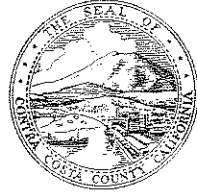


Contra Costa County

Office of
COUNTY AUDITOR-CONTROLLER



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April 27, 2007

TO: Alfred M. Granzella, Chairperson, Treasury Oversight Committee

FROM: Stephen J. Ybarra, Auditor-Controller
Audit Staff: May SM Romero, Auditor III *MS*

SUBJECT: Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134

EXECUTIVE SUMMARY

We have examined the accounts, records, and procedures of the County Treasurer (Treasurer) and the records and procedures of the Treasury Oversight Committee (Committee) for the period of January 1, 2006 through December 31, 2006.

We conducted the necessary audit tests and procedures to determine if, within our scope, the following conditions existed:

- There was compliance with Government Code Sections 27131 through 27132.4 that govern the establishment, membership and meetings of the Committee.
- There was compliance with Government Code Section 27133 that governs the establishment, review, and monitoring of investment policy.
- The quality of the Treasurer's investment portfolio complied with applicable laws and administrative requirements governing investments, including Government Code Sections 53601-53607, 53635 and 53646 governing authorized investments and the County's Investment Policy.
- Internal controls were adequate to ensure the safeguarding of the financial assets under the Treasurer's control.
- The Treasurer has contracted with financial entities for investment services and safekeeping and restricted investing transactions to brokers and issuers allowed by the County's Investment Policy.
- The Treasurer's Quarterly Investment Reports were accurate.

Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134 (continued)

Based on the results of our audit tests and procedures, we concluded that, in all material respects, these conditions existed with exception of the following procedure that needs improvement:

Review all local agencies' investment requests to determine if the amount to be invested is in compliance with Government Code Section 53635 and the County's Investment Policy on allowable concentration limits prior to making an investment.

We appreciate the excellent cooperation and assistance of the Treasurer staff, especially Brice Bins, Aurora Lee, and Beverley Rellar during this audit.

Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134 (continued)

RECOMMENDATION

Recommendation: Review all local agencies' investment requests to determine if the amount to be invested is in compliance with Government Code Section 53635 and the County's Investment Policy on allowable concentration limits prior to making an investment.

Condition: Two commercial paper investments in a single issuer for two independent agencies were determined to be over the legal concentration of 10% limit per issuer.

- Investment #72805 - Martinez Unified School District (MUSD) for \$5,044,000 was calculated at 35.86% of the agency's \$14,066,362.96 cash and investment at the time of purchase.
- Investment #73054 - West County Waste Water (WCWW) for \$3,639,000 was calculated at 14.71% of the agency's \$24,740,960.71 cash and investment at the time of purchase.

Criteria: Contra Costa County Investment Policy, June, 2006, pg. 3 (Eligible Commercial Paper), and Government Code Section 53635, subdivision (a), (2) limits the concentration of an agency's investment in a single Commercial Paper issuer to no more than 10% of the agency's total cash and investments.

Effect: When executing investment directions on behalf of independent agencies, the Treasurer could be viewed as less than prudent if restriction and limitations for certain investment instruments for the independent agencies are not considered before making the directed investment.

The credit quality of the investments was not an issue as the commercial paper investment rating was A1+/P1 (G.E. Capital and Citigroup).

Cause: Investment requests from independent agencies were invested as instructed without verifying the percentage limits for compliance with concentration limits.

Possible Solution: An investment compliance checklist could be attached to each investment sheet along with supporting source documents and calculations.

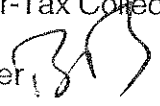
Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134 (continued)

STATUS OF PRIOR AUDIT RECOMMENDATION

There were no audit recommendations from the prior audit.

cc: William J. Pollacek, Treasurer-Tax Collector

CONTRA COSTA COUNTY
TREASURER-TAX COLLECTOR
625 COURT STREET, ROOM 102
MARTINEZ, CA 94553

Date: 4/25/2007
To: William J. Pollacek, Treasurer-Tax Collector
From: Brice Bins, Assistant Treasurer 
Subject: Expected Audit Exception

The County's Investment Policy requires "directed investment transactions" for all pool participants. The portfolio is therefore comprised of many smaller portfolios representing various agencies and districts. The complexity of the County's investment portfolio so far has prohibited our financial software to monitor certain areas of compliance automatically and therefore is often subject to manual methods of calculations. The human nature of this methodology causes me to report that there were areas of compliance in the County's Investment Policy that had been compromised - but identified and corrected.

First, upon receiving a re-investment request for a security to be purchased on April 13, 2007, it was found that the *maturing investment* had been out of compliance with the County's investment policy. This section requires that "No more than 10 percent of the local agency's money... may be invested in the outstanding commercial paper of any single issuer". Although the amount of the security did not exceed the 40 percent eligibility, or pose a risk of safety, compliance could have been met had the investment transaction been split among different names. The re-investment request of this maturing security was purchased in full compliance of the County's Investment Policy and this smaller portfolio within the County's portfolio is currently in full compliance with applicable Government Code sections.

Secondly, a closer inspection of the portfolio revealed a similar commercial paper compliance item. One other security purchased and held in a different smaller portfolio within the County's portfolio also did not comply with the County's Investment Policy and the "10 percent limitation" as stated above. Similarly, compliance would have been maintained by splitting the security among different names. This security was immediately - internally - traded for a similar yield security of a different name held in the County's portfolio at no loss, cost or additional risk - and currently within full compliance.

The Contra Costa County Treasurer's Office has an outstanding record of compliance and shall diligently strive to, first and foremost, safeguard the principal of the funds under its control. Appropriate steps will be taken to ensure that the above policy compliance items cannot occur in the future which includes: Documentation verifying compliance; Verification of compliance; Periodic verification of compliance reporting and evaluation of various financial software vendors such as Bloomberg, Sympro and SunGard for compliance reporting features and multi-portfolio capabilities.

The County's portfolio, as a whole, continues to be in compliance with Government Code § 53600 et seq. The County's "directed investment" requirement within the County's Investment Policy was the area found to be the exception. Corrections have been made and procedures have been established to prevent such occurrence in the future.