

COUNTY OF SACRAMENTO

Treasury Oversight Committee
Independent Accountant's Report

For the Year Ended December 31, 2023

Independent Accountant's Report

To the Honorable Board of Supervisors and Treasury Oversight Committee
County of Sacramento, California

We have examined management of the County of Sacramento (County) Department of Finance's (Finance) assertion that the County Treasurer complied with the requirements presented in Article 6, Sections 27130 through 27137, of the California Government Code; the Sacramento County Annual Investment Policy for the Pooled Investment Fund; and the Governing Investment Policy for the Non-Pooled Investment Fund as set forth in the accompanying Schedule 1 (investment compliance requirements) during the period January 1, 2023 to December 31, 2023. County Finance management is responsible for its assertion. Our responsibility is to express an opinion on County Finance management's assertion about the County Treasurer's compliance with the investment compliance requirements based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether County Finance management's assertion about compliance with the investment compliance requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether County Finance management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of County Finance management's assertion, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

Our examination does not provide a legal determination on the County Treasurer's compliance with the investment compliance requirements.

In our opinion, County Finance management's assertion that the County Treasurer complied with the aforementioned investment compliance requirements during the period January 1, 2023, to December 31, 2023, is fairly stated, in all material respects.

The report is intended solely for the information and use of the County Board of Supervisors, County Treasury Oversight Committee, and management of the County and is not intended to be, and should not be, used by anyone other than these specified parties.



Sacramento, California
May 3, 2024

SCHEDULE 1

Assertions of the County of Sacramento (County) Treasurer regarding compliance with Article 6, Sections 27130 through 27137 of the California Government Code, the Sacramento County Annual Investment Policy (Policy) for the Pooled Investment Fund (Fund) and the Governing Investment Policy for the Non-Pooled Investment Fund for the year ended December 31, 2023.

The County Treasurer asserts compliance with the investment compliance requirements presented in the California Government Code, Article 6, Sections 27130 through 27137, the Sacramento County Annual Investment Policy for the Pooled Investment Fund and the Governing Investment Policy for the Non-Pooled Investment Fund which are as follows:

Article 6:

1. 27130 - The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds. The Legislature further finds and declares that by pooling deposits from local agencies and other participants, county treasuries operate in the public interest when they consolidate banking and investment activities, reduce duplication, achieve economies of scale, and carry out coherent and consolidated investment strategies. The Legislature further finds and declares that the creation of county treasury oversight committees will promote the public interest by involving depositors in the management of their funds and by enhancing the security and investment return on their funds by providing a more stable and predictable balance for investment by establishing criteria for the withdrawal of funds.
2. 27131 - (a) The board of supervisors in each county or city and county may, if the county or city and county is investing surplus funds, establish a county treasury oversight committee. The board of supervisors, in consultation with the county treasurer, shall determine the exact size of the committee, which shall consist of from 3 to 11 members, and the categories from which the members shall be represented, as specified in subdivisions (a) to (g), inclusive, of Section 27132. Members shall be nominated by the treasurer and confirmed by the board of supervisors.

(b) In recognition of the state and local interests served by the action made optional in subdivision (a), the Legislature encourages local agencies to continue taking the action formerly mandated by this section. However, nothing in this subdivision may be construed to impose any liability on a local agency that does not continue to take the formerly mandated action.
3. 27132 - The county treasury oversight committee, pursuant to Section 27131, shall consist of members appointed from the following:
 - (a). The county treasurer.
 - (b). The county auditor, auditor-controller, or finance director, as the case may be.
 - (c). A representative appointed by the county board of supervisors.
 - (d). The county superintendent of schools or his or her designee.
 - (e). A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county.
 - (f). A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury.
 - (g). Up to five other members of the public. (1) A majority of the other public members shall have expertise in, or an academic background in, public finance. (2) The other public members shall be economically diverse and bipartisan in political registration.

SCHEDULE 1

Article 6 (continued):

4. 27132.1 - A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.
5. 27132.2 - A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.
6. 27132.3 - A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.
7. 27132.4 - Committee meetings shall be open to the public and subject to the Ralph M. Brown Act (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5).
8. 27133 - In any county that establishes a county treasury oversight committee pursuant to this article, the county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include all of the following:
 - (a). A list of securities or other instruments in which the county treasury may invest, according to law, including the maximum allowable percentage by type of security.
 - (b). The maximum term of any security purchased by the county treasury.
 - (c). The criteria for selecting security brokers and dealers from, to, or through whom the county treasury may purchase or sell securities or other instruments. The criteria shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.
 - (d). Limits on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business by any member of the county treasury oversight committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission.
 - (e). A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.
 - (f). The manner of calculating and apportioning the costs, authorized by Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.
 - (g). The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the county treasury may deposit funds for investment purposes.
 - (h). Criteria for considering requests to withdraw funds from the county treasury, pursuant to Section 27136. The criteria shall include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury.

SCHEDULE 1

Article 6 (continued):

9. 27134 - The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article. The audit may include issues relating to the structure of the investment portfolio and risk.
10. 27135 - The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.
11. 27136 - (a) Notwithstanding any other provisions of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.
(b) The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.
12. 27137 - Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

Annual Investment Policy:

13. The Pooled Investment Fund (Fund) shall be prudently invested to meet the specific objectives of (1) Safety of Principal, (2) Liquidity, (3) Public Trust and (4) Maximum Rate of Return.
14. Internal controls shall be established by the Director of Finance to provide reasonable assurance that the investment objectives are met and to ensure that assets are protected from loss, theft, or misuse.
15. Investments maintained in the Fund shall be limited to those authorized per Government Code Sections 53601 et seq. and 53635 et seq. Authorized investments shall also be in accordance with California Government Code Section 16429.1, investments into the Local Agency Investment Fund (LAIF).
16. The Director of Finance shall not invest funds in any securities that have the possibility of returning a zero or negative yield if held to maturity except for securities issued, or backed by, the U.S. government during a period of negative market rates. Prohibited investments include inverse floaters, range notes, and interest only strips that are derived from a pool of mortgages.
17. Investments must comply with the credit, maximum maturities, and maximum concentration requirements of the policy.
18. Repurchase and reverse repurchase agreements must comply with maturity requirements. Repurchase agreements must comply with collateral requirements.

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Annual Investment Policy (continued):

19. Transactions are to be executed through either government security dealers reporting as primary dealers to the Market Reports Division of the Federal Reserve Bank of New York or direct issuers that directly issue their own securities that have been placed on the approved list of broker/dealers and direct issuers.
20. Broker/dealers must meet criteria specified in the policy to be placed on the approved list prepared by the Investment Group.
21. The Investment Group is responsible for maintenance of approved lists and investment guidelines including management investment style and strategy.
22. The costs of managing the portfolio shall be charged to the investment earnings and the net earnings shall be allocated to Fund participants based upon the average daily cash balance.
23. The Review Group is responsible for the monthly review and evaluation of investment activity and its compliance to the corresponding governing articles and investment objectives and prepares and presents a comprehensive review and evaluation of the transactions to the Director of Finance.
24. The Director of Finance shall review the daily investment activity and corresponding bank balances.
25. The Director of Finance shall perform a quarterly review of the Pooled Investment Fund activity and its compliance to the annual policy and government code.
26. The Treasury Oversight Committee shall cause an annual audit of compliance with Article 6 (Section 27130 through 27137) for the Pooled Investment Fund.
27. All securities purchased, except for, bank deposits, deposits with LAIF and money market mutual funds, shall be delivered to the independent third-party custodian selected by the Director of Finance.
28. Quarterly, the Director of Finance will provide to the Board of Supervisors, the Treasury Oversight Committee and to any local agency participant that requests a copy, a detailed report on the Pooled Investment Fund. The report will also be posted on the Department of Finance website. Pursuant to California Government Code Section 53646, the report will list the type of investments, name of issuer, maturity date, par, and dollar amount of the investment. For the total Pooled Investment Fund, the report will list average maturity, the market value, and the pricing source. Additionally, the report will show any funds under the management of contracting parties, a statement of compliance to the Policy and a statement of the Pooled Investment Fund's ability to meet the expected expenditure requirements for the next six months.
29. The Director of Finance will honor all requests to withdraw funds for normal cash flow purposes. Any requests to withdraw funds for purposes other than immediate cash flow needs, such as for external investing, are subject to the consent of the Director of Finance. Such requests for withdrawals must first be made in writing to the Director of Finance.

SCHEDULE 1

Annual Investment Policy (continued):

30. The Director of Finance shall annually submit to the County Board of Supervisors (the Board), the County Treasury Oversight Committee, and the legislative body of the local agencies that participate in the Fund a written statement of investment policy. The Board shall review and approve this policy annually at a public meeting.
31. The Director of Finance, individuals responsible for management of the portfolios, and members of the Investment Group, Review Group, and the Treasury Oversight Committee must report in aggregate total of gifts, honoraria, and gratuities received from a broker/dealer, bank, or service provider to the Pooled Investment Fund in excess of \$50 in a calendar year. No individual may receive aggregate gifts, honoraria, and gratuities from any single source in a calendar year in excess of \$590 in calendar year 2023.
32. Outside investors must approve the Sacramento County Pooled Investment Fund as an authorized investment and execute a memorandum of understanding. Withdrawals must be made in writing 30 days in advance with the consent of the Director of Finance.
33. Investments purchased shall be limited to those authorized per Government Code Sections 53601 et seq. and 53635 et seq. or as stated in the appropriate governing documents.