

THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

Tom Watson

DEPT: Treasurer/ Tax Collector - Treasury

BOARD AGENDA # *B-15

Urgent Routine x

AGENDA DATE June 12, 2001

CEO Concurs with Recommendation YES pnt NO
(Information Attached)

4/5 Vote Required YES NO X

SUBJECT:

RECEIPT OF ANNUAL COMPLIANCE AUDIT OF THE COUNTY TREASURY POOL

STAFF
RECOMMEN-
DATIONS:

RECEIVE AND FILE ANNUAL COMPLIANCE AUDIT FOR THE STANISLAUS
COUNTY TREASURY FOR THE PERIOD ENDING JUNE 30, 2000

FISCAL
IMPACT:

The annual compliance audit costs \$5,000. The cost is charged as an expense of Treasury management. All Treasury management costs are paid from interest earnings of the Pool. This arrangement allows for all costs to be borne by all Treasury Pool participants in proportion to each agency's average daily cash balance in the Treasury Pool. The cost impact to the General Fund is estimated to be about \$1,100.

BOARD ACTION AS FOLLOWS:

No. 2001-431

On motion of Supervisor Caruso , Seconded by Supervisor Simon
and approved by the following vote,

Ayes: Supervisors: Mayfield, Blom, Simon, Caruso, and Chair Paul

Noes: Supervisors: None

Excused or Absent: Supervisors: None

Abstaining: Supervisor: None

1) X Approved as recommended

2) Denied

3) Approved as amended

MOTION:

Christine Ferraro

DISCUSSION: Government Code section 27134 requires an annual audit of the Treasury Pool investments to insure compliance with State law and local Investment Policy. The Treasury Oversight Committee includes the Stanislaus County Auditor-Controller who orders a Treasury Pool Compliance audit in coordination with the regular annual Grand Jury audit of all County Departments.

For the period ending June 30, 2000, the audit firm, Bartig, Basler and Ray, prepared the accompanying audit report. Although the report does have some recommendations contained in it, the audit firm found that all investments are in compliance with State law.

The audit report does note that although audit work was performed for the year ending June 30, 1999, no report was prepared by the previously engaged audit firm. This elicited a recommendation that an audit report be prepared each year.

Other recommendations included expansion of the number of Treasury Oversight Committee members and meetings as well as language for the Investment Policy related to participant withdrawals.

The Treasury Oversight Committee has received the audit and has also been apprised of our responses to the audit recommendations.

**POLICY
ISSUES:**

Government Code section 27134 requires an annual audit of the Treasury Pool investments to insure compliance with State law and local Investment Policy.

**STAFFING
IMPACT:**

No additional staff are requested. The annual compliance audit is performed in conjunction with the regular County audit by a private audit firm. Staffing time is already devoted to preparation of various reports and maintenance of information for the audit work.

COUNTY OF STANISLAUS
TREASURY OVERSIGHT COMMITTEE
COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 2000

COUNTY OF STANISLAUS

Treasury Oversight Committee
For the Year Ended June 30, 2000

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Members of the Treasury
Oversight Committee
County of Stanislaus
Modesto, CA

We have examined the County of Stanislaus' compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 of the California Government Code for the fiscal year ending June 30, 2000. Treasury's management is responsible for the compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination. We did not audit, verify or confirm the existence of the investments as this was not within the scope of this engagement and is normally included as part of the County's annual financial audit. Rather, the sole purpose of this audit was to determine compliance with the requirements specified in the Government Code Sections.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Treasury management's compliance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on compliance with specified requirements.

In our opinion the County of Stanislaus is in compliance, in all material respects, with the articles of Sections 27130-27137 of the Government Code for the fiscal year ending June 30, 2000. We have included on the following pages our discussion and observations regarding the oversight provided.

BARTIG, BASLER & RAY, CPAs, INC.

Bartig Basler & Ray, CPAs Inc.

September 19, 2000

COUNTY OF STANISLAUS

Treasury Oversight Committee
For the Year Ended June 30, 2000

COMMITTEE MEMBERS

<u>Member</u>	<u>Organization Appointed From</u>
Byron Bystrom	Stanislaus County Auditor-Controller
John Gongaware	Representative of Superintendent of Schools
John Enero	Public at Large

ADVISORY

Tom Watson	Stanislaus County Treasurer-Tax Collector
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COUNTY OF STANISLAUS

Treasury Oversight Committee
For the Year Ended June 30, 2000

Background and General

In 1995, the California legislature passed provisions requiring each county and city to establish an oversight Committee of from 3 to 11 members representing various organizations (The pool of organizations was also specified in the legislation). The purpose of this Committee was to oversee the policies that guide the investment of public funds. The Committee was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting.

Compliance Audit Requirement

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. Government Code Section (GC) 27134 required an annual audit to determine compliance with the provisions. This audit serves to comply with that requirement. For the prior year (June 30, 1999) an audit of the Treasury was performed by the Auditor-Controller's office. However, no compliance audit report for the prior year could be located and it was unclear whether the compliance audit was performed.

Recommendation

The compliance audit should be performed each year as required by GC 27134.

Committee Formation and Operation

In 1996, Stanislaus County issued a Resolution which established the Treasury Oversight Committee, membership, term of members, organization, powers and duties. The first committee meeting was held on May 29, 1996. During the fiscal year reviewed, a committee meeting was scheduled for Thursday January 20, 2000 to discuss the investment policy statement. The meeting was held, however two of the three members were unable to attend. The member in attendance signed as approving the investment policy statement. The two other members later signed their approval of the policy which was then accepted by the Board of Supervisors on February 29, 2000.

Recommendation

Meetings should be held at least annually to review the investment policy, to insure that the compliance audit was performed, to review any findings, to review county investment reports and to discuss with the Treasurer the investment strategy. Part of this process of oversight is continuing education and meeting to become informed regarding the different investment instruments, what they are, and why they are used.

COUNTY OF STANISLAUS

Treasury Oversight Committee
For the Year Ended June 30, 2000

The oversight committee county was organized with three members which is the minimum allowed.

We believe consideration should be given to expanding the committee. This would give more representation to the interested pool participants and assist in having more meaningful meetings and discussions.

Recommendation

Consideration should be given to expand the committee to include representatives from the Board of Supervisors, from special districts, and from the school districts.

Investment Policy Statement

Government Code section 53646 requires the County Treasurer to annually prepare an investment policy statement which is then reviewed by the Oversight Committee and submitted to the Board of Supervisors for approval. A revised policy was drafted by the Treasurer. Oversight committee members signed off that they had read and approved the policy. The policy was subsequently adopted by the Board of Supervisors on February 29, 2000 to be effective as of March 1, 2000.

Investment Policy Review

We reviewed the requirements specified in Government Code § 27133, items a-h. We believe the policy addressed all the required provisions as follows:

<u>Requirement</u>	<u>Policy Page</u>	<u>Deemed Compliance</u>
a) Authorized securities & percentages	3-5	yes
b) Maximum terms	3-5	yes
c) Criteria for selection of brokers	2	yes
Prohibition of political contribution	2	yes
d) Limits on gifts	3	yes
e) Reporting to oversight committee	5	yes
f) Calculation of treasurer's costs (GC 27013)	7	yes
g) Voluntary depositors	7-8	yes
h) Requests for withdrawal	7-8	yes

COUNTY OF STANISLAUS

Treasury Oversight Committee
For the Year Ended June 30, 2000

As shown above, we believe the policy adopted contained all the provisions specified in the oversight legislation. It appeared to be complete with a good glossary defining terms and different investments referenced in the policy.

One observation we had was in the area of allowable withdrawals on page 8 of the policy. This section stated the following:

“The agency’s request may be denied or delayed if multiple requests are received or abnormally high disbursements are experienced by the Pool resulting in unusual demands for cash outflow. No request can be honored which will adversely effect the stability and predictability of the investments in the Pool.”

This was a good provision to protect the remaining participants in the event of unforeseen circumstances arising. One other provision that we would recommend is that if the market value of the total pool were substantially below the carrying value, that the Treasurer reserves the right to mark a participant’s interest to market before allowing a withdrawal. This would allow a participant to have access to their funds but allows the market adjustment so that the remaining participants would not be harmed if an entity withdrew funds to invest elsewhere.

Recommendation

Consideration be given to adding a provision in the policy to mark a participant’s pool balance to market value at time of withdrawal if necessary to protect the remaining pool participants.

Compliance to Policy

We reviewed the County’s actual practices during FY 1999-2000 to determine compliance to the investment policy. We verified that the maximum percentages by category of investment were not exceeded during the year. We also verified that maximums for single issuers and maximum term limits specified in the policy were not exceeded. We reviewed the general procedures for cash flow projection and the amounts available to invest and found them to be adequate. No exceptions were noted when comparing practice to the policy.

COUNTY OF STANISLAUS

Treasury Oversight Committee
For the Year Ended June 30, 2000

Reporting

We reviewed the monthly reports which were submitted to the Board of Supervisors and to the Committee to verify that they contained the information specified in the law. They appeared to be complete with all the required information and included the cash needs disclosure, compliance to policy and the source of the market value information. There were additional summaries and graphs which would be informative to readers.

Interest Apportionments

During the year over \$ 23,223,000 was apportioned to the various pool participants based on each fund's average daily cash balance. The fund level returns on a cash basis were as follows:

<u>Quarter</u>	<u>Return</u>
Sept. 1999	5.42%
Dec. 1999	6.18%
Mar. 2000	4.76%
June 2000	6.25%

We reviewed the apportionment process and found it to be equitable.

Conclusion

As of June 30, 2000, the Pooled Treasury at cost totaled \$ 491,589,709 while the market value was approximately \$ 487,686,292. Fair value was 99.2% of cost. Investments in the portfolio appeared to have been prudent and were of the type common to investment pools of other counties.

Cash flow and maturity planning were done to meet the needs of the County without having to prematurely sell investments. Safekeeping agents were used for custody of investments.

We believe the Treasury Oversight Committee operated at the minimum level to comply with the oversight legislation during FY 1999-2000. However we believe more oversight is desirable including regular meetings with published agendas and minutes. We believe the expansion of the committee will help support the need to meet and discuss relevant topics. We also believe the recommendations of this report if implemented will assist the committee in fulfilling the oversight responsibility.