3,395,606
473	Agency Special Assessment - Douglas Park	1,061,107	1,098,021	2,159,128	2,012,404
474	CFD 2007 Belmont 2004 Spcl Tx Bd	56,812	264,232	321,044	327,086
475	AD 2008-1 Toledo Underground Utility 20B	96,380	114,002	210,382	204,351
476	Douglas Park North	185,702	-	185,702	141,360
600	Debt Service	2,255,853	2,018,131	4,273,984	2,820,644
999	Accrued Interest Receivable	(3,279,380)	-	(3,279,380)	(2,719,425)
TOTAL CASH AND INVESTMENTS		\$ 1,501,260,450	\$ 198,250,592	\$ 1,699,511,042	\$ 1,791,343,373

* 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, 2016 WITH COMPARATIVE TOTALS FOR DECEMBER 31, 2015

	Pooled December 31, 2016	Non-Pooled December 31, 2016	Total at December 31, 2016	Total at December 31, 2015
CASH				
Cash in Banks	\$ 145,382,345	\$ 7,748,030	\$ 153,130,375	\$ 101,660,394
Cash with Fiscal Agents	-	184,508,311	184,508,311	260,458,009
 Total Cash	 \$ 145,382,345	 \$ 192,256,341	 \$ 337,638,686	 \$ 362,118,403
 INVESTMENTS				
U.S. Treasury Notes	\$ 226,050,670	\$ -	\$ 226,050,670	\$ 337,688,764
Federal Farm Credit Bank	52,457,550	-	52,457,550	77,630,004
Federal Home Loan Bank	337,850,563	-	337,850,563	267,537,692
Federal National Mortgage Association (FNMA)	379,929,922	-	379,929,922	287,254,151
Farmer Mac Discount Notes	-	-	-	4,999,900
FNMA Discounts Notes	-	-	-	24,998,500
Federal Home Loan Mortgage Corporation (FHLMC)	253,592,894	-	253,592,894	232,363,087
FHLMC Discount Notes	-	-	-	17,497,910
Federal Home Loan Discount	3,243,589	-	3,243,589	51,238,619
Local Agency Investment Fund	102,104,828	-	102,104,828	121,023,750
Guaranteed Investment Contracts	-	5,994,251	5,994,251	5,913,100
Money Market	648,089	-	648,089	1,079,493
 Total Investments	 \$ 1,355,878,105	 \$ 5,994,251	 \$ 1,361,872,356	 \$ 1,429,224,970
 TOTAL CASH AND INVESTMENTS	 \$ 1,501,260,450	 \$ 198,250,592	 \$ 1,699,511,042	 \$ 1,791,343,373