

COUNTY OF SACRAMENTO

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

INTERNAL AUDIT REPORT TREASURY OVERSIGHT COMMITTEE NON-POOLED INVESTMENTS PERFORMANCE AUDIT REPORT FOR THE QUARTER ENDED JUNE 30, 2021



Audit Committee Submittal Date: 08/19/2021

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 investments' 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, 2021.

Summary

Based on the audit, the County's Non-Pooled Investment Fund complies with the governing investment policy document and applicable laws and regulations for the quarter ended June 30, 2021. The internal control over compliance with the governing policy document appeared adequate.

Department of Finance
Ben Lamera
Director



Auditor-Controller Division
Joyce Renison
Assistant Auditor-Controller

County of Sacramento

July 30, 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's (Fund) for the quarter ended June 30, 2021.

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, 2021, 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 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 June 30, 2021.

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 organizational 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 11 out of 42 non-pooled investments based upon outstanding issues at June 30, 2021, including all 4 new issues for the period under audit, to test for compliance with the Policy. All non-pooled investments selected were internally managed funds. There was one externally managed fund but it was not selected for testing this quarter. See Schedule I, *Sample of Non-Pooled Investments*. The non-pooled investments selected for testing totaled 11, which represents approximately 26% of the total 41 internally managed non-pooled investments.
- We inspected the portfolio monitoring report for the 11 selected investments and tested for accuracy.
- We verified that investments were made in accordance with the Policy.

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

The Honorable Board of Supervisors and the
Sacramento County Treasury Oversight Committee
July 30, 2021
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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, 2021. 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
SAMPLE OF NON-POOLED INVESTMENTS
FOR QUARTER ENDED JUNE 30, 2021**

<u>Issue ⁽¹⁾</u>	<u>Book Value 06/30/2021</u>	<u>% of Portfolio</u>
<u>Internally Managed Non-Pooled Investments</u>		
<i>Elk Grove USD, Elec 16, Ser 21 (GO)</i>	\$ 120,239,737.30	19
Robla SD, Series 2019 A & J (GO)	24,004,640.72	4
Airport System 2009 C&D (REV)	18,101,974.99	3
San Juan USD, Elec 12, Ser 20 (GO)	16,301,953.76	3
<i>River Delta USD, SFID #1 (GO)</i>	15,194,946.61	2
Fair Oaks Rec & Park Ser 2020 (GO)	9,005,894.93	1
<i>River Delta USD, SFID #2 (GO)</i>	4,794,981.55	<1
Airport System Refund 2016A (REV)	2,292,676.72	<1
Metro Air Park (MR)	1,248,996.36	<1
<i>North Yineyard CFD No. 2 2021 (MR)</i>	387,978.01	<1
SRCSD REF 2021 (REV)	28,464.83	<1
Total internally managed Non-Pooled Investments tested	<u>\$ 211,602,245.78</u>	<u>33</u>
Total internally managed Non-Pooled Investments	<u>\$ 640,219,791.34</u>	<u>100</u>
<u>Externally Managed Non-Pooled Investments</u>		
Total externally managed Non-Pooled Investments tested	<u>\$ 0</u>	<u>0</u>
Total externally managed Non-Pooled Investments ⁽²⁾	<u>\$ 3,452,178.72</u>	<u>100</u>

(1) The sample of non-pooled investments was selected based upon outstanding issues on June 30, 2021, plus any untested new issues since quarter ended March 31, 2021. Issues selected were all internally managed non-pooled investments. The one externally managed fund this quarter was not selected for testing.

(2) The total amount of non-pooled investments for the quarter ended June 30, 2021 was \$643,671,970.06 (\$640,219,791.34 internally managed and \$3,452,178.72 externally managed).

Fund Type

(GO) – General Obligation Bonds

(REV) – Revenue Bonds

(MR) – Mello Roos Bonds

Indicates new issue