

# THE CITY OF LONG BEACH OFFICE OF THE CITY AUDITOR

## QUARTERLY AUDIT OF CASH AND INVESTMENTS

September 30, 2018

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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, 2018. The City of Long Beach's management is responsible for the cash and investments balances. As of September 30, 2018, 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 September 30, 2018 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 September 30, 2018.

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 September 30, 2018 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 September 30, 2018 to the City’s general ledger.
- Obtained bank and investment reconciliations at September 30, 2018 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 September 30, 2018 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 September 30, 2018 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, 2018 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, 2018 are summarized as follows:

Pooled Cash and Investments	\$ 1,622,583,592
Non-Pooled Cash and Investments	<u>312,888,123</u>
Total Cash and Investments	<u>\$ 1,935,471,715</u>

Based on the results of audit procedures performed, cash and investment balances as recorded on the City's books at September 30, 2018, materially agree as to the amount and description with outside depositories. Also, 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 with the City Auditor, that the City's books agree with the external depository records, and that the City is in compliance with all other relevant provisions of the California Government Code and the City's Investment Policy.



Long Beach, California  
March 26, 2019

## ATTACHMENT I

### POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT SEPTEMBER 30, 2018 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017

Fund Number	Name of Fund	Pooled September 30, 2018	Non-Pooled September 30, 2018	Total at September 30, 2018	Total at September 30, 2017
100	General Fund, General	\$ 82,484,636	\$ 1,331,177	\$ 83,815,813	\$ 64,466,345
103	General Fund, Library	604,402	3,245	607,647	577,205
105	General Fund, Parks and Recreation	6,030,287	4,765	6,035,052	6,314,010
110	Budget Stabilization	9,000,000	-	9,000,000	9,000,000
120	Special Revenue, General Grants	2,710,978	-	2,710,978	-
121	Special Revenue, Police & Fire	652,067	106	652,173	620,795
130	Special Revenue, Health	7,800,199	800	7,800,999	8,536,679
131	Special Revenue, CUPA	1,587,089	25	1,587,114	1,780,232
132	Special Revenue, Parking & Business	526,272	48	526,320	531,250
133	Special Advertising & Promotion	10,581,424	186	10,581,610	10,310,475
134	Special Revenue, Upland Oil	9,775,299	-	9,775,299	8,859,701
135	Housing Development	28,423,571	38,871	28,462,442	37,905,684
136	Belmont Shore Parking Meters	377,885	66	377,951	303,179
149	Special Revenue, Business Assistance	848,892	-	848,892	1,049,333
150	Community Development Grants	927,589	11,275	938,864	226,688
151	Housing Authority	9,791,748	1,589,136	11,380,884	11,549,987
181	Gas Tax Street Improvement	12,602,150	565	12,602,715	12,105,421
182	Special Revenue, Transportation	45,649,980	3,098	45,653,078	39,579,568
201	Capital Projects	55,605,125	171,920	55,777,045	34,898,427
202	Assessment District - Capital Projects	1,735,913	78,135	1,814,048	2,337,163
209	Capital Projects - Legislative SA-RD	4,692,004	-	4,692,004	6,489,315
270	Obligation Retirement FD Operation				
	Retirement FD Operations	15,749,554	141,990	15,891,544	17,806,062
277	SA-RD Obligation Retirement FD Debt SVC	-	16,768,910	16,768,910	20,893,899
301	Gas Revenue	35,695,684	4,830	35,700,514	38,216,226
303	Gas Prepaid	99,133	22,834,806	22,933,939	21,833,359
310	Water	34,116,395	2,706,293	36,822,688	36,003,960
311	Sewer	16,376,058	293	16,376,351	11,491,445
320	Airport	84,011,523	13,346,677	97,358,200	88,169,934
330	Refuse/Recycling	12,023,432	5,402	12,028,834	13,302,236
331	SERRF	22,743,201	-	22,743,201	25,984,381
337	Development Services	38,719,054	359	38,719,413	33,779,845
339	SERRF JPA	900	12,043,928	12,044,828	11,895,647
340	Towing Operations	711,746	1,717	713,463	599,520
380	Civic Center	5,709,087	694	5,709,781	2,774,364
385	General Services	35,610,549	27,776,076	63,386,625	38,706,931
386	Fleet Services Fund	43,845,459	3,618	43,849,077	43,053,754

## ATTACHMENT I

### **POOLED AND NON-POOLED CASH AND INVESTMENT BALANCES BY FUND AT SEPTEMBER 30, 2018 WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017 (Continued)**

Fund Number	Name of Fund	Pooled September 30, 2018	Non-Pooled September 30, 2018	Total at September 30, 2018	Total at September 30, 2017
390	Insurance	48,629,253	1,512	48,630,765	58,213,090
391	Employee Benefits	65,359,986	5,991	65,365,977	76,809,225
401	Tidelands Operations	128,213,556	21,344,758	149,558,314	147,155,195
403	Tidelands - Marina	20,667,219	16,364,659	37,031,878	44,952,816
410	Queen Mary	2,510,800	2,449,797	4,960,597	132,855
411	Tidelands Operating - Rainbow Harbor Area	5,463,324	23,376	5,486,700	6,105,961
420	Tidelands Oil Revenue	43,678,706	-	43,678,706	30,575,345
421	Tidelands Reserve - Subsidence	179,603,947	14,618	179,618,565	178,104,640
430	Harbor - Operations	3,243,517,186	88,281	3,243,605,467	3,051,120,200
431	Harbor - Capital	(2,819,710,647)	-	(2,819,710,647)	(2,642,732,780)
432	Harbor Debt Service	46,483,177	162,740,170	209,223,347	215,214,076
440	Expandable Trusts	844,958	94	845,052	847,138
451	ICTF JPA	5,640,753	401	5,641,154	9,465,138
452	Earthquake Assessment Agency Funds	782,148	146	782,294	765,172
453	Other Special Assessment	140,798	195	140,993	139,562
455	Other Agency	3,799,347	1,662	3,801,009	3,997,175
460	Los Cerritos Wetlands Authority Agency Special Assessment CFD #5 LB	-	110,072	110,072	243,611
470	Agency Special Assessment CFD #5 Long Beach Towne Center	123,199	2,063,459	2,186,658	2,155,822
472	Agency Special Assessment CFD#6 Pike Public Improvements	48,388	5,502,158	5,550,546	5,520,280
473	Agency Special Assessment - Douglas Park	1,019,338	1,101,776	2,121,114	1,974,846
474	CFD 2007 Belmont 2004 Spcl Tx Bd	37,562	431,982	469,544	456,666
475	AD 2008 -1 Toledo Underground Utility 20B	48,601	162,156	210,757	177,220
476	Douglas Park North	257,917	-	257,917	212,024
600	Debt Service	7,604,791	1,611,849	9,216,640	11,546,414
<b>TOTAL CASH AND INVESTMENTS</b>		<b><u>\$ 1,622,583,592</u></b>	<b><u>\$ 312,888,123</u></b>	<b><u>\$ 1,935,471,715</u></b>	<b><u>\$ 1,865,104,711</u></b>

\* 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, 2018  
WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2017**

	<u>Pooled September 30, 2018</u>	<u>Non-Pooled September 30, 2018</u>	<u>Total at September 30, 2018</u>	<u>Total at September 30, 2017</u>
<b>CASH</b>				
Cash in Banks	\$ 76,341,270	\$ 1,889,873	\$ 78,231,143	\$ 182,286,039
Cash with Fiscal Agents	<u>-</u>	<u>289,516,745</u>	<u>289,516,745</u>	<u>286,481,730</u>
 Total Cash	 <u>\$ 76,341,270</u>	 <u>\$ 291,406,618</u>	 <u>\$ 367,747,888</u>	 <u>\$ 468,767,769</u>
<b>INVESTMENTS</b>				
U.S. Treasury Notes	\$ 753,480,679	\$ -	\$ 753,480,679	\$ 423,492,078
Federal Farm Credit Bank	26,646,403	-	26,646,403	35,614,210
Federal Home Loan Bank	133,934,800	-	133,934,800	245,344,913
Federal National Mortgage Association (FNMA)	324,107,297	-	324,107,297	345,148,343
FNMA Discounts Notes	-	-	-	-
Federal Home Loan Mortgage Corporation (FHLMC)	126,257,701	-	126,257,701	176,009,979
FHLMC Discount Notes	-	-	-	-
Federal Home Loan Discount	-	-	-	-
Local Agency Investment Fund	181,682,146	-	181,682,146	149,046,150
Guaranteed Investment Contracts	-	21,481,505	21,481,505	21,481,505
Money Market	<u>133,296</u>	<u>-</u>	<u>133,296</u>	<u>199,764</u>
 Total Investments	 <u>\$ 1,546,242,322</u>	 <u>\$ 21,481,505</u>	 <u>\$ 1,567,723,827</u>	 <u>\$ 1,396,336,942</u>
 <b>TOTAL CASH AND INVESTMENTS</b>	 <u><u>\$ 1,622,583,592</u></u>	 <u><u>\$ 312,888,123</u></u>	 <u><u>\$ 1,935,471,715</u></u>	 <u><u>\$ 1,865,104,711</u></u>