



OFFICE OF THE CITY AUDITOR
Long Beach, California

C-1

LAURA L. DOUD, CPA
City Auditor

January 14, 2020

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 March 31, 2019.

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 March 31, 2019.

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

March 31, 2019

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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 March 31, 2019. The City's management is responsible for the cash and investments balances. As of March 31, 2019, the City's cash and investments portfolio totaled approximately \$2.0 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 March 31, 2019 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.

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.

BACKGROUND (Continued)

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 beginning January 1, 2015 was extended through December 31, 2019. 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 March 31, 2019.

We performed the following procedures:

- Obtained an understanding of the internal controls surrounding the City’s cash and investment process.
- Obtained confirmations of cash held by banks and investments held by the City Treasurer’s safekeeping agent and other custodians as of March 31, 2019 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 March 31, 2019 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 31, 2019 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.
- Compared investments listed on the City Treasurer’s Investment Activity Portfolio Statistics Report (Sympro) at March 31, 2019 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.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY (CONTINUED)

- Compared the portfolio mix of investment types listed in the City Treasurer's Investment Activity Portfolio Statistics Report (Sympro) at March 31, 2019 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 March 31, 2019, 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 Requirements

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 March 31, 2019, the market value of the collateralized securities was approximately 104.80%. The City rectified the shortfall on April 16, 2019 with additional securities to reach a total market value of approximately 105.10%.

RESULTS AND CONCLUSIONS (CONTINUED)

Reporting

During our audit, we noted the following reconciling items related to cash activity during the latter part of March that were not booked in FAMIS due to the City's early closing of the general ledger during the switch in ERP systems. This lead to an understatement in the FAMIS non-pooled cash and investment balances at March 31, 2019. The amounts and fiscal agents affected were as follows:

\$ 199,773	Fiscal agent account reported in the Agency Special Assessment CFD #5 Long Beach Towne Center (Fund 470)
\$ 187,974	Fiscal agent account reported in the Harbor Debt Service (Fund 432)
\$ 1,042,600	Fiscal agent account reported in the Special Revenue Fund - Housing Authority (Fund 151)
\$ 4,128,640	Fiscal agent account reported in the Enterprise Fund - Gas Prepay (Fund 303)

The City's cash and investment balances as of March 31, 2019, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,797,196,280
Non-Pooled Cash and Investments	<u>212,102,459</u>
Total Cash and Investments	<u>\$ 2,009,298,739</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at March 31, 2019, materially agree as to the amount and description with outside depositories. 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

Management concurs that the 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 March 2019 transactions related to the fiscal agent accounts occurred during the system conversion "black-out" period. During the black-out period the legacy FAMIS system data set was frozen for transfer to the MUNIS ERP system. MUNIS was activated on April 15, 2019. The suspended transactions were treated as reconciling items and recorded in April 2019 in MUNIS shortly after the system went live.

MANAGEMENT COMMENTS (CONTINUED)

Management acknowledges the under-collateralization of the Guaranteed Investment Contract (GIC) as of March 31, 2019. When the City was notified by the custodian bank of the under-collateralization, the City notified AIG of the under-collateralization and the requirement to fully collateralize at the required collateral level. AIG provided additional collateral that it deemed sufficient to meet the collateral. The collateralization was met over the 105% threshold on its investment balance as of April 16, 2019.

A handwritten signature in cursive script that reads "Windes, Inc.".

Long Beach, California
October 2, 2019

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT MARCH 31, 2019 WITH COMPARATIVE TOTALS FOR MARCH 31, 2018

Fund Number	Name of Fund	Pooled March 31, 2019	Non-Pooled March 31, 2019	Total at March 31, 2019	Total at March 31, 2018
100	General Fund, General	\$ 94,075,443	\$ 1,336,572	\$ 95,412,015	\$ 84,359,188
103	General Fund, Library	(8,032,986)	3,295	(8,029,691)	(3,777,633)
105	General Fund, Parks and Recreation	(5,553,704)	4,765	(5,548,939)	(934,351)
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,735,423	-	2,735,423	(2,606,039)
121	Special Revenue, Police & Fire	1,829,249	-	1,829,249	1,387,709
130	Special Revenue, Health	17,210,582	800	17,211,382	6,978,596
131	Special Revenue, CUPA	2,280,080	-	2,280,080	2,589,337
132	Special Revenue, Parking & Business	1,127,902	-	1,127,902	1,077,387
133	Special Advertising & Promotion	9,811,955	-	9,811,955	11,018,704
134	Special Revenue, Upland Oil	16,521,714	-	16,521,714	14,647,480
135	Housing Development	27,123,069	14,000	27,137,069	25,851,606
136	Belmont Shore Parking Meters	324,265	-	324,265	267,182
149	Special Revenue, Business Assistance	833,584	-	833,584	759,102
150	Community Development Grants	3,266,428	39,037	3,305,465	(2,532,842)
151	Housing Authority	9,474,194	3,364,985	12,839,179	11,357,689
181	Gas Tax Street Improvement	15,637,878	-	15,637,878	12,955,858
182	Special Revenue, Transportation	45,081,482	-	45,081,482	42,619,101
201	Capital Projects	48,520,216	169,892	48,690,108	23,281,358
202	Special Assessment District - Capital Projects	1,775,589	61,009	1,836,598	2,210,310
209	Capital Projects - Legislative	4,912,736	-	4,912,736	5,899,159
270	SA-RD Obligation Retirement FD Operation	16,860,912	139,036	16,999,948	15,920,503
277	SA-RD Obligation Retirement FD Debt SVC	(5,445)	32,276,325	32,270,880	30,954,871
301	Gas Revenue	40,367,830	750	40,368,580	50,997,955
303	Gas Prepaid	98,166	19,087,938	19,186,104	18,935,979
310	Water	32,261,133	30,190,575	62,451,708	39,204,600
311	Sewer	14,473,324	-	14,473,324	15,318,556
320	Airport	83,411,347	15,144,154	98,555,501	93,192,764
330	Refuse/Recycling	12,825,381	3,000	12,828,381	16,000,089
331	SERRF	22,113,703	-	22,113,703	17,938,604
337	Development Services	42,386,356	-	42,386,356	37,061,432
339	SERRF JPA	940	-	940	11,873,079
340	Towing Operations	1,472,040	1,700	1,473,740	1,137,519
380	Civic Center	3,292,932	-	3,292,932	3,772,987
385	General Services	32,878,135	12,425,901	45,304,036	37,210,532
386	Fleet Services Fund	39,838,038	2,017,663	41,855,701	36,688,892
390	Insurance	43,832,673	-	43,832,673	48,024,637
391	Employee Benefits	89,734,582	-	89,734,582	105,265,554
401	Tidelands Operations	131,741,825	17,647,501	149,389,326	147,005,709
403	Tidelands - Marina	26,048,976	11,391,200	37,440,176	42,617,281

ATTACHMENT I

POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT MARCH 31, 2019 WITH COMPARATIVE TOTALS FOR MARCH 31, 2018 (Continued)

Fund Number	Name of Fund	Pooled March 31, 2019	Non-Pooled March 31, 2019	Total at March 31, 2019	Total at March 31, 2018
410	Queen Mary	2,022,726	222,208	2,244,934	7,707,078
411	Tidelands Operating - Rainbow Harbor Area	5,971,392	23,346	5,994,738	7,303,790
420	Tidelands Oil Revenue	37,743,426	-	37,743,426	35,545,640
421	Tidelands Reserve - Subsidence	183,018,504	-	183,018,504	179,587,964
430	Harbor - Operations	3,468,431,746	900	3,468,432,646	3,157,840,462
431	Harbor - Capital	(2,913,626,869)	-	(2,913,626,869)	(2,692,948,225)
432	Harbor Debt Service	69,340,677	57,413,337	126,754,014	232,409,540
440	Expendable Trusts	874,781	-	874,781	881,595
451	ICTF JPA Fund	8,333,529	-	8,333,529	7,594,867
452	Earthquake Assessment District Agency	797,371	-	797,371	782,063
453	Other Special Assessment Agency	143,660	-	143,660	141,003
455	Other Agency	3,286,621	1,500	3,288,121	5,145,004
460	Los Cerritos Wetlands Authority Agency Special	-	197,907	197,907	189,323
470	Agency Special Assessment CFD #5 Long Beach Towne Center	147,363	1,227,477	1,374,840	1,364,965
472	Agency Special Assessment CFD#6 Pike Public Improvements	49,134	4,167,704	4,216,838	4,255,894
473	Agency Special Assessment - Douglas Park	1,251,358	1,123,110	2,374,468	2,237,451
474	CFD 2007-2 Belmont Shore 2009 Spcl Tx Bd	189,045	355,957	545,002	538,473
475	AD 2008 -1 Toledo Underground Utility 20B	70,973	160,790	231,763	237,883
476	Douglas Park North	287,715	-	287,715	239,150
600	Debt Service	4,798,075	1,888,125	6,686,200	10,300,555
999	Accrued Interest Receivable	(7,522,894)	-	(7,522,894)	(5,943,796)
TOTAL CASH AND INVESTMENTS		<u>\$ 1,797,196,280</u>	<u>\$ 212,102,459</u>	<u>\$ 2,009,298,739</u>	<u>\$ 1,970,941,123</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 MARCH 31, 2019 WITH COMPARATIVE TOTALS FOR MARCH 31, 2018

	Pooled March 31, 2019	Non-Pooled March 31, 2019	Total at March 31, 2019	Total at March 31, 2018
CASH				
Cash in Banks	\$ 89,975,218	\$ 3,675,299	\$ 93,650,517	\$ 132,602,023
Cash with Fiscal Agents	-	189,365,179	189,365,179	284,349,155
 Total Cash	 89,975,218	 193,040,478	 283,015,696	 416,951,178
INVESTMENTS				
U.S. Treasury Notes	828,300,159	-	828,300,159	706,672,112
Federal Farm Credit Bank	4,992,882	-	4,992,882	40,558,291
Federal Home Loan Bank	165,231,491	-	165,231,491	165,849,632
Federal National Mortgage Association (FNMA)	245,923,845	-	245,923,845	336,523,297
Federal Home Loan Mortgage Corporation (FHLMC)	119,639,461	-	119,639,461	136,207,886
Federal Home Loan Discount	159,411,184	-	159,411,184	-
Local Agency Investment Fund	182,851,452	-	182,851,452	149,496,378
Guaranteed Investment Contracts	-	19,061,981	19,061,981	18,601,113
Money Market	870,588	-	870,588	81,236
 Total Investments	 1,707,221,062	 19,061,981	 1,726,283,043	 1,553,989,945
TOTAL CASH AND INVESTMENTS	\$ 1,797,196,280	\$ 212,102,459	\$ 2,009,298,739	\$ 1,970,941,123