

OFFICE OF
CONTROLLER

LAURA N. CHICK
CONTROLLER

200 N. MAIN STREET, RM 300
LOS ANGELES 90012
(213) 978-7200
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March 11, 2009

The Honorable Antonio Villaraigosa
The Honorable Rockard J. Delgadillo
The Honorable Members of the City Council

**SUBJECT: CONDITION OF ALL CITY FUNDS IN THE CITY TREASURY AS OF
JUNE 30, 2008 AND REVIEW OF CASH AND INVESTMENT
ACTIVITIES**

I am releasing the enclosed report entitled "Condition of All City Funds in the City Treasury as of June 30, 2008 and Review of Cash and Investment Activities." A copy of this report was provided to the Office of the Treasurer.

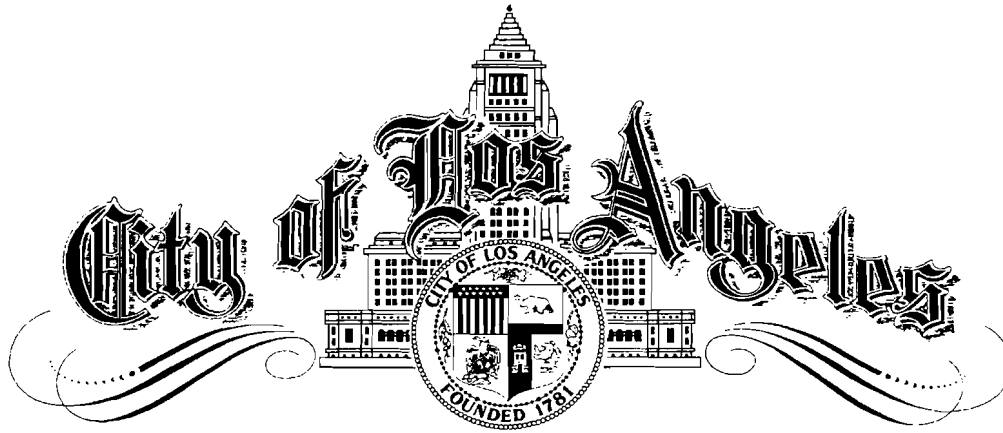
If you have any questions or comments, please contact Farid Saffar, Director of Auditing, at (213) 978-7392.

Sincerely,

A handwritten signature in black ink that reads 'Laura N. Chick'. The signature is written in a cursive, flowing style.

LAURA N. CHICK
City Controller

Enclosure



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CONTROLLER

LAURA N. CHICK
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LOS ANGELES 90012
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March 11, 2009

Joya C. De Foor, City Treasurer
Office of the Treasurer
Room 201, City Hall
200 North Spring Street
Los Angeles, CA 90012

Dear Ms. De Foor:

Enclosed is a report entitled "Condition of All City Funds in the City Treasury as of June 30, 2008 and Review of Cash and Investment Activities" prepared by Simpson and Simpson, CPAs. A draft of this report was provided to your office on February 11, 2009. Your Department was given the opportunity to have an exit conference, but the Department declined to request such a meeting. However, comments provided by your Department in various conversations with Simpson and Simpson, CPAs were evaluated and considered prior to finalizing the report.

Please review the final audit report and advise the Controller's Office by April 13, 2009 on planned actions you will take to implement the recommendations. If you have any questions or comments, please contact me at (213) 978-7392.

Sincerely,

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Benjamin Ceja, Deputy Mayor, Office of the Mayor
Raymond P. Ciranna, Interim City Administrative Officer
Karen E. Kalfayan, Interim City Clerk
Gerry F. Miller, Chief Legislative Analyst
Independent City Auditors



SIMPSON & SIMPSON
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March 6, 2009

The Honorable Laura N. Chick, City Controller
Office of the City Controller
200 N. Main Street City Hall East, Suite 300
Los Angeles, CA 90012

Dear Controller Chick:

Simpson and Simpson is pleased to present the attached report on our review of the schedules of condition of cash and investments of the Office of the Treasurer of the City of Los Angeles (City Treasury Office) as of June 30, 2008.

We performed our review in accordance with Statements on Standards for Accounting and Review Services (SSARS) issued by the American Institute of Certified Public Accountants.

We would like to extend our gratitude to your staff for their support throughout this audit, as well as to the staff of the City Treasury Office for their assistance and cooperation.

Sincerely,

A handwritten signature in cursive script that reads "Simpson & Simpson".

Simpson and Simpson



The CPA. Never Underestimate The Value.™

CITY OF LOS ANGELES
OFFICE OF THE TREASURER
CONDITION OF ALL CITY FUNDS
IN THE CITY TREASURY
AND REVIEW OF CASH
AND INVESTMENT ACTIVITIES
JUNE 30, 2008



CITY OF LOS ANGELES
OFFICE OF THE TREASURER
CONDITION OF ALL CITY FUNDS
IN THE CITY TREASURY
AND REVIEW OF CASH
AND INVESTMENT ACTIVITIES
JUNE 30, 2008

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The Honorable Laura N. Chick
Controller of the City of Los Angeles

INDEPENDENT ACCOUNTANT'S REPORT

We have reviewed the accompanying schedules of condition of cash and investments of the Office of the Treasurer of the City of Los Angeles (City Treasury Office) as of June 30, 2008 as listed in the table of contents. The City Treasury Office's management is responsible for the condition of cash and investments, its investment activities and compliance with the California State Government Code.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the schedules of condition of cash and investments and the City Treasury Office's compliance with the California State Government Code. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the schedules of condition of cash and investments of the City Treasury Office as of June 30, 2008, other than those modifications indicated in the accompanying schedules of condition of cash and investments. As part of our review, we also performed testing of the City Treasury Office's investment activities compliance with the California State Government Code. Based on our review, we are not aware of any instances of material noncompliance with the California State Government Code. However, we identified certain matters that are presented herewith for your consideration.

This report is intended solely for the information and use of management, City Council, City Treasurer, City Controller, and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Los Angeles, California
December 24, 2008



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**CITY OF LOS ANGELES
OFFICE OF THE TREASURER
SCHEDULES OF CONDITION OF CASH AND INVESTMENTS
SCHEDULE OF CASH, BANK BALANCES, AND UNPROCESSED ITEMS
AS OF JUNE 30, 2008**

	<u>Treasurer's Reported Balance</u>	<u>Modifications</u>	<u>Adjusted Balance</u>
Cash	\$ 64,109	\$ -	\$ 64,109
Bank Balances:			
Active Bank Accounts:			
Bank of America	191,171,209	(841,841) ⁽¹⁾	190,329,368
U.S. Bank - Housing Lockbox and Sweep Account	58,296,962	-	58,296,962
Total Active Bank Accounts	249,468,171	(841,841)	248,626,330
Paying Agent Account:			
U.S. Bank - Wastewater Commercial Paper	1,382	-	1,382
Total Paying Agency Account	1,382	-	1,382
Total Bank Balances	249,469,553	(841,841)	248,627,712
Unprocessed Items:			
Warrants / Zero Balance Account Transfer Debits	70,445,003	-	70,445,003
Deposits in Transit	286,366	-	286,366
Total Unprocessed Items	70,731,369	-	70,731,369
TOTAL CASH, BANK BALANCES, AND UNPROCESSED ITEMS	\$ 320,265,031	\$ (841,841)	\$ 319,423,190

Note:

- (1) The modifications include unidentified reconciling items from fiscal year 2004-05 and prior in the amount of \$380,135, reconciling items in the amount of \$460,821 between the City Treasury Office's accounting system (Cash Control) and investment management system (SYMPRO), and an unrecorded deposit in transit in the amount of \$885. See observation 1 on page 5 for details related to the unidentified reconciling items from fiscal year 2004-05 and prior. See observation 2 on page 6 for details related to the differences between Cash Control and SYMPRO.

**CITY OF LOS ANGELES
OFFICE OF THE TREASURER
SCHEDULES OF CONDITION OF CASH AND INVESTMENTS
SCHEDULE OF INVESTMENT POOLS
AS OF JUNE 30, 2008**

	<u>Treasurer's Reported Balance</u>	<u>Modifications</u>	<u>Adjusted Balance</u>
General Pool:			
Core and Reserve Portfolios	\$ 5,466,470,623	\$ -	\$ 5,466,470,623
Certificates of Deposit	8,000,000	-	8,000,000
Total General Pool	<u>5,474,470,623</u>	<u>-</u>	<u>5,474,470,623</u>
Special Pools:			
Convention Center Fund (725)	77	-	77
Harbor Emergency Fund (751)	96,839,549	-	96,839,549
Batiquitos Long Term Investment Fund (Harbor 72W)	5,796,063	-	5,796,063
Harbor Restoration 70L Fund	542,823	-	542,823
MICLA Funds (26A, 26B, 289, 290, 292, 293, 294, 296 & 297)	135,224,473	-	135,224,473
DWP Wastewater Fund (208)	290,684,645	-	290,684,645
DWP 2007A Water System Revenue Bonds (M8C)	161,397,060	-	161,397,060
DWP 2007B Construction Fund (J1C)	81,909,834	-	81,909,834
DWP 2007A Construction Fund (J97)	171,428,391	-	171,428,391
Total Special Pools	<u>943,822,915</u>	<u>-</u>	<u>943,822,915</u>
TOTAL INVESTMENT POOLS	<u>\$ 6,418,293,538</u>	<u>\$ -</u>	<u>\$ 6,418,293,538</u>

Note: Investment amounts are presented at cost as recorded in the Financial Management Information System (FMIS).

**CITY OF LOS ANGELES
OFFICE OF THE TREASURER
SCHEDULES OF CONDITION OF CASH AND INVESTMENTS
SCHEDULE OF GENERAL POOL INVESTMENTS
AS OF JUNE 30, 2008**

<u>Investment Type</u>	<u>Treasurer's Reported Balance</u>	<u>Modifications</u>	<u>Adjusted Balance</u>
Certificates of Deposit	\$ 8,000,000	\$ -	\$ 8,000,000
Local Agency Investment Fund - State of California	909	-	909
Commercial Paper	1,672,428,051	-	1,672,428,051
Corporate Notes	1,188,898,518	-	1,188,898,518
U.S. Federal Agency Issues	1,033,457,337	-	1,033,457,337
U.S. Treasury Notes	1,571,685,808	-	1,571,685,808
TOTAL GENERAL POOL INVESTMENTS	<u>\$ 5,474,470,623</u>	<u>\$ -</u>	<u>\$ 5,474,470,623</u>

Note: Investment amounts are presented at cost as recorded in the Financial Management Information System (FMIS).

CITY OF LOS ANGELES
OFFICE OF THE TREASURER
OBSERVATIONS AND RECOMMENDATIONS
AS OF JUNE 30, 2008

1. Take appropriate action to resolve unidentified reconciling items between book balance and bank balance

Observation:

We noted that there are unidentified reconciling items in the amount of \$380,135 from fiscal year 2004-05 and prior in the bank reconciliation of the active bank account as of June 30, 2008. This observation is similar to the Finding No. 2 of the City Controller's report titled "Condition of All City Funds in the City Treasury Office as of December 31, 2006 and Audit of Cash and Investment Activities" dated September 20, 2007.

Recommendation:

We recommend that the City Treasury Office take appropriate action to write off these unidentified reconciling items; because they have been carried forward as reconciling items in the bank reconciliations since fiscal year 2004-05 and prior.

CITY OF LOS ANGELES
OFFICE OF THE TREASURER
OBSERVATIONS AND RECOMMENDATIONS
AS OF JUNE 30, 2008

2. Implement additional control procedures to resolve the difference in investment balance between Cash Control and SYMPRO

Observation:

There is a difference in the General Pool investment balance in the amount of \$460,821 between Cash Control and SYMPRO, the City Treasury Office's investment management system, as of June 30, 2008. The difference was reported by the City Treasury Office as a reconciling difference in Bank Balance Section on page 2. Subsequently, the City Treasury Office identified that the difference was caused by the following two reasons:

- (1) SYMPRO's inability to accommodate the in-house transfer of investments from the reserve (long-term) portfolio to the core (short-term) portfolio. As a result, the in-house transfer transactions were recorded as a sale entry for removing (transferring out) the investment from the reserve portfolio and a purchase entry for adding (transferring in) the investment to the core portfolio in SYMPRO. SYMPRO automatically recognizes accrued purchase interest for the investment purchase entry, which is not applicable for the in-house transfer. As a result, the investment balance per SYMPRO is overstated by \$457,824.
- (2) Errors in Cash Receipt (CR) entries for investment income receipts from mortgage backed securities (MBS) and collateralized mortgage obligations (CMO). SYMPRO is designed to manage fixed-income investments which normally pay only interest income to investors semi-annually based on the quoted rate on the face value until maturity. However, MBS and CMO normally pay both principal and interest monthly to their investors. Due to the difference in investment payment structures, SYMPRO was not able to provide accurate information for CR entries. In addition, there were errors in CR entries for investments sold prior to the first interest payment date. As a result, the investment balance per Cash Control is overstated by \$918,645.

Recommendation:

We recommend that the City Treasury Office resolve the difference between cash control and SYMPRO and implement additional control procedures to properly record and report transactions for in-house investment transfers and MBS/CMO investments.

CITY OF LOS ANGELES
OFFICE OF THE TREASURER
OBSERVATIONS AND RECOMMENDATIONS
AS OF JUNE 30, 2008

3. Describe clearly the monitoring process of the six-month liquidity requirement in the Investment Procedures

Observation:

According to the City's Investment Policy, Section A.VIII Investment Parameters, "The Cash Flow Horizon is the time period for which the pooled investment fund's cash flow can be reasonably forecasted. This Policy establishes the Cash Flow Horizon to be six months. When the Treasurer has deemed that the cash flow forecast can be met, funds may be invested beyond six months. The six-month liquidity requirements will constitute the core portfolio. The total portfolio less the core portfolio will constitute the reserve portfolio."

The City Treasury Office monitors the requirement through a Cash Flow Forecast Worksheet. The Cash Flow Forecast Worksheet is updated on a daily basis to project the cash inflows and outflows based on the Investment Procedures. However, the monitoring process for the six-month liquidity requirement should be clearly described in the City's Investment Procedures.

Recommendation:

We recommend that the City Treasury Office review the monitoring process of the six-month liquidity requirement and clearly describe the monitoring process in the City's Investment Procedures.