

# COUNTY OF SACRAMENTO

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

**INTERNAL AUDIT REPORT**  
**NON-POOLED INVESTMENTS PERFORMANCE**  
**AUDIT REPORT**  
**FOR QUARTER ENDED DECEMBER 31, 2020**  
**TREASURY OVERSIGHT COMMITTEE**



**Audit Committee Submittal Date: 03/25/2021**

## **SUMMARY**

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### **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 December 31, 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 December 31, 2020. The internal control over compliance with the governing investment policy document appeared adequate.

Department of Finance  
Ben Lamera  
Director



Auditor-Controller Division  
Joyce Renison  
Assistant Auditor-Controller

County of Sacramento

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*Intra-Departmental Memorandum*

February 4, 2021

To: Bernard Santo Domingo  
Chief Investment Officer

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

A handwritten signature in black ink, appearing to be "H. Yu", is placed to the right of the "From:" line.

Subject: **TREASURY OVERSIGHT COMMITTEE – NON-POOLED INVESTMENTS  
PERFORMANCE AUDIT REPORT FOR THE QUARTER ENDED  
DECEMBER 31, 2020**

Attached for your information is the final performance audit report for the above referenced program.

Thank you.

Attachment

**COUNTY OF SACRAMENTO**

Treasury Oversight Committee  
Non-Pooled Investments  
Performance Audit Report

For the Quarter Ended December 31, 2020

Audit Staff:

Hong Lun (Andy) Yu, CPA  
Linda Tsang  
Jennifer Cabrera

Audit Manager  
Senior Auditor  
Auditor

**COUNTY OF SACRAMENTO  
TREASURY OVERSIGHT COMMITTEE  
NON-POOLED INVESTMENTS  
PERFORMANCE AUDIT REPORT  
FOR THE QUARTER ENDED DECEMBER 31, 2020**

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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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February 4, 2021

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 December 31, 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 December 31, 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 December 31, 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.
- To test for compliance with the Policy, we selected the five (5) new issues acquired during the quarter ended December 31, 2020 and randomly selected 10 of the remaining 41 non-pooled investments based upon outstanding issues at December 31, 2020. The sample size was determined by selecting all new issues of the period under review as well as sampling a quarter of the remaining non-pooled investments. Non-pooled investments selected for testing included internally managed funds and an externally managed fund. See Schedule I, *Sample of Non-Pooled Investments Tested for Quarter Ended December 31, 2020*. The 14 internally managed funds selected for testing totaled \$297,071,684 which represents approximately 47% of total internally managed non-pooled investments in the amount of \$629,216,322. The one (1) externally managed fund selected for testing totaled \$15,846,017 which represents 100% of externally managed non-pooled investments.
- We inspected the portfolio monitoring report for 15 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  
February 4, 2021

We conducted this performance audit in accordance with *Generally Accepted Government Auditing Standards* except for paragraph 3.56 regarding independence as described in the 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.

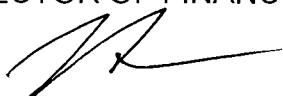
Although the Director of Finance is statutorily obligated to maintain the non-pooled investment in the County Treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other 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 December 31, 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 DECEMBER 31, 2020**

**SAMPLE OF NON-POOLED INVESTMENTS TESTED**

<u>Issue</u> <sup>(1)</sup>	<u>Book Value</u> <u>12/31/2020</u>	<u>% of Portfolio</u> <sup>(3)</sup>
<u>Internally Managed Non-Pooled Investments</u>		
<b>San Juan USD, Elec 16, Ser 20 (GO)</b>	<b>\$ 137,613,470</b>	<b>22 %</b>
<b>Natomas USD, Elec 18, 2020A (GO)</b>	<b>55,129,411</b>	<b>9</b>
<b>San Juan USD, Elec 12, Ser 20 (GO)</b>	<b>31,533,512</b>	<b>5</b>
Water Financing Authority 2007 (REV)	23,225,162	4
<b>Natomas USD, Elec 14, 2020 (GO)</b>	<b>20,069,429</b>	<b>3</b>
Fair Oaks Rec & Park Ser 2019 (GO)	7,141,393	1
Airports System Ref 2018D-F (REV)	6,205,773	1
Sac City USD Series 2018F (GO)	4,566,949	1
<b>2020 Refunding COP (COP)</b>	<b>2,707,841</b>	<b>&lt;1</b>
McClellan Park CFD Ser. 2017A (MR)	2,581,498	<1
Airport System Refund 2016B (REV)	2,385,002	<1
Airport System Refund 2016A (REV)	2,292,516	<1
Airports System Ref 2020 (REV)	1,344,741	<1
Metro Air Park 2007B (MR)	274,987	<1
Total internally managed Non-Pooled Investments tested <sup>(2)</sup>	<u>\$ 297,071,684</u>	<u>Approx. 47%</u>
<u>Externally Managed Non-Pooled Investment</u>		
Tobacco Securitization Authority 2005 Refunding	<u>\$ 15,846,017</u>	<u>100%</u>
Total externally managed Non-Pooled Investments tested <sup>(2)</sup>	<u>\$ 15,846,017</u>	<u>100%</u>

(1) The selected sample of non-pooled investments were selected based upon outstanding issues at December 31, 2020, plus any untested new issues since quarter ended September 30, 2020.

(2) The total amount of non-pooled investments for the quarter ended December 31, 2020 was \$645,062,339 (\$629,216,322 internally managed funds and a \$15,846,017 externally managed fund).

(3) Portfolio include all non-pooled investment funds (internally and externally managed funds). The formula used to calculate percent of portfolio is book value per issue divided by \$629,216,322 for internally managed non-pooled investments multiplied by 100 and \$15,846,017 for externally managed non-pooled fund multiplied by 100.

Fund Type

(GO) – General Obligation Bonds

(MR) – Mello Roos Bonds

(REV) – Revenue Bonds

**Indicates new issue**