

Contra Costa County

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COUNTY AUDITOR-CONTROLLER

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

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

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, 2007 through December 31, 2007.

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 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)

RECOMMENDATION

Recommendation: Ensure that the return (interest earnings) received from the bank upon an investment's maturity is correctly calculated in accordance with the agreed interest calculation methodology.

Condition: The total interest received from Citibank for a \$20M Certificate of Deposit that matured on December 10, 2007 appeared to be \$810.74 more than the estimated interest earnings. In response to inquiries with the bank at that time, the bank indicated the statement was correct, which convinced the Treasury staff to accept the overpayment. Upon further investigation by the bank, it was later determined that an error in the interest calculation was made that triggered the overpayment.

Criteria: Pursuant to Contra Costa County Investment Policy, June 2007, pg. 2 (Standards and Objectives), and Government Code Section 53600.5 (Trustee's Objectives Regarding Funds), to achieve a return is one of the objectives of the investment policy. Good internal control over the investment return includes the establishment of the methodology on how returns are calculated, verification of its application, and immediate investigation of any discrepancy.

Effect: The County Treasurer makes investment decisions and manages the return on the investments. The County Treasurer could be viewed as less than prudent and diligent if the return appeared to be overstated or understated on the *Earned Income Summary* and was not verified for its accuracy.

Cause: The Treasury staff indicated that they take whatever the bank states the return should be and do not normally pursue investigation when the return exceeds the expected amount.

Possible Solution: The *Earned Income Summary* can be utilized to identify variances between the actual returns received and the estimated returns based on established calculation methodology. The regular review should be performed by a staff other than the person entering the data into the Sungard database from where the *Earned Income Summary* is generated. This procedure should be a part of the Treasury's daily operations.