

# 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: 02/15/2019**

**COUNTY OF SACRAMENTO**

Treasury Oversight Committee  
Non-Pooled Investments  
Performance Audit Report

For the Quarter Ended December 31, 2018

Audit Staff:

Alan A. Matré, C.P.A.  
Tae-Young Kang

Chief of Audits  
Senior Auditor

**COUNTY OF SACRAMENTO  
TREASURY OVERSIGHT COMMITTEE  
NON-POOLED INVESTMENTS  
PERFORMANCE AUDIT REPORT  
FOR THE QUARTER ENDED DECEMBER 31, 2018**

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**Department of Finance**

Ben Lamera  
Director



**Auditor-Controller Division**

Joyce Renison  
Assistant Auditor-Controller

**County of Sacramento**

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January 24, 2019

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's (Fund) for the quarter ended December 31, 2018.

We conducted this performance audit 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Our audit was conducted to verify the Sacramento County Non-Pooled Investment Fund (Fund)'s compliance with County of Sacramento, Non-Pooled Investment Policy (Policy) as described below for the quarter ended December 31, 2018, and to verify whether the Department of Finance, Treasury Division (Treasury) Division 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 investment 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 investment 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 compliance with the Policy.

The scope of our audit includes all non-pooled investments for the quarter ended December 31, 2018.

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 twelve non-pooled investments based upon outstanding issues at December 31, 2018, including one new issue since quarter ended September 30, 2018 to test for compliance with the Policy. See Schedule I, *Sample of Non-Pooled Investments for Quarter Ended December 31, 2018*. The twelve non-pooled investments totaled \$139,550,847 that represents approximately 29% of the total \$477,029,379 non-pooled investments.
- We inspected the portfolio monitoring report for twelve selected investments and tested for accuracy.
- We verified that investments were made in accordance with the Policy

In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to Generally Accepted Government Auditing Standards.

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 to 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 December 31, 2018. 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, 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: Alan A. Matré, C.P.A.  
Chief of Audits

**COUNTY OF SACRAMENTO  
SAMPLE OF NON-POOLED INVESTMENTS  
FOR QUARTER ENDED DECEMBER 31, 2018**

<u>Issue</u> <sup>(1)</sup>	<u>Book Value</u> <u>12/31/18</u>	<u>% of Portfolio</u>
Sac City USD Series 2017E (GO)	\$ 77,440,333	16 %
<b><i>Galt JUSD Series 2018 (GO)</i></b>	<b><i>20,965,369</i></b>	<b><i>4</i></b>
Airport System 2009 C&D (REV)	17,641,163	4
Airports System Ref 2018D-F (REV)	6,884,650	1
Robla SD, Series 2015 B (GO)	6,194,021	1
San Juan USD, Elec 02, Ser 2011 (GO)	3,507,458	1
McClellan Park CFD Ser. 2017A (MR)	2,471,079	1
Airport System Refund 2016A (REV)	2,256,883	<1
Galt JUSD Series 2017 (GO)	2,178,139	<1
Airport System 2008 B-C (REV)	9,340	<1
SRCSD REF 2007 (REV)	1,790	<1
SRCSD REF 2005 (REV)	<u>622</u>	<u>&lt;1</u>
 Total Non-Pooled Investments tested <sup>(2)</sup>	 <u>\$ 139,550,847</u>	 <u>Approx. 29%</u>

(1) The selected sample of non-pooled investments for the quarter ended December 31, 2018 was selected based upon outstanding issues at October 1, 2018, plus any untested new issues since quarter ended September 30, 2018.

(2) The total amount of non-pooled investments managed for the quarter ended December 31, 2018 was \$493,143,805 (\$477,029,379 internally and \$16,114,426 externally managed).

Fund Type

(GO) – General Obligation Bonds

(REV) – Revenue Bonds

(MR) – Mello Roos Bonds

***Indicates new issue***