

**SANTA BARBARA COUNTY
BOARD AGENDA LETTER**



Clerk of the Board of Supervisors
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Santa Barbara, CA 93101
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Agenda Number:

Prepared on: 11/24/03
Department: Auditor-Controller
Budget Unit: 0410
Agenda Date: 12/9/03
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Robert W. Geis, CPA
Auditor-Controller

STAFF CONTACT: Nicolas Nocker, Greg Levin
Internal Audit ext. 2100

SUBJECT: Report on the Schedule of Deposits and Investments for the quarter ended September 30, 2003.

Recommendation(s):

That the Board of Supervisors:

Receive and file the Auditor's Review Report on the Schedule of Deposits and Investments in the Santa Barbara County Treasury Pool for the quarter ended September 30, 2003.

Alignment with Board Strategic Plan:

The recommendation(s) are primarily aligned with our organizational values regarding economy in government.

Executive Summary and Discussion:

The report presented here is the result of our quarter-end review of the investments in the County Treasury. Funds that are controlled by the County Treasurer include currently available cash of the County as well as the cash invested into the pool by other governments (such as school districts, special districts and others). The Treasurer is responsible for investing all of these funds in accordance with California Government Codes and the Treasurer's Investment Policy.

We prepared a Schedule of Deposits and Investments in accordance with generally accepted accounting principles. Limited compliance testing, including counting cash, was

conducted to obtain reasonable assurance that the Treasurer complied with provisions of the California Government Code and the Treasurer's Investment Policy. With respect to items not tested, nothing came to our attention that caused us to believe that the Treasurer had not complied, with those provisions.

The goals of the Treasurer's Investment Policy are safety, liquidity, and yield, in that order, and compliance always. The Treasurer utilizes a passive management investment style. This style utilizes the purchase of fixed-income instruments with intent to hold them until maturity. Types of securities in which the Treasurer may invest include U.S. Government Treasury and Agency Securities, Bankers' Acceptances, Commercial Paper, Corporate Bonds and Notes, Repurchase Agreements, and the State Treasurer's Local Agency Investment Pool (LAIF). The Treasurer also maintains an investment policy that keeps 30% of the portfolio in investments that mature within 18 months. The Treasurer believes this provides sufficient liquidity to avoid the actual realization of any unrealized investment losses that may result from price changes for investments purchased under the buy-and-hold style. These price changes can occur with fluctuations in interest rates. Generally, bond prices fall when interest rates rise, and prices rise when interest rates decline.

Pursuant to Government Accounting Standards Board Statement No. 31, the County is required to carry investments at fair value. The types of investments made during the first quarter of fiscal year 2003-04 were substantially the same as those held as of June 30, 2003. The following discloses the Unrealized Gains and Losses (in millions):

<u>Balance as of</u>	<u>Principal Value</u>	<u>Cummulative Unrealized Gains</u>	<u>Fair Value</u>
6/30/2003	\$ 750.4	\$ 5.4	\$ 755.8
9/30/2003	\$ 720.9	\$ 3.2	\$ 724.1

Unrealized gains or losses are apportioned quarterly to participating funds based upon the fund's average daily balance. During the quarter ended 9/30/2003, the pool had an unrealized loss of \$2.1 million.

Interest earned on pooled investments is accrued in the interest apportionment fund (fund 0260), and is also apportioned quarterly to participating funds based upon each fund's average daily deposit balance. For the first quarter of FY 2003-04 the pool earned \$4,910,831, a rate of 2.506%.

Pursuant to Government Code Section 27131, the Treasurer has established a County Treasury Oversight Committee to review and monitor the Treasurer's Investment Policy and to promote public interest in the investment of public funds. In addition, Government Code Section 26923 requires the Auditor-Controller to count the cash in the county treasury at least quarterly. This review was performed pursuant to the adoption of Ordinance 4510 by your Board on October 14, 2003, amending Section 2-23.2 to

Chapter 2, Article IV, of the Santa Barbara County Code, which requires the County Auditor-Controller to perform or cause to be performed a quarterly review and at least annually perform or cause to be performed an audit of assets in the County Treasury.

Cash and investments for the pension trust fund, deferred compensation fund, and bond indenture agreement funds are held outside the County Treasury Pool and are not included in the scope of this review.

Mandates and Service Levels:

California Government Code Sections 27131 and 26920.

Santa Barbara County Code Section 2-23.2

Fiscal and Facilities Impacts:

The apportionment of unrealized gains/losses to participating funds causes volatility in the recording of revenues. However, it is reflective of the actual position of the fair market value of the pool and is required by the Government Accounting Standards Board, which is recognized as the correct practice to be applied to all governmental entities.