

COUNTY OF SACRAMENTO

DEPARTMENT OF FINANCE - AUDITOR-CONTROLLER DIVISION – INTERNAL AUDITS UNIT

INTERNAL AUDIT REPORT
NON-POOLED INVESTMENTS PERFORMANCE
AUDIT REPORT
TREASURY OVERSIGHT COMMITTEE



Audit Committee Submittal Date: 09/17/2020

SUMMARY

Background

As per Government Code Section 27131, the Sacramento County Treasury Oversight Committee (Committee) was established to oversee County of Sacramento (County) investments. As such, the Committee requests the Department of Finance to perform an audit on a quarterly basis to verify County Non-Pooled Investment Fund's compliance with the governing investment policy document, and applicable laws and regulations.

Audit Objective

The audit was conducted to verify the County Non-Pooled Investment Fund's compliance and the internal control over compliance with the governing investment policy document for the quarter ended June 30, 2020.

Summary

Based on the audit, the County Non-Pooled Investment Fund complied with the governing investment policy document, and applicable laws and regulations for the quarter ended June 30, 2020. The internal control over compliance with the governing investment policy document appeared adequate.

COUNTY OF SACRAMENTO

Treasury Oversight Committee
Non-Pooled Investments
Performance Audit Report

For the Quarter Ended June 30, 2020

Audit Staff:

Hong Lun (Andy) Yu, CPA
Linda Tsang

Audit Manager
Auditor

**COUNTY OF SACRAMENTO
TREASURY OVERSIGHT COMMITTEE
NON-POOLED INVESTMENTS
PERFORMANCE AUDIT REPORT
FOR THE QUARTER ENDED June 30, 2020**

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Department of Finance

Ben Lamera
Director



Auditor-Controller Division

Joyce Renison
Assistant Auditor-Controller

County of Sacramento

July 24, 2020

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

We have audited the Sacramento County Non-Pooled Investment Fund (Fund) for the quarter ended June 30, 2020.

Our audit was conducted to verify the Fund's compliance with County of Sacramento, Non-Pooled Investment Policy (Policy) as described below for the quarter ended June 30, 2020, and to verify whether the Department of Finance, Treasury Division (Treasury) and Investment Division (Investment) have adequate internal control to ensure the Fund's compliance with the 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), and Tobacco Securitization Proceeds (TSP). The Policy for the bonds is set forth in either the bond resolution, the bond indenture or by the bond insurer (governing investment policy document). The Policy for the Tobacco Securitization Proceed is set forth in the Tobacco Securitization bond resolution and bond indenture.

The majority of the bond 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.

Management is responsible for the design, implementation, and maintenance of effective internal control to ensure the Fund's compliance with the Policy.

The scope of our audit includes all non-pooled investments for the quarter ended June 30, 2020.

The audit methodology utilized to conduct the performance audit included:

Interview:

- We interviewed various Treasury and Investment staff to gain an understanding of policies, procedures, and processes for ensuring the Fund's compliance with the Policy.

Document Review:

- We reviewed the organization chart and written documentation to understand the relevant policies, procedures, and processes and to identify any internal control weaknesses, conflicts of interest, and inadequate segregation of duties.

Process Walkthrough:

- We had Treasury and Investment staff walk us step-by-step through processes related to the daily activities of the Fund. We verified whether staff had followed the policies and procedures.

Testing:

- We verified that the SunGard Financial Services, Inc., Advanced Portfolio System II non-pooled investment balances agreed with the custodian statements.
- We randomly selected 10 out of 40 non-pooled investments based upon outstanding issues at April 1, 2020, including one (1) new issue since quarter ended March 31, 2020 to test for compliance with the Policy. The selected sample represent 25% of total non-pooled investment issues outstanding. Non-pooled investments selected for testing included nine (9) internally managed funds and one (1) externally managed fund. See Schedule I, *Sample of Non-Pooled Investments for Quarter Ended June 30, 2020*. The nine (9) internally managed funds selected for testing totaled \$106,683,187 which represents approximately 20% of \$539,316,545 internally managed non-pooled investments. The one (1) externally managed fund selected for testing totaled \$21,523,195 which represents 100% of externally managed non-pooled investments.
- We inspected the portfolio monitoring report for 10 selected investments and tested for accuracy.
- We verified that investments were made in accordance with the Policy.

The Honorable Board of Supervisors and the
Sacramento County Treasury Oversight Committee
July 24, 2020

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* except for paragraph 3.56 regarding to our independence as described below paragraph. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Generally Accepted Government Auditing Standards'* independence standards. Specifically, auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit.

Although the Director of Finance is statutorily obligated to maintain the non-pooled investment in the County Treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility regarding the internal control or compliance of the Fund, the accounts and records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

Based on our audit, the Fund complied with the Policy for the quarter ended June 30, 2020. Also, Treasury and Investment have adequate internal control to ensure the Fund's compliance with the Policy.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, those charged with governance, Sacramento County Treasury Oversight Committee, Sacramento County Audit Committee, and Treasury and Investment's management, and should not be used for any other purpose. It is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

BEN LAMERA
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, CPA
Audit Manager

**COUNTY OF SACRAMENTO
TREASURY OVERSIGHT COMMITTEE
NON-POOLED INVESTMENTS
PERFORMANCE AUDIT REPORT
FOR THE QUARTER ENDED JUNE 30, 2020**

SAMPLE OF NON-POOLED INVESTMENTS

<u>Issue</u> ⁽¹⁾	<u>Book Value</u> <u>6/30/2020</u>	<u>% of Portfolio</u>
Robla SD, Series 2019 A & J (GO)	\$ 37,897,456	7 %
San Juan USD, Elec 12, Ser 19 (GO)	37,868,124	7
Metro Air Park 2004 A (MR)	12,621,675	2
Fair Oaks Rec & Park Ser 2020 (GO)	9,000,037	2
Galt JUSD Series 2018 (GO)	2,636,718	<1
McClellan Park CFD Ser. 2017A (MR)	2,565,124	<1
Airport System Refund 2016A (REV)	2,292,242	<1
Metro Air Park (MR)	1,393,854	<1
Tobacco Settlement 01A/B (TSP)	<u>407,957</u>	<u><1</u>
 Total Non-Pooled Investments tested ⁽²⁾	 <u>\$ 106,683,187</u>	 <u>Approx. 20%</u>
 Tobacco Securitization Authority 2005 Refunding	 <u>\$ 21,523,195</u>	 <u>100%</u>
 Total externally managed Non-Pooled Investments tested ⁽³⁾	 <u>\$ 21,523,195</u>	 <u>100%</u>

(1) The selected sample of non-pooled investments for the quarter ended June 30, 2020 was selected based upon outstanding issues at April 1, 2020, plus any untested new issues since quarter ended March 31, 2020.

(2) The total amount of internally managed non-pooled investments for the quarter ended June 30, 2020 was \$539,316,545.

(3) The total amount of externally managed non-pooled investments for the quarter ended June 30, 2020 was \$21,523,195.

Fund Type

(GO) – General Obligation Bonds

(MR) – Mello Roos Bonds

(REV) – Revenue Bonds

(TSP) – Tobacco Securitization Proceeds

Indicates new issue