

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

QUARTERLY AUDIT OF CASH AND INVESTMENTS

March 31, 2016

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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, 2016. The City of Long Beach's management is responsible for the cash and investments balances. As of March 31, 2016, 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 March 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 March 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 March 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 March 31, 2016 to the City’s general ledger.
- Obtained bank and investment reconciliations at March 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 March 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 March 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 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, 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

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

\$1,305,960	Debt service payments made, deposits made, and accrued interest received during the quarter were not properly recorded in FAMIS as of March 31, 2016. This led to an overstatement in the FAMIS cash with fiscal agent account reported in the Gas Prepaid Fund (Fund 303). Cash with fiscal agent is considered part of the non-pooled cash and investments.
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The City's cash and investment balances as of March 31, 2016, after the adjustments noted above, are summarized as follows:

Pooled Cash and Investments	\$ 1,576,066,124
Non-Pooled Cash and Investments	<u>310,491,429</u>
Total Cash and Investments	<u>\$ 1,886,557,553</u>

Based on the results of audit procedures performed and adjustments made, cash and investment balances as recorded on the City's books at March 31, 2016, 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

Long Beach Gas and Oil (LBGO) management has implemented the following steps to assure accurate and timely cash reconciliation's:

- Prioritize cash reconciliation activity.
- Work with Treasury Management to obtain monthly statements promptly after month end.
- Reconcile on a monthly basis (instead of quarterly) to promptly identify and address discrepancies.

These procedures were implemented in May of 2016, for the April and May reconciliations. Both cash reconciliations were posted in the May 2016 accounting period. The June 2016 cash reconciliation will be reviewed and posted prior to the June monthly closing. LBGO management will monitor this reconciliation procedure to assure continued compliance.

Winder, Inc.

Long Beach, California
July 20, 2016

ATTACHMENT I

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

Fund Number	Name of Fund	Pooled March 31, 2016	Non-Pooled March 31, 2016	Total at March 31, 2016	Total at March 31, 2015
100	General Fund, General	\$ 70,660,783	\$ 14,114,697	\$ 84,775,480	\$ 95,353,142
103	General Fund, Library	23,880	3,145	27,025	687,004
105	General Fund, Parks and Recreation	2,994,263	24,365	3,018,628	3,437,543
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	7,667,498	-	7,667,498	7,196,445
121	Special Revenue, Police & Fire	1,799,497	-	1,799,497	267,067
130	Special Revenue, Health	3,418,934	500	3,419,434	2,902,380
131	Special Revenue, CUPA	2,246,694	-	2,246,694	2,436,801
132	Special Revenue, Parking & Business	541,207	-	541,207	599,557
133	Special Advertising & Promotion	10,416,030	-	10,416,030	8,744,083
134	Special Revenue, Upland Oil	11,646,217	-	11,646,217	11,850,746
135	Housing Development	28,896,494	24,812	28,921,306	26,094,492
136	Belmont Shore Parking Meters	969,945	71,692	1,041,637	1,029,985
149	Special Revenue, Business Assistance	1,428,693	-	1,428,693	1,449,649
150	Community Development Grants	(293,993)	12,353	(281,640)	2,267,839
151	Housing Authority	9,281,003	203,060	9,484,063	10,298,579
181	Gas Tax Street Improvement	16,387,783	-	16,387,783	19,337,425
182	Special Revenue, Transportation	31,227,628	-	31,227,628	29,706,135
201	Capital Projects	24,443,508	6,836,075	31,279,583	46,449,760
202	Assessment District-Capital Projects	1,751,590	687,249	2,438,839	2,437,248
203	Blight Removal	-	-	-	2
209	Capital Projects - Legislative	6,869,822	-	6,869,822	9,529,461
270	SA-RD Obligation Retirement FD Operation				
	Retirement FD Operations	6,051,010	4,560,381	10,611,391	32,708,855
277	SA-RD Obligation Retirement FD Debt SVC	(113,992)	35,129,108	35,015,116	46,014,448
301	Gas Revenue	17,599,259	15,932,513	33,531,772	12,761,058
303	Gas Prepaid	155,041	18,284,689	18,439,730	18,126,826
310	Water	34,430,165	2,676,307	37,106,472	35,530,543
311	Sewer	12,015,027	-	12,015,027	8,201,402
320	Airport	62,473,064	15,745,413	78,218,477	75,223,436
330	Refuse/Recycling	16,691,419	3,000	16,694,419	17,655,310
331	SERRF	21,145,133	-	21,145,133	22,742,483
337	Development Services	22,256,437	-	22,256,437	19,926,719
339	SERRF JPA	682	11,830,061	11,830,743	11,751,431
340	Towing Operations	1,339,324	1,700	1,341,024	1,067,346
380	Civic Center	8,696,349	-	8,696,349	2,748,824

ATTACHMENT I

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

Fund Number	Name of Fund	Pooled March 31, 2016	Non-Pooled March 31, 2016	Total at March 31, 2016	Total March 31, 2015
385	General Services	33,954,928	-	33,954,928	21,906,400
386	Fleet Services Fund	52,566,236	-	52,566,236	44,508,243
390	Insurance	59,927,343	61	59,927,404	39,227,148
391	Employee Benefits	105,371,835	(1,074)	105,370,761	90,570,576
401	Tidelands Operations	145,453,686	17,359,606	162,813,292	179,776,677
403	Tidelands-Marina	10,542,203	53,823,084	64,365,287	19,731,885
410	Queen Mary	686,369	-	686,369	1,264,548
411	Tidelands Operating - Rainbow Harbor Area	5,268,594	4,285,577	9,554,171	12,678,621
420	Tidelands Oil Revenue	21,364,337	-	21,364,337	25,245,430
421	Tidelands Reserve - Subsidence	175,407,765	-	175,407,765	173,895,089
430	Harbor - Operations	2,666,924,013	900	2,666,924,913	2,391,330,462
431	Harbor - Capital	(2,292,166,102)	-	(2,292,166,102)	(2,064,301,980)
432	Harbor Debt Service	135,262,975	99,712,689	234,975,664	298,032,439
433	Harbor - Clean Air Action Plan	-	-	-	(13,358,302)
440	Expandable Trusts	891,130	-	891,130	904,239
451	ICTF JPA	6,768,466	-	6,768,466	8,941,399
452	Earthquake Assessment Agency Funds	750,633	-	750,633	902,422
453	Other Special Assessment	136,920	-	136,920	134,840
455	Other Agency	3,771,149	1,500	3,772,649	3,562,210
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	41,579	41,579	85,385
470	Agency Special Assessment CFD #5 Long Beach Towne Center	63,949	1,331,349	1,395,298	1,390,080
472	Agency Special Assessment CFD#6 Pike Public Improvements	47,606	4,275,673	4,323,279	4,352,710
473	Agency Special Assessment - Douglas Park	740,502	1,094,799	1,835,301	1,728,605
474	CFD 2007 Belmont 2004 Spcl Tx Bd	179,665	358,293	537,958	545,484
475	AD 2008-1 Toledo Underground Utility 20B	97,542	113,965	211,507	212,838
476	Douglas Park North	145,846	-	145,846	109,732
477	Uptown Property & Business Improvement District	-	-	-	5
600	Debt Service	1,283,841	1,952,308	3,236,149	1,977,086
999	Accrued Interest Receivable	(3,491,701)	-	(3,491,701)	(3,032,214)
TOTAL CASH AND INVESTMENTS		<u>\$ 1,576,066,124</u>	<u>\$ 310,491,429</u>	<u>\$ 1,886,557,553</u>	<u>\$ 1,837,856,081</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, 2016 WITH COMPARATIVE TOTALS FOR MARCH 31, 2015

	<u>Pooled March 31, 2016</u>	<u>Non-Pooled March 31, 2016</u>	<u>Total at March 31, 2016</u>	<u>Total at March 31, 2015</u>
CASH				
Cash in Banks	\$ 93,585,747	\$ 540,260	\$ 94,126,007	\$ 132,960,849
Cash with Fiscal Agents	-	291,811,555	291,811,555	223,310,919
 Total Cash	 <u>\$ 93,585,747</u>	 <u>\$ 292,351,815</u>	 <u>\$ 385,937,562</u>	 <u>\$ 356,271,768</u>
INVESTMENTS				
U.S. Treasury Bills	\$ -	\$ -	\$ -	\$ 24,998,268
U.S. Treasury Notes	325,124,159	-	325,124,159	251,558,967
Federal Farm Credit Bank	72,631,197	-	72,631,197	69,498,819
Federal Home Loan Bank	294,333,822	-	294,333,822	407,884,566
Federal National Mortgage Association (FNMA)	327,570,580	-	327,570,580	218,840,516
FNMA Discounts Notes	-	-	-	56,192,317
Federal Home Loan Mortgage Corporation (FHLMC)	280,395,539	-	280,395,539	238,291,396
FHLMC Discount Notes	-	-	-	16,995,428
Federal Home Loan Discount	80,972,507	-	80,972,507	31,997,362
Certificate of Deposit	-	-	-	10,000,000
Local Agency Investment Fund	101,135,762	-	101,135,762	120,763,516
Guaranteed Investment Contracts	-	18,139,614	18,139,614	30,925,135
Special Assessment Bonds	-	-	-	2,139,918
Money Market	316,811	-	316,811	1,498,105
 Total Investments	 <u>\$ 1,482,480,377</u>	 <u>\$ 18,139,614</u>	 <u>\$ 1,500,619,991</u>	 <u>\$ 1,481,584,313</u>
 TOTAL CASH AND INVESTMENTS	 <u><u>\$ 1,576,066,124</u></u>	 <u><u>\$ 310,491,429</u></u>	 <u><u>\$ 1,886,557,553</u></u>	 <u><u>\$ 1,837,856,081</u></u>