



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

May 12, 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 September 30, 2014.

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, 2014.

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, 2014

WINDES

WINDES & ASSOCIATES, P.C.

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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, 2014. The City of Long Beach's management is responsible for the cash and investments balances. As of September 30, 2014, 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, 2014 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 September 22, 2009, 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 options to extend for three (3) one (1) year periods, at the discretion of the City Manager. On August 19, 2014, the City Council extended the agreement to January 2015. 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, 2014.

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, 2014 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, 2014 to the City's general ledger.
- Obtained bank and investment reconciliations at September 30, 2014 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, 2014 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, 2014 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, 2014 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, 2014 are summarized as follows:

Pooled Cash and Investments	\$ 1,577,057,482
Non-Pooled Cash and Investments	<u>257,442,888</u>
Total Cash and Investments	<u>\$ 1,834,500,370</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, 2014, 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. The City believe that, as of September 30, 2014, the general ledger account balances and adjustments fairly represent the City's cash and investment position.

Winder, Inc.

Long Beach, California
March 23, 2015

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2014
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2013**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled September 30, 2014</u>	<u>Non-Pooled September 30, 2014</u>	<u>Total at September 30, 2014</u>	<u>Total at September 30, 2013</u>
100	General Fund, General	\$ 82,012,620	\$ 317,779	\$ 82,330,399	\$ 101,862,630
103	General Fund, Library	444,127	21,145	465,272	579,482
105	General Fund, Parks and Recreation	3,308,160	34,365	3,342,525	3,255,190
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	1,827,711	-	1,827,711	1,151,559
121	Special Revenue Police & Fire	1,199,846	-	1,199,846	597,544
130	Special Revenue, Health	1,002,906	15,150	1,018,056	927,553
131	Special Revenue, CUPA	1,415,429	-	1,415,429	1,074,101
132	Special Revenue, Parking & Business	353,333	-	353,333	1,247,811
133	Special Advertising & Promotion	7,538,793	-	7,538,793	5,586,078
134	Special Revenue, Upland Oil	20,042,391	-	20,042,391	21,034,029
135	Housing Development	22,611,975	7,152	22,619,127	13,762,906
136	Belmont Shore Parking Meters	987,454	78,881	1,066,335	1,062,930
137	Planning & Building Department	-	-	-	14,389,102
149	Special Revenue, Business Assistance	1,514,261	-	1,514,261	1,523,946
150	Community Development Grants	197,067	12,000	209,067	227,677
151	Housing Authority	10,297,646	86,217	10,383,863	8,605,495
181	Gas Tax Street Improvement	21,808,956	-	21,808,956	18,085,879
182	Special Revenue, Transportation	22,965,245	-	22,965,245	26,924,771
201	Capital Projects	28,058,863	6,868,400	34,927,263	21,131,669
202	Assessment District-Capital Projects	1,749,114	687,188	2,436,302	2,241,714
203	Blight Removal	2	-	2	2
209	Capital Projects - Legislative	7,707,908	-	7,707,908	10,573,453
270	SA-RD Obligation Retirement FD Operation	28,357,823	11,418,845	39,776,668	46,691,873
277	SA-RD Obligation Retirement FD Debt SVC	6	32,477,489	32,477,495	33,375,401
301	Gas Revenue	7,486,655	5,500	7,492,155	7,513,540
303	Gas Prepaid	213,179	20,103,520	20,316,699	20,953,616
310	Water	38,898,582	3,169,141	42,067,723	46,533,688
311	Sewer	7,566,176	-	7,566,176	9,076,463
320	Airport	52,076,142	16,270,515	68,346,657	67,594,744
330	Refuse/Recycling	14,664,887	3,000	14,667,887	15,827,667
331	SERRF	25,648,653	-	25,648,653	31,077,322
337	Development Services	17,021,816	-	17,021,816	-
339	SERRF JPA	396	11,672,142	11,672,538	11,628,505
340	Towing Operations	1,010,887	1,700	1,012,587	649,939
380	Civic Center	7,633,681	180	7,633,861	7,064,376
385	General Services	21,563,074	5,000	21,568,074	10,027,423
386	Fleet Services Fund	43,046,304	-	43,046,304	32,708,505
390	Insurance	41,379,021	61	41,379,082	36,422,269

ATTACHMENT I

**POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES
BY FUND AT SEPTEMBER 30, 2014
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2013
(Continued)**

<u>Fund Number</u>	<u>Name of Fund</u>	<u>Pooled September 30, 2014</u>	<u>Non-Pooled September 30, 2014</u>	<u>Total at September 30, 2014</u>	<u>Total at September 30, 2013</u>
391	Employee Benefits	95,805,074	-	95,805,074	83,049,788
401	Tidelands Operations	179,468,065	15,903,616	195,371,681	195,779,213
403	Tidelands-Marina	21,447,030	15,600	21,462,630	4,347,868
410	Queen Mary	1,447,144	-	1,447,144	2,042,054
411	Tidelands Operating - Rainbow Harbor Area	7,103,563	4,283,679	11,387,242	11,881,989
420	Tidelands Oil Revenue	46,371,428	-	46,371,428	52,812,939
421	Tidelands Reserve - Subsidence	171,428,421	2,093,967	173,522,388	172,338,930
430	Harbor - Operations	2,219,192,233	35,000	2,219,227,233	1,713,968,883
431	Harbor - Capital	(1,906,045,037)	-	(1,906,045,037)	(1,464,635,826)
432	Harbor Debt Service	187,973,464	121,101,810	309,075,274	111,097,110
433	Harbor - Clean Air Action Plan	(11,524,305)	-	(11,524,305)	(9,339,506)
440	Expandable Trusts	877,957	-	877,957	895,476
451	ICTF JPA	4,587,152	-	4,587,152	4,362,316
452	Earthquake Assessment Agency Funds	887,957	-	887,957	886,800
453	Other Special Assessment	133,489	-	133,489	129,893
455	Other Agency	3,333,762	1,500	3,335,262	3,414,086
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	118,164	118,164	162,436
470	Agency Special Assessmt CFD #5 Long Beach Towne Center	(9,789)	2,121,592	2,111,803	1,301,335
471	Agency Special Assessment LBBFA Local Agency	-	-	-	10,012
472	Agency Special Assessment CFD#6 Pike Public Improvements	24,503	5,373,655	5,398,158	5,444,270
473	Agency Special Assessment - Douglas Park	488,480	1,082,966	1,571,446	1,505,768
474	CFD 2007 Belmont 2004 Spcl Tx Bd	56,555	425,632	482,187	495,079
475	AD 2008-1 Toledo Underground Utility 20B	35,461	113,965	149,426	161,330
476	Douglas Park North	95,586	-	95,586	72,124
600	Debt Service	1,268,200	1,516,372	2,784,572	3,592,078
	Total Cash and Investments	<u>\$ 1,577,057,482*</u>	<u>\$ 257,442,888</u>	<u>\$ 1,834,500,370</u>	<u>\$ 1,537,767,297</u>

* 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, 2014
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2013**

	<u>Pooled September 30, 2014</u>	<u>Non-Pooled September 30, 2014</u>	<u>Total at September 30, 2014</u>	<u>Total at September 30, 2013</u>
CASH				
Cash in banks	\$ 120,395,742	\$ 588,449	\$ 120,984,191	\$ 199,435,287
Cash with fiscal agents	-	<u>221,628,368</u>	<u>221,628,368</u>	<u>157,580,121</u>
Total Cash	<u>\$ 120,395,742</u>	<u>\$ 222,216,817</u>	<u>\$ 342,612,559</u>	<u>\$ 357,015,408</u>
INVESTMENTS				
U.S. Treasury Bills	\$ 9,999,800	-	\$ 9,999,800	\$ 36,996,359
U.S. Treasury Notes	305,610,751	-	305,610,751	226,157,969
Federal Farm Credit Bank	67,028,854	-	67,028,854	58,348,616
Federal Home Loan Bank	399,539,893	-	399,539,893	155,033,999
Federal National Mortgage Association (FNMA)	224,186,677	-	224,186,677	211,805,439
FNMA Discounts Notes	56,995,960	-	56,995,960	46,993,660
Federal Home Loan Mortgage Corporation (FHLMC)	207,437,440	-	207,437,440	200,117,330
FHLMC Discount Notes	21,992,910	-	21,992,910	65,993,680
Federal Home Loan Discount Certificate of Deposit	32,997,286	-	32,997,286	-
	9,966,672	-	9,966,672	10,000,000
Local Agency Investment Fund	120,677,719	-	120,677,719	120,399,498
Guaranteed Investment Contracts	-	\$ 33,132,104	33,132,104	45,115,913
Special Assessment Bonds	-	2,093,967	2,093,967	2,002,062
Money Market	227,778	-	227,778	232,309
Savers Loan	-	-	-	<u>1,555,055</u>
Total Investments	<u>1,456,661,740</u>	<u>35,226,071</u>	<u>1,491,887,811</u>	<u>1,180,751,889</u>
TOTAL CASH AND INVESTMENTS	<u>\$ 1,577,057,482</u>	<u>\$ 257,442,888</u>	<u>\$ 1,834,500,370</u>	<u>\$ 1,537,767,297</u>