

SANTA BARBARA COUNTY BOARD AGENDA LETTER



Clerk of the Board of Supervisors
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Agenda Number:

Prepared on: 3/14/02
Department: Auditor-Controller
Budget Unit: 0410
Agenda Date: 3/26/02
Placement: Administrative
Estimate Time:
Continued Item: NO
If Yes, date from:

TO: Board of Supervisors

FROM: Robert W. Geis, CPA
Auditor-Controller

STAFF CONTACT: Ed Price
Internal Audit Division Manager, ext. 2456

SUBJECT: Reports on Schedule of Deposits and Investments as of September 30, 2001 and December 31, 2001

Recommendation(s):

That the Board of Supervisors:

Receive and file the Auditor's Reports on the Schedule of Deposits and Investments in the Santa Barbara County Treasury Pool, and the Auditor's Reports on Compliance with Investment Policies for the quarters ended September 30, 2001 and December 31, 2001.

Alignment with Board Strategic Plan:

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

Executive Summary and Discussion:

The reports presented here are the results of our quarter-end compliance testing 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, etc.). The Treasurer is responsible for investing all of these funds in accordance with California Government Code and the Treasurer's Investment Policy.

We prepared a Schedule of Deposits and Investments in accordance with generally accepted accounting principles and applied the audit steps of a comprehensive audit program covering cash, investments and compliance in order to provide for two audit opinion reports relative to the Schedule of Deposits and

Investments. The results of our tests indicate that, with respect to items tested, the Treasurer complied, in all material respects, with the 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, in all material respects, 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 of 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. Bond prices fall when interest rates rise, and prices rise when interest rates decline.

Government Accounting Standards Board Statement 31 has required significant changes in the method used to value investments and account for related investment income on the financial records of the County. The County is required to carry investments at fair value. The types of investments made during the first and second quarters of fiscal year 2001-02 were substantially the same as those held as of June 30, 2001. The fair value of investments also changes with the fluctuations of interest rates. In a rising interest rate market, the fair value of investments could decline below original cost. Conversely when interest rates decline, the fair value of investments increases.

For the first fiscal quarter ended 9/30/01, the portfolio was carrying an unrealized gain of \$9.272 million. For the second fiscal quarter ended 12/31/01, we posted unrealized losses in the amount of \$3.215 million. The principal value of the investments at December 31, 2001, was \$710.974 million the fair market value was \$717.031 million and the accumulated unrealized gain is \$6.057 million.

Interest earned on the pooled investments is accrued in the interest apportionment fund (fund 0260), and apportioned quarterly to participating funds based upon each fund's average daily deposit balance. For the first quarter of FY 2001-02 the pool earned \$8,799,577, a rate of 4.89% and for the second quarter the pool earned \$7,259,143 a rate of 4.36%. Unrealized gains or losses are also apportioned quarterly to participating funds based upon the fund's average daily balance.

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 26920 requires the Auditor-Controller to count the cash in the county treasury at least quarterly. Pursuant to the adoption of Government Code Section 26920(b) by your Board on May 2, 1995, the Auditor-Controller has implemented additional audit steps as a means of enhancing the monitoring of treasury investments.

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 audit.

Mandates and Service Levels:

Government Code Sections 27131 and 26920

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 and recognized as the correct practice to be applied to all governmental entities.