

COUNTY OF SACRAMENTO

Treasury Oversight Committee
Non-Pooled Investments
Agreed-Upon Procedures Report

For the Quarter Ended June 30, 2012

Audit Staff:

Alan A. Matré, C.P.A.
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Chief of Audits
Senior Auditor

**COUNTY OF SACRAMENTO
TREASURY OVERSIGHT COMMITTEE
NON-POOLED INVESTMENTS
AGREED-UPON PROCEDURES REPORT
FOR THE QUARTER ENDED JUNE 30, 2012**

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Internal Services
Department of Finance
Auditor-Controller Division

Ben Lamera,
Assistant Auditor-Controller



County of Sacramento

Bradley J. Hudson,
County Executive

David Villanueva,
Chief Deputy County Executive

Julie Valverde,
Director of Finance

July 16, 2012

The Honorable Board of Supervisors and the
Sacramento County Treasury Oversight Committee
County of Sacramento, California

We have performed the procedures enumerated below to a selected sample of the County of Sacramento, California, non-pooled investments, for the quarter ended June 30, 2012. These procedures were performed solely to verify that Treasury management complied with the investment requirements presented in Article 6, Sections 27130 through 27137, of the California Government Code, and the governing investment policy for the non-pooled investments, summarized in the accompanying Schedule I, for the quarter ended June 30, 2012. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. Evaluated and documented internal control procedures for investment and accounting of non-pooled investment funds.

Finding: No exceptions were noted as a result of our procedures.

2. Verified that the SunGard Financial Services, Inc., Advanced Portfolio System II non-pooled investment balances agreed with the custodian statements.

Finding: No exceptions were noted as a result of our procedures.

3. Reviewed the portfolio monitoring report for the selected investments and tested for accuracy.

Finding: No exceptions were noted as a result of our procedures.

4. Verified that investments are made in accordance with the governing investment policy. See Schedule I for Investment policy.

Finding: No exceptions were noted as a result of our procedures.

5. Selected a sample of the non-pooled investments based on outstanding issues at July 1, 2011, plus any untested new issues since that date.

Finding: No exceptions were noted as a result of our procedures. See Schedule II for sample tested.

We were not engaged to, and did not perform an audit, the objectives of which would be the expression of an opinion on the non-pooled investments. Accordingly, we do not express an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Board of Supervisors, County Treasury Oversight Committee and the Treasury management and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

JULIE VALVERDE
DIRECTOR OF FINANCE



By: Alan A. Matré, C.P.A.
Chief of Audits

**COUNTY OF SACRAMENTO
SUMMARY OF INVESTMENT REQUIREMENTS
AND NON-POOLED INVESTMENT POLICY**

The investment requirements presented in Article 6, Sections 27130 through 27137, of the California Government Code, and the Non-Pooled Investment Policy effective June 30, 2012 are as follows:

Article 6

- 27130** The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds. The Legislature further finds and declares that by pooling deposits from local agencies and other participants, county treasuries operate in the public interest when they consolidate banking and investment activities, reduce duplication, achieve economies of scale, and carry out coherent and consolidated investment strategies. The Legislature further finds and declares that the creation of county treasury oversight committees will promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investment by establishing criteria for the withdrawal of funds.
- 27131** (a) The board of supervisors in each county or city and county may, if the county or city and county is investing surplus funds, establish a county treasury oversight committee. The board of supervisors, in consultation with the county treasurer, shall determine the exact size of the committee, which shall consist of from 3 to 11 members, and the categories from which the members shall be represented, as specified in subdivisions (a) to (g), inclusive, of Section 27132. Members shall be nominated by the treasurer and confirmed by the board of supervisors.
- (b) In recognition of the state and local interests served by the action made optional in subdivision (a), the Legislature encourages local agencies to continue taking the action formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.
- 27132** The county treasury oversight committee, pursuant to Section 27131, shall consist of members appointed from the following:
- (a) The county treasurer.
- (b) The county auditor, auditor-controller, or finance director, as the case may be.
- (c) A representative appointed by the county board of supervisors.
- (d) The county superintendent of schools or his or her designee.
- (e) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county.

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- (f) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury.
 - (g) Up to five other members of the public.
 - (1) A majority of the other public members shall have expertise in, or an academic background in, public finance.
 - (2) The other public members shall be economically diverse and bipartisan in political registration.
- 27132.1** A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.
- 27132.2** A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.
- 27132.3** A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.
- 27132.4** Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5).
- 27133** In any county that establishes a county treasury oversight committee pursuant to this article, the county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include all of the following:
- (a) A list of securities or other instruments in which the county treasury may invest, according to law, including the maximum allowable percentage by type of security.
 - (b) The maximum term of any security purchased by the county treasury.
 - (c) The criteria for selecting security brokers and dealers from, to, or through whom the county treasury may purchase or sell securities or other instruments. The criteria shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.

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- (d) Limits on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business by any member of the county treasury oversight committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission.
- (e) A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.
- (f) The manner of calculating and apportioning the costs, authorized by Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.
- (g) The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the county treasury may deposit funds for investment purposes.
- (h) Criteria for considering requests to withdraw funds from the county treasury, pursuant to Section 27136. The criteria shall include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury.

27134 The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article. The audit may include issues relating to the structure of the investment portfolio and risk.

27135 The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.

27136 (a) Notwithstanding any other provision of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.

(b) The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.

27137 Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

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Non-Pooled Investment Policy

Non-Pooled Investments primarily consist of investments purchased with proceeds from Mello Roos Bonds (MR), Revenue Bonds (REV), General Obligation Bonds (GO), Assessment District Bonds (AD), Community Facilities District Bonds (CFD), Certificates of Participation Notes (COPs), Tax and Revenue Anticipation Notes (TRANs), and Tobacco Securitization Proceeds (TSP). The investment policy for the bonds is set forth in either the bond resolution, the bond indenture or by the bond insurer. The investment policy for the TRANs is set forth in the TRANs resolution, which is approved by the Sacramento County Board of Supervisors or other appropriate governing board. The investment policy for the Tobacco Securitization Proceed is set forth in the Tobacco Securitization bond resolution and bond indenture.

The majority of the bond and TRANs note investments are limited to those authorized by California Government Code Section 53601 et seq. Any other authorized investments are indicated in the governing investment policy document. Following on page seven is a listing of selected issues that were tested.

**COUNTY OF SACRAMENTO
SAMPLE OF NON-POOLED INVESTMENTS
FOR QUARTER ENDED JUNE 30, 2012**

<u>Issue</u> ⁽¹⁾	<u>Book Value</u> <u>6/30/12</u>	<u>% of Portfolio</u>
Airport System 2009 C&D (REV)	\$ 88,035,664	15 %
SAFCA AD 2012 (AD)	41,248,528	7
Los Rios CCD Elec 2008 A (GO)	25,121,625	4
Water Financing Authority (REV)	23,477,110	4
Tobacco Settlement 01A/B (TSP)	22,311,752	4
Airport System 2008 A (REV)	6,986,497	1
Metro Air Park 2007B (MR)	6,715,297	1
Elk Grove USD, 2008 (CFD)	4,169,967	1
SAFCA AD 2008 (AD)	3,707,568	1
Elk Grove USD, Ser 95 (MR)	3,103,492	1
Elk Grove 98 (MR)	2,827,376	<1
Juvenile Courthouse Proj Fd (COP)	2,216,327	<1
County Sanitation 2004 A & B (REV)	1,781,731	<1
Elk Grove 2001 (MR)	1,124,276	<1
Dry Creek JSD Series 91 (MR)	554,857	<1
Dry Creek JESD 2003 A (MR)	502,871	<1
Metro Air Park (MR)	438,973	<1
Elk Grove USD (MR)	425,726	<1
Dry Creek JESD 2005 (MR)	277,890	<1
Folsom Cordova SFID #4 2006B (GO)	179,994	<1
Park Meadows 2000 (CFD)	<u>157,937</u>	<u><1</u>
Total internally managed Non-Pooled Investments tested ⁽²⁾	<u>\$ 235,365,458</u>	<u>Approx. 41 %</u>
Tobacco Securitization Authority 2005 Refunding	<u>\$ 22,523,409</u>	<u>100 %</u>
Total externally managed Non-Pooled Investments tested ⁽³⁾	<u>\$ 22,523,409</u>	<u>100 %</u>

(1) The selected sample of non-pooled investments for the quarter ended June 30, 2012 was selected based upon outstanding issues at July 1, 2011 plus any new issues since that date.

(2) The total amount of internally managed non-pooled investments for the quarter ended June 30, 2012 was \$568,766,459.

(3) The total amount of externally managed non-pooled investments for the quarter ended June 30, 2012 was \$22,523,409.

Fund Type

(REV) – Revenue Bonds

(GO) – General Obligation Bonds

(MR) – Mello Roos Bonds

(COP) – Certificates of Participation

(AD) – Assessment District Bonds

(TSP) – Tobacco Securitization Proceeds

(CFD) – Community Facilities District Bonds

Indicates new issue