



RON GALPERIN
CONTROLLER

May 10, 2016

The Honorable Eric Garcetti, Mayor
The Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council

We are releasing the Controller's report on the "Condition of All Funds in the City Treasury and Review of Cash and Investment Activities as of June 30, 2015." Based on our review, we found the Office of Finance's investment activities to be in compliance with the California State Government Code and the City's Investment Policy.

A copy of this report was provided to the Office of Finance.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Earl', written in a cursive style.

Monique Earl
INTERIM CHIEF DEPUTY CONTROLLER





RON GALPERIN
CONTROLLER

May 10, 2016

Claire Bartels, Director
Office of Finance
200 North Spring Street, Suite 220
Los Angeles, CA 90012

Dear Ms. Bartels:

Enclosed is an audit report entitled "Condition of All Funds in the City Treasury and Review of Cash and Investment Activities as of June 30, 2015." A draft report was previously provided to your Department and comments provided by your staff at the exit conference held on April 25, 2016 were evaluated and considered. In addition, your Department's formal response and the action plan for implementing the audit recommendations is included as Appendix IV of the report.

If you have any questions or comments, please contact me at farid.saffar@lacity.org or (213) 978-7392.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Farid Saffar'.

FARID SAFFAR, CPA
Director of Auditing

Enclosure

cc: Ana Guerrero, Chief of Staff, Office of the Mayor
Miguel A. Santana, City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Holly L. Wolcott, City Clerk
Independent City Auditors

A U D I T

City of Los Angeles

Condition of All Funds in
the City Treasury and
Review of Cash and
Investment Activities as
of June 30, 2015

May 10, 2016



RON | GALPERIN
Los Angeles City Controller
controller.lacity.org



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SUMMARY

Section 261(f) of the Los Angeles City Charter requires the Controller to periodically verify the condition of all City funds in the City Treasury and to report the results to the Mayor and Council¹. A related Charter implementation ordinance amended the Los Angeles Administrative Code to include provisions directing the Controller to audit the accounts, funds and securities of the City².

The City Treasury is the official depository of the City, which is under the direction and control of the Treasurer, who is appointed and removed by the Mayor, subject to confirmation by the City Council.

The Controller's Audit Division has completed an audit of Cash and Investment activities at the Office of Finance. The primary objectives of the audit were:

1. To report on the condition of cash and the investment of securities.
2. To determine whether the banking activities have incorporated adequate internal controls.
3. To determine whether the investment activities comply with the California State Government Code and the City's Investment Policy.

The City Charter establishes the powers and duties of the Treasurer, which include serving as the custodian of all money deposited in the City Treasury and custodian of all securities bought by the City. The Treasurer manages the City's General and Special Pool investment portfolio and cash and debt programs. Treasury functions are performed by the Office of Finance (OOF), and the Director of Finance serves as the City Treasurer.

I. Overall Assessment

We determined that the Treasurer/Office of Finance (OOF) had adequate internal controls to give reasonable assurance that cash and investment activities were carried out properly, and that City funds as of June 30, 2015, as reported in Appendix III, were invested in accordance with established policies and procedures. However, we had two observations that warrant attention by OOF management:

¹ "The Controller shall: . . . from time to time, verify the condition of all City funds in the City Treasury, and report to the Mayor and Council thereon;" CITY CHARTER; Vol I; Article II; Section 261 (f)

² "In addition to the powers and duties of the Controller as provided in Charter Section 261 and approvals of demands on the Treasury as provided in Charter Section 262, the Controller shall also inspect and audit the books, accounts, funds and securities of every person charged in any way with the safe-keeping and disbursement of public money or securities." LAAC Division 20; Charter 3, Article 1; Section 20.55; Ordinance No. 173337.

Our prior year's audit report included an observation noting a risk of non-compliance with the State Government Code with respect to maturity restrictions for medium-term notes. In that report (issued May 2015) we recommended that management implement a system to identify and segregate the source of funds in the Treasury's Cash Management System that is used to purchase investments, to ensure compliance with guidelines.

State Code 53601(m) provides an exception for investments over the five-year period if they were purchased with bond proceeds and provisions governing the bond issuance allows it. The City's funds used to buy investments is composed of all sources of revenues including taxes and bond proceeds.

OOF does not yet have a system or method to segregate the sources of funds for specific investment instruments; however, the Department updated the Investment Policy in 2015 to prohibit purchases of private securities exceeding a five-year maturity. Though OOF no longer purchases corporate notes in excess of five years, it kept private securities in its portfolio that were purchased prior to January 1, 2015. We noted that at June 30, 2015, OOF held 31 medium-term notes totalling \$295 million, whose maturity goes beyond five years.

The second issue relates to standalone bank accounts that are not under the control of the Office of Finance. OOF reported to the Controller there were 261 standalone bank accounts with cash balances totaling \$95 million. Every quarter, Departments that maintain these accounts are required to report and certify the amounts to the Office of Finance. During our audit, we found that LAPD did not submit certifications or account reconciliations for 15 of its 50 standalone bank accounts. The Office of Finance did not follow up with LAPD; and reported assumed year-end balances to the Controller's Financial Reporting Division, posing a risk of inaccurate amounts being included in the total cash reported in the City's official financial statements. The 15 LAPD bank accounts had a combined balance of approximately \$1 million.

Finally, based on our current evaluation of the status of six recommendations that were included in our prior year's audit report, three have been Implemented, while three remain In Progress; outstanding issues relate to the planned implementation of a new Treasury Management System.

II. Review of Report

On April 1, 2016, a draft of this report was provided to OOF management. We met with OOF management and representatives at an exit conference held on April, 25 2016, and considered their comments as we finalized this report.

III. Department Response and Action Plan

On May 5, 2016, OOF provided its formal response and action plan, which is included as Appendix IV to this report. OOF management indicates that it has begun implementing the two recommendations. Based on the response, we consider the two recommendations to be In Progress / Partially Implemented.

We would like to thank OOF management and staff for their cooperation and assistance during the audit.

BACKGROUND AND OBSERVATIONS

City Treasurer Authority

The City Council, under authority of California State Government Code Section 53600, delegated to the City Treasurer the authority to invest or reinvest the temporary idle funds of the City. The Government Code and the City's Investment Policy specifies that, when investing and managing public funds, the City Treasurer shall act with care, skill, prudence and diligence.

The City's investment objectives are described below, ranked in the order of importance, as stated in the Investment Policy:

- 1) ***Safety of Principal*** - The City's first objective is to protect the portfolio's value by instituting prudent practices to manage portfolio risk and by instituting a system of controls that are adequate to protect against fraud or mismanagement.
- 2) ***Liquidity*** - The second objective is to have sufficient funds to ensure the City Treasurer can meet all operating requirements of the City that may be reasonably anticipated (e.g. daily cash flow requirements).
- 3) ***Rate of Return*** - The third objective is to attain a market rate of return through budgetary and economic cycles consistent with the risk limitations, prudent investment principles, and cash flow characteristics identified herein. For comparative purposes, the City will compare its performance to the performance of market benchmarks of similar duration and sector allocation.

Investment Balances as of June 30, 2015

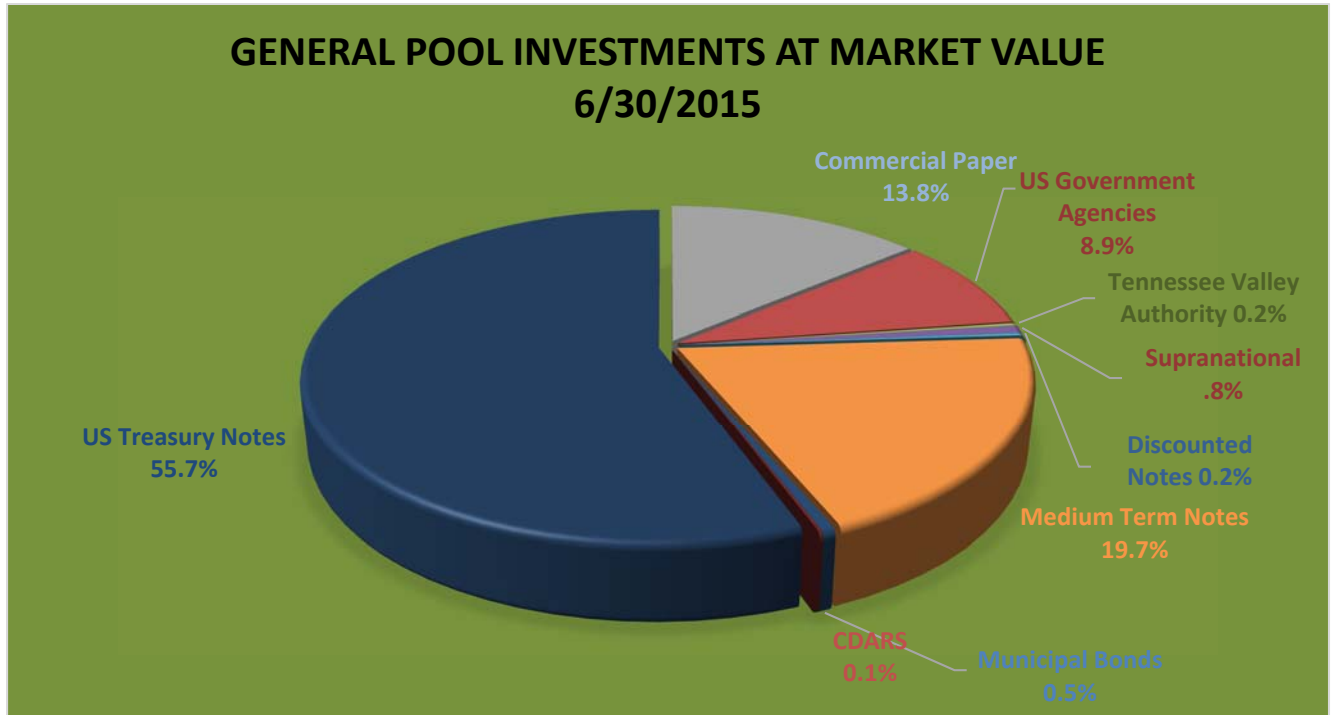
The City of Los Angeles' Investment Pool consists of pooled monies held on behalf of the City. The cash balances of substantially all funds on deposit in the City Treasury are pooled and invested by the City Treasurer for the purpose of maximizing interest earnings through pooled investment activities, but safety and liquidity still take precedence over return.

As of June 30, 2015, the Treasurer's General Pool investments had a total value of approximately \$8.3 billion and were invested in different financial instruments as follows:

Exhibit 1: General Pool Investments at 6/30/15

General Pool - Investment Type	Fair Market Value ⁽¹⁾
Commercial Paper	\$ 1,154,632,168
US Government Agencies	\$ 747,345,460
Tennessee Valley Authority	\$ 20,174,400
Supranational Long Term	\$ 65,230,050
Discounted Notes	\$ 19,999,440
Medium Term Notes	\$ 1,645,005,564
Municipal Bonds	\$ 42,495,998
CDARS	\$ 11,000,000
US Treasury Notes	\$ 4,650,866,495
Total General Pool	\$ 8,356,749,575

(1) Investments are stated at fair value based on quoted market prices except for investments that have remaining maturities of one year or less at time of purchase, which are noted at amortized cost, which is approximately 14% of the total as included in the categories noted above.

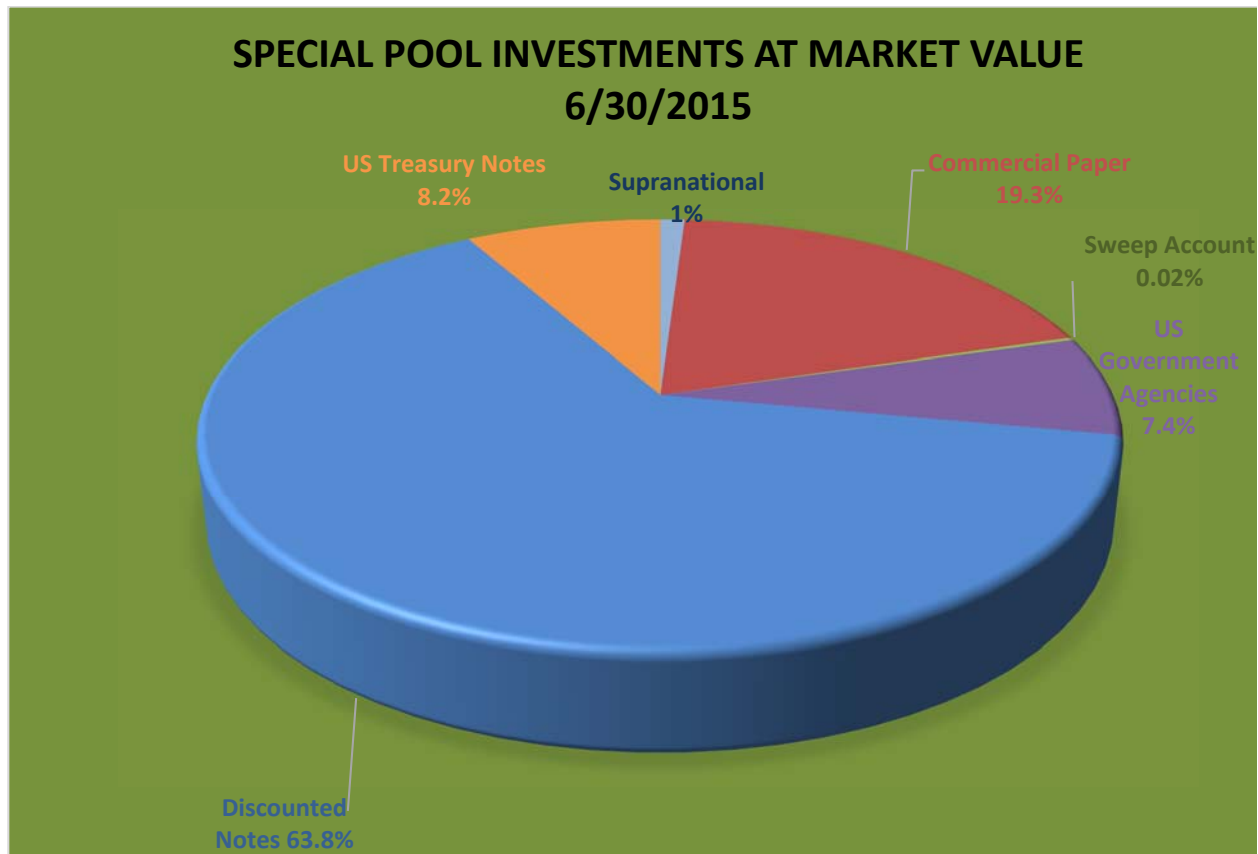


The City Treasurer also had \$0.8 billion invested in Special Pools for specific purposes. These include Department of Water and Power (DWP) Funds, MICLA Funds, the Harbor, and the Solid Waste Resource Fund.

Exhibit 2: Special Pool Investments at 6/30/15

Special Pool - Investment Type	Fair Market Value ⁽¹⁾
Supranational	\$ 7,844,401
Commercial Paper	\$ 148,217,997
Sweep Account	\$ 1,678,138
US Government Agencies	\$ 57,193,974
Discounted Notes	\$ 489,982,089
US Treasury Notes	\$ 63,088,748
Total Special Pool	\$ 768,005,346

⁽¹⁾Investments are stated at fair value based on quoted market prices, except for investments that have remaining maturities of one year or less at time of purchase, which are noted at amortized cost. Those account for approximately 84% of the total included in the categories above.



Other City investments that are held outside of the City Treasury include those held by the City's three retirement systems (\$48.1 billion) and restricted assets with fiscal agents and trustees (\$1.4 billion).

Rates of Return

The General Pool is comprised of a Core portfolio and a Reserve Portfolio. The Core Portfolio, in conjunction with tax receipts and departmental deposits, is managed to help meet the City's daily cash flow needs. The State Code requires local agencies to denote that the agency (City) have the ability to meet its pool's expenditure requirements for the next six months; which is the City's "cash flow horizon". As such, the City's Core portfolio consists of short-term investments and City Investment Policy dictates that the effective duration of investments held within the Core Portfolio may not exceed six months. In contrast, the Reserve Portfolio is invested to maximize the return of the portfolio, without exposing the monies to excessive market risks.

For Fiscal Year 2014-15, the Core Portfolio's annualized rate of return was .15%, while the Reserve Portfolio's return was 1.38%. At June 30, 2015, the effective yield of the total investment pool (both portfolios) was 1.1%.

Restrictions on Investments

Minimum Credit Ratings

The Investment Policy (which is in-line with the Government Code) establishes the minimum credit rating requirements for investments.

- There is no credit quality requirement for **Local agency bonds, U.S. Treasury Obligations, State of California Obligations, California Local Agency Obligations, and U.S. Sponsored Agencies** (U.S. government sponsored enterprises) securities.
- **Medium-term notes** must be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. Medium-term notes must have at least an "A" rating.
- **Commercial paper** issuances must have a minimum of "A-1" or equivalent rating. If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. Issuing corporations must be organized and operating within the United States and have assets in excess of \$500 million.

Concentration of Credit Risk

Per the City's Investment Policy, the following are concentration of investment restrictions for common types of investment instruments:

- Commercial Paper – 40% of portfolio; and not more than 5% (General Pool) and 10% (Special Pool) from one issuer;
- Certificates of Deposit – 30% of portfolio; and
- Medium-term Notes – 30% of portfolio.

Maturities

The State of California Government Code 53601 has established the maximum maturity for certain types of investments. For example:

- Five years for medium-term notes;
- 270 days for commercial paper; and
- 92 days for security lending agreements.

In accordance with California Government Code 53601, "Where this section does not specify a limitation on the term or remaining maturity at the time of the investment, no investment shall be made in any security.....that at the time of the investment has a term remaining to maturity in excess of five years.....unless the legislative body grants express authority."

Custody Services and Securities Lending

The City Treasurer contracts with Bank of New York to provide custody services and to manage a securities lending program. Under the City's securities lending program, and in accordance with California Government Code Section 53601, the City may lend up to 20% of the City's investment portfolio to qualified institutions on a short-term basis; however, these agreements must be collateralized with either US Treasuries or Agencies at 102% of the market value. The City can sell collateral securities only in the event of borrower default. The lending agent provides indemnification for borrower default.

During Fiscal Year 2014-15, collateralizations on all loaned securities were compliant with the required 102% of the market value. The total earnings reported by the City's Agent for Fiscal Year 2015 was \$486,285 related to the security lending program and the Bank of New York received \$97,254 or 20% commission. Therefore, the City had a net income of \$389,031 for the securities lending program for the twelve months ended June 30, 2015.

PRIOR ANNUAL AUDIT

In May 2015, the Controller's Office issued its annual audit "Condition of All Funds in the City Treasury and Review of Cash and Investment Activities as of June 30, 2014", that evaluated whether internal controls were adequate to provide reasonable assurance that cash and investment activities were carried out properly and that City funds were invested in accordance with established policies and procedures. The report included six recommendations as well as the Department's initial response and action plan. During this audit, auditors evaluated the Department's actions and activities and concluded that three recommendations (#3.1, #3.2 and #5.1) have now been implemented, while three recommendations (#1.1, #2.1 and #4.1) are still in Progress / Partially Implemented. The auditor's evaluation is reported in Appendix V of this report.

CONDITION OF CASH AND INVESTMENTS

The Schedules included on Appendix III show the condition of cash and investment activities as of June 30, 2015. For the Special Pools, amounts are presented by the designated Fund number as recorded in the City's Financial Management System.

Observation No. 1: LAPD did not certify the current cash balances for 15 outside bank accounts on its June 30, 2015 quarterly certification. OOF reported the prior balances to the Controller, posing a risk of inaccurate amounts being included in the total cash as reported in the City's official financial statements.

Some City Departments have standalone bank accounts that are not under the control of the Office of Finance (OOF). However, within thirty (30) days following the end of each quarter, Departments are required to report on each of these bank accounts to the Office of Finance, by signing a Certification of Reconciled Cash. The Department must submit the quarterly bank certification and supporting bank statement on a timely basis to avoid an adverse finding for the Controller's Certification and Fiscal Monitoring Program, and to ensure correct amounts are included in total City cash for the City's official financial statements.

In its June 30, 2015 report "Departmental Bank Accounts Not Controlled by Treasurer," OOF reported to the Controller there were 261 standalone bank accounts with cash balances totaling \$95 million. These included 114 accounts under the control of the Department of Neighborhood Empowerment and 50 accounts controlled by the Los Angeles Police Department (LAPD), among others. The Controller includes the cash amounts in all of these accounts as part of the citywide cash reported in the City's comprehensive annual financial report (CAFR).

During our audit, we found that LAPD did not submit bank account reconciliations for 15 of the 50 standalone bank accounts listed in its quarterly certification. These 15 accounts had a combined balance of approximately \$1 million of the total \$3.9 million for all 50 accounts reported by LAPD.

Nonetheless, OOF included in their report to Controller all 50 accounts with a stated balance as of 6/30/2015 noted by LAPD. For nine of the 15 accounts, OOF used the reported book balance amount noted in LAPD's certifications submitted prior to March 31, 2015, while for the other six accounts, OOF used the June 30, 2014 book balance amounts. OOF management indicated they used best practices by reporting the most recent available information.

Through 2013, OOF posted the quarterly certifications received from each Department on its intranet site; however, this practice was not kept current. City Departments can use OOF's intranet to verify their compliance with quarterly certification, and help prevent late or missing submissions.

The Controller relies on the information provided by OOF to support the total cash amount included in the City's comprehensive annual financial report. OOF's practice of passing along unreconciled or outdated balances for Departmental bank accounts can impact the accuracy of total cash as reported in the City's official financial statements.

Recommendation

1. OOF Management should:

- a) Proactively work with Departments to ensure they submit complete quarterly certifications timely and encourage Departments to indentify and implement automated tools to facilitate reconciliations;**
- b) As a best practice and to support compliance, keep its intranet site current to include Departments' most recently submitted certifications to reflect bank accounts' current status.**

Respectfully submitted,



Erendira Sanchez, CPA
Internal Auditor II



Siri A. Khalsa, CPA
Deputy Director of Auditing



Farid Saffar, CPA
Director of Auditing

APPENDIX I: ACTION PLAN

Observation	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
1. LAPD did not certify the current cash balances for 15 outside bank accounts on its June 30, 2015 quarterly certification. OOF reported the prior balances to the Controller, posing a risk of inaccurate amounts being included in the total cash as reported in the City's official financial statements.	7	<p>OOF Management should:</p> <p>a) Proactively work with Departments to ensure they submit complete quarterly certifications timely and encourage Departments to identify and implement automated tools to facilitate reconciliations;</p> <p>b) As a best practice and to support compliance, keep its intranet site current to include Departments' most recently submitted certifications to reflect bank accounts' current status.</p>	8	OOF	B

Description of Recommendation Ranking Codes:

A – High Priority: The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

B – Medium Priority: The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. The recommendation should be implemented within six months.

C – Low Priority: The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A- Not Applicable

APPENDIX II: SCOPE AND METHODOLOGY

We evaluated the Treasurer's compliance with the City's Investment Policy as part of an audit of accountability for public monies and investments for the one-year period July 1, 2014 to June 30, 2015.

In performing our audit, we:

- a. Interviewed Office of Finance/Treasury (OOF) staff and management to obtain an understanding of processes for authorizing, approving, recording, and monitoring cash and investment activities.
- b. Reviewed pertinent laws and regulations, such as section 261(f) of the City Charter and California State Government Code Section 53601.
- c. Tested bank accounts and investment reconciliations.
- d. Reviewed internal controls over wire transfers, including verification that the wire transfers were properly approved.
- e. Tested for compliance with key requirements of the California State Government Code and the City's Investment Policy. For example, we verified, on a sample basis, that investment purchases/sales were the best bid based on a competitive bidding process and that investments were rated at or above Standard and Poor's A-1/A or Moody's P-1/A2. We also verified that the Treasurer complied with the maximum allowable concentration percentages (e.g., not more than 40% in commercial paper, not more than 30% in medium-term corporate notes, not more than 30% in negotiable certificates of deposit or time deposits, etc.).
- f. Reconciled the total of cash and investments on hand, and cash and investments held by banks and other safekeeping agents as of June 30, 2015 to the total shown on the books and records of the Treasurer and the Controller.

This audit was performed in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides reasonable basis for our findings and conclusions based on our audit objectives.

Audit fieldwork was conducted primarily between October 2015 and January 2016.

APPENDIX III: SCHEDULE OF CASH AND INVESTMENTS

CITY OF LOS ANGELES - OFFICE OF FINANCE SCHEDULE OF CASH AND BANK BALANCE AS JUNE 30, 2015

	Balance
Cash	\$ 68,708
Wells Fargo Master Concentration Account	\$ 136,306,137
Total Cash and Bank Balance	\$ 136,374,845

CITY OF LOS ANGELES - OFFICE OF FINANCE Schedule of Investments By Fund As June 30, 2015

	Market Value⁽¹⁾
GENERAL POOL	
Core and Reserve Portfolios	\$ 8,345,749,575
Certificates of Deposits	\$ 11,000,000
Total General Pool	\$ 8,356,749,575
SPECIAL POOLS	
Harbor Fund (751)	\$ 47,511,213
Harbor Fund (72W)	\$ 6,010,699
Harbor Fund (70L)	\$ 560,526
MICLA Funds (26A)	\$ 18,781
MICLA Funds (26J)	\$ 1,154,662
MICLA Funds (26K)	\$ 491,404
Wastewater Fund (208)	\$ 516,731,568
Water Short Term Revenue Notes (M1D)	\$ 110,254,711
Power Systems Revenue Bond 2014 Series E (J6W)	\$ 85,271,782
Total Special Pools	\$ 768,005,346
Cash Collateral Security Lending	\$ 59,190,045
TOTAL INVESTMENTS POOLS	\$ 9,183,944,966

⁽¹⁾ Investments are stated at fair value based on quoted market prices except for investments that have remaining maturities of one year or less at time of purchase, which are noted at amortized cost.

APPENDIX IV: Status of Prior Recommendations

Recommendation	Department's Response	Status per Auditor's Evaluation	Controller's Evaluation
<p>1.1 Office of Finance management should implement a system to segregate the source of funds, to ensure investments are within investment guidelines.</p>	<p>Finance is actively pursuing a Treasury Management System (TMS), which may provide enhanced capabilities of segregating funds, including bond reserves. As of January 21, 2015, Finance has suspended the purchase of corporate notes in excess of five (5) years.</p>	<p>In Progress</p>	<p>The Department does not yet have a system in place to segregate the sources of funds for investments to ensure they are within investment guidelines.</p> <p>The Office of Finance is not in compliance with the state code policy for its medium term notes (state code 53601(i) (5) (j)) held as of 6/30/2015. At 6/30/15, there were 31 medium term notes totaling \$295 million that the maturity goes beyond the five years allowed by the state code. Even though, the state code 53601(m) allows the City to invest over the five year period for bonds proceeds according to the provision's governing the issuance of those bonds. However, the Office of Finance does not have a system to track and separate the proceeds of the bonds issues to properly use this exception.</p> <p>The Department's Investment Policy was updated on September 1, 2015 which prohibits the purchases of private securities exceeding five years maturity. In addition, since January 21, 2015, OOF no longer purchases corporate notes in excess of five (5) years.</p> <p>However, OOF kept the private securities (exceeding five year maturity) in its portfolio that were purchased prior to January 1, 2015.</p>

APPENDIX IV: Status of Prior Recommendations

Recommendation	Department's Response	Status per Auditor's Evaluation	Controller's Evaluation
<p>2.1 OOF management should resume the implementation of the Treasury Management System and ensure its functionality as soon as possible.</p>	<p>Finance concurs with this recommendation. Finance will resume contract negotiations with the vendor selected to implement the Treasury Management System.</p>	<p>In Progress</p>	<p>OOF Management indicated the City Attorney is in contract negotiations with the selected vendor.</p>
<p>3.1. OOF management should formally communicate to Main Street Advisors that the monthly reports submitted to the City should be free of errors.</p> <p>3.2 Until the City's Investment Advisory Committee is reestablished, OOF should discontinue producing a monthly report for its use.</p>	<p>Finance will suspend the monthly IAC report and has informed the City's Investment Advisor, FTN Financial Main Street Capital (FTN), that controls must be put into place to ensure that their reports are error free. FTN has already taken steps to address this finding.</p>	<p>Implemented</p>	<p>OOF management confirmed that the errors in the Main Street Advisors reports have decreased considerably.</p> <p>Main Street Advisors submits a monthly report to the City's Treasurer regarding the status of the City's General Pool investments.</p>

APPENDIX IV: Status of Prior Recommendations

Recommendation	Department's Response	Status per Auditor's Evaluation	Controller's Evaluation
<p>4.1 Although a paper-based tracking system is not optimal, OOF management should maintain an ongoing list of City department bank accounts opened and closed throughout the year until TMS is fully implemented. This would also ensure departments submit quarterly bank reconciliations to OOF's Accounting Division, as required.</p>	<p>The Office of Finance concurs with this recommendation. Finance has started providing the Accounting Division with a list of bank accounts opened and closed. Finance will ensure this is done on a quarterly basis.</p>	<p>In Progress</p>	<p>The Treasury Services Division has shared with the Accounting Division its data file that contained Departments' request to open/close bank accounts. The Auditor confirmed that the Accounting Division has access to this file.</p> <p>In addition, the Treasury Services Division is in the process of updating its "Request for Banking Services Form" to ensure the Accounting Division is aware of any new requests to open/close bank accounts not controlled by the Office of Finance.</p> <p>Management indicated that the internal policies and procedures will be updated to reflect these practices.</p>
<p>5.1 OOF management should consider assigning management of CDARS investments to its Investment Division.</p>	<p>Finance concurs with this recommendation and the reassignment to the Investment Division will be effective July 1, 2015.</p>	<p>Implemented</p>	<p>Chief Investment Officer affirmed that he started handling CDARS as of 7/1/2015; however, he added that OOF has not invested additional funding in this investment. And this program is currently in suspense, as OOF Management plans to evaluate the CDARS investment program.</p>

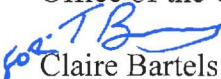
APPENDIX V: Department's Response & Action Plan

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CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

DATE: May 5, 2016

TO: Farid Saffar, Director of Auditing
Office of the Controller

FROM:  Claire Bartels
Director of Finance/City Treasurer
Office of Finance

SUBJECT: **RESPONSE TO “CONDITION OF ALL CITY FUNDS IN THE
CITY TREASURY AND REVIEW OF CASH AND INVESTMENT
ACTIVITIES AS OF JUNE 30, 2015” AUDIT REPORT**

In response to the above-entitled report, attached is the proposed actions that the Office of Finance (Finance) will take to address your recommendations.

We appreciate the opportunity to further improve our processes in managing and safeguarding the City’s cash and investment portfolio.

If you have additional questions, please contact Todd Bouey, Assistant Director of Finance at (213) 278-6951 or Ofelia Reyno, Departmental Chief Accountant at (213) 978-1739.

cc: Monique Earl, Interim Chief Deputy Controller
Todd Bouey, Assistant Director of Finance
Thomas Juarez, Chief Investment Officer
Ofelia Reyno, Departmental Chief Accountant

Report Title:

Condition of All Funds in the City Treasury and Review of Cash and Investment Activities as of June 30, 2015

Department responsible for Implementation:

Office of Finance

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION		
				Current Status	Basis for Status	
				Target Date for Implementation		
			OOF management should:			
1	LAPD did not certify the current cash balances for 15 outside bank accounts on its June 30, 2015 quarterly certification. OOF reported the assumed balances to the Controller, posing a risk of inaccurate amounts being included in the total cash as reported in the City's official financial statements.	a)	Proactively work with Departments to ensure they submit complete quarterly certifications timely and encourage Departments to indentify and implement automated tools to facilitate reconciliations;	In Progress	After several follow-up requests, LAPD had submitted its bank certification for the quarters ended June 30, 2015, September 30, 2015 and December 31, 2015. According to LAPD, submission of bank certification was delayed due to staff shortage. Finance is awaiting LAPD's bank certification for the quarter ended March 31, 2016 which was due on April 29, 2016. Finance reminded LAPD before and after the deadline to submit the required bank certification. Finance has developed a standard follow-up letter to be sent to delinquent departments, such as LAPD, in addition to the annual reminder letter sent to all department heads. Finance will also encourage Departments, specifically those departments that are frequently delinquent, to automate recording of cash transactions to facilitate reconciliations. While Finance acknowledges the auditor's recommendation, we do not agree that Finance reported assumed balances to the Controller's Financial Analysis & Reporting Division. Finance actually reported prior reconciled balances and indicated the quarter ending date as a footnote, if the cash balances as of the reporting period were not available.	06/01/2016
		b)	As best practice and to support compliance, keep its intranet site current to include Departments' most recently submitted certifications to reflect bank accounts' current status.	In Progress	Finance will keep its intranet current to include the most recently submitted certifications to reflect bank accounts' current status.	06/01/2016

- I - Implemented
- PI - Partially Implemented or In Progress
- NI - Not Implemented
- D - Disagree