

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

7/26/08



FROM: EXECUTIVE OFFICE

SUBMITTAL DATE:
November 25, 2008

SUBJECT: Annual Investment Audit Report

RECOMMENDED MOTION: That the Board receive and file the FY 07-08 Annual Investment Audit Report.

BACKGROUND: State law requires each County to establish a County Treasury Oversight committee and perform an annual investment audit on the County Treasury. The investment audit is to include the verification of the identification, classification, market value and rating of each investment. The Board expanded this requirement to include County agency investment funds held outside the County Treasury.

The FY 07-08 Investment Audit, performed by Teaman, Ramirez, & Smith, Inc. contains findings which were reviewed and discussed at the Investment Oversight Committee (IOC) November 6, 2008 meeting. Management concurred with the findings and indicated corrective action will be implemented.

Lani Sioson
Lani Sioson
Management Analyst

Departmental Concurrence

| | | | | |
|-----------------------|-------------------------------|--------|--------------------------------|---------------------------|
| FINANCIAL DATA | Current F.Y. Total Cost: | \$ N/A | In Current Year Budget: | |
| | Current F.Y. Net County Cost: | \$ N/A | | Budget Adjustment: |
| | Annual Net County Cost: | \$ N/A | | For Fiscal Year: |

| | | |
|-----------------------------|---|--------------------------|
| SOURCE OF FUNDS: N/A | Positions To Be Deleted Per A-30 | <input type="checkbox"/> |
| | Requires 4/5 Vote | <input type="checkbox"/> |

C.E.O. RECOMMENDATION: Receive and File.

County Executive Office Signature BY: *Dean Deines*
Dean Deines

- Policy
- Policy
- Consent
- Consent
- Consent
- Consent

Dep't Recomm.:
Per Exec. Ofc.:

RECEIVED RIVERSIDE COUNTY
CLERK / DEPT. OF SUPERVISORS
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E.S.

**COUNTY OF RIVERSIDE
INVESTMENT OVERSIGHT COMMITTEE**

**Independent Accountants' Report
On Applying Agreed-Upon Procedures**

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

The Investment Oversight Committee
County of Riverside, California

We have performed the procedures enumerated below, which were agreed to by the Investment Oversight Committee of the County of Riverside, solely to assist you in evaluating the County's compliance with the Treasurer's annual investment policy and the California Government Code for the Treasurer's investment portfolio and the investment portfolios of the other entities listed below for the fiscal year ended June 30, 2008. Management is responsible for the County's compliance with those requirements. This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Investment Oversight Committee. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

Scope of Procedures Performed and Resultant Findings

Our procedures and the results of those procedures are described below:

County Treasury

A. Determine that the Treasurer's annual investment policy for Fiscal Year 2008 (Effective date December 1, 2007) includes:

1. A list of securities or other instruments in which the Treasurer may invest, according to the law, including the maximum allowable percentage by type of security.

Finding: No exceptions were noted as a result of our procedures.

2. The maximum term of all securities purchase by the Treasury.

Finding: No exceptions were noted as a result of our procedures.

3. The criteria for selecting brokers and dealers from, to or through whom the 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 County Treasurer, any member of the County Board of Supervisors, or any candidate for those offices.

Finding: No exceptions were noted as a result of our procedures.

4. Limits on receipt of honoraria, gifts and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the treasury conducts business by any member of the County Treasury Oversight Committee. These limits shall be in addition to the limits set by a Committee member's own agency, by state law or by the Fair Political Practices Commission.

Finding: The current investment policy states that, "IOC members shall be subject to the limits included in the Board of Supervisors Policy B-21." This Board Policy does not list limits as they relate to "Honoraria, gifts and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the treasury conducts business by any member of the County Treasury Oversight Committee."

Management Response: The IOC is not part of the Treasury; it is independent and thus should not be part of the Treasury Audit.

Per the Statement of Investment Policy, Investment Oversight Committee section on page 4, "It has no input on day to day operations of the Treasury", and, per California Government Code Section 27137, "or impinge on the day-to-day operations of the county treasury", the only personnel that is subject is the Treasurer-Tax Collector. The IOC has not been included because they have no involvement with any financial advisors, brokers, dealers, bankers or other firms conducting business with the County Treasurer.

We will leave this up to the IOC as to whether it merits further discussion and if they are subject to 27133(d).

5. A requirement that the Treasurer provide the County Treasury Oversight Committee with an investment report as required by the Board of Supervisors.

Finding: No exceptions were noted as a result of our procedures.

6. The manner of calculating and apportioning the costs, authorized by Government Code Section 27013, of investing, depositing, banking, auditing, reporting or otherwise handling or managing funds.

Finding: No exceptions were noted as a result of our procedures.

7. 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.

Finding: No exceptions were noted as a result of our procedures.

8. Criteria for considering requests to withdraw funds from the treasury, pursuant to Government Code Section 27136. The criteria must include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investment in the treasury.

Finding: Although the policy contains a provision for the Treasurer to determine whether the withdrawal "would adversely affect other depositors in the Pool," it does not contain the specific language included in Section 27133(h) as referenced in Section 27136, which requires that the criteria for considering withdrawal requests include "an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury."

Management Response: Per the schedule of agreed-upon procedures, it does not state that the investment policy has to contain the specific language in Government Code Section 27133 (h), but rather that it includes the criteria for considering requests to withdraw funds. We believe the "assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury" is internal and is implied by sections 1 through 6 in the investment policy, "POLICY CRITERIA FOR VOLUNTARY PARTICIPANT WITHDRAWALS".

B. We read the Treasurer's annual investment policy and inquired of the Treasury Office Staff to determine that the Treasurer's current practice includes the following:

1. Requires any local agency, public agency, public entity or public official that has funds on deposit in the treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the treasury pool, to first submit a request for withdrawal to the Treasurer before withdrawing funds from the pool.

Finding: No exceptions were noted as a result of our procedures.

2. Evaluates each proposed withdrawal for its consistency with the criteria pursuant to A. 8. above and that prior to approving or disapproving a withdrawal, the Treasurer finds that the proposed withdrawal will not adversely affect the interest of the other depositors in the treasury pool.

Finding: No exceptions were noted as a result of our procedures.

3. Does not 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 treasury.

Finding: No exceptions were noted as a result of our procedures.

C. Determine that the Board of Supervisors has delegated by ordinance pursuant to Government Code Section 27000.1 and 53607 the authority to invest or reinvest the funds of the County and the funds of other depositors in the treasury pursuant to Government Code Section 53600.

Finding: No exceptions were noted as a result of our procedures.

- D. Determine that the Treasurer's Fiscal Year 2008 written investment policies and practices require that the primary objective in investing and managing public funds is to safeguard the principal, with the secondary objective to meet the liquidity needs of the depositors, and the third objective to achieve a return on the funds under the Treasurer's control.

Finding: No exceptions were noted as a result of our procedures.

- E. Concerning the structure and risk of the Treasurer's portfolio, we selected the quarter ending March 31, 2008, to:

1. Determine that all securities within the portfolio are legally authorized and meet the credit quality and other purchase restrictions set forth in Government Code Section 53601 and 53635.

Findings:

Legal Authorization:

1) The Morgan Stanley Government Portfolio Money Market Fund account was opened on December 10, 2007 and first funded on December 12, 2007. According to the County's Investment Policy, Schedule V, "Policy Criteria for Entering into a Money Market Fund," the 11 criteria stated should have been applied prior to entering into the Money Market Fund. We found that Treasury Staff relied on the Fund's Prospectus, Monthly Portfolio Reports and the Annual Report to satisfy the criteria as stated on Schedule V. No formal procedures or supporting documentation were found related to the application of the criteria on Schedule V to the new Money Market Fund. We found that the reports, as provided by the Treasury Staff to us, did not meet the following criteria related to the Morgan Stanley Government Portfolio Money Market Fund account:

Criteria 1 states, "The firm must provide in writing a statement on the fund's letterhead that the fund meets the statutory requirements of California law (i.e. Sections 53601 and 53635 of the California Government Code)." According to Treasury Office staff, they did not obtain this letter from the new Money Market Fund.

Criteria 2 states, "The fund must provide evidence that it has been registered with SEC and has "AAA" rating from two of the nationally recognized rating services: Moody's, Fitch's and Standards and Poor's" The reports provided do not include any rating information at the date the Morgan Stanley Government Portfolio account was opened or first utilized .

Criteria 5 states, "The fund's prospectus cannot allow hedging strategies, options, futures or security lending." The reports provided do not include these prohibitions; however Treasury Staff stated that these types of investments are prohibited by Money Market Funds by Federal Law, Section 2A7.

2) The Treasury Staff does not document their ongoing compliance with County's Investment Policy, Schedule V, criteria number three, obtaining the monthly portfolio reports for all Money Market Funds, and number eight, obtaining the annual reports for all Money Market Funds.

Management Response: The Treasurer's office has an informal process to evaluate the money market funds that adjusts to market conditions and goes beyond the stated criteria indicated in the Investment Policy, which include an evaluation of counterparty risk, qualitative and quantitative evaluation of Management and fund performance. We will amend the Investment Policy to reflect our informal process and meet government code criteria.

Credit Quality:

The Oakland B Trans Tax Municipal Bonds are rated "MIG 1." This rating is not listed as an acceptable rating on either Schedule I or Schedule VI of the County's Investment Policy.

Management Response: "MIG 1" is Moody's short term municipal equivalent rating of "P-1". We will amend the Investment Policy to account for municipal short term ratings.

2. Determine that all securities meet the five-year maximum or earlier maturity. Restriction established by Government Code Sections 53601 and 53635.

Finding: No exceptions were noted as a result of our procedures.

3. Determine the extent to which the treasury is engaged in reverse repurchase agreements and whether or not the portfolio is in compliance with the restrictions noted in government Code Section 53601(1) and whether the treasury is engaged in any forms of leverage (i.e., security lending agreements, taxable Tax and Revenue Anticipation Notes).

Finding: No exceptions were noted as a result of our procedures.

4. We reviewed the Treasurer's Investment Portfolio at March 31, 2008 and inquired of Treasurer's Office Staff and determined that the treasury is not engaged in any prohibited investments such as those noted Government Code Section 53601.6, except for the legally authorized holding of prohibited investments purchased prior to January 1, 1996.

Finding: No exceptions were noted as a result of our procedures.

5. Determine that the treasury is preparing a monthly or quarterly report on the portfolio that provides a detailed market pricing on each security, which will enable County officials and the County Treasury Oversight Committee to determine the current market value of the portfolio as compared to its present total book value.

Finding: No exceptions were noted as a result of our procedures.

6. Determine that the security holdings are with a third party trustee, who provides the County a perfected interest and ownership in the securities in keeping with the Government Code Sections 53601 and 53635, first paragraph.

Finding: We were provided with the custodial agreement with Union Bank dated February 28, 2005 and the letter dated October 3, 2007 extending indefinitely this agreement. This Custodial Agreement contains no specific provision describing a "perfected interest and ownership in the securities" in keeping with the Government Code Sections 53601 and 53635; however, it did contain a general provision relating to compliance with all applicable Federal and State Laws. The excerpt stated "the Custodian shall observe and comply with all applicable Federal and State of California laws, rules or regulations as well as any other rules, regulations or directives imposed by the County, provided the Custodian is advised by the County of any such applicable State and County laws, rules or regulations or directive imposed by the County."

Management Response: The Treasurer's Office has a "perfected interest and ownership in securities" held with a third party. It's implied by the following excerpt that states:

"the Custodian shall observe and comply with all applicable Federal and State of California laws, rules or regulations as well as any other rules, regulations or directives imposed by the County, provided the Custodian is advised by the County of any such applicable State and County laws, rules or regulations or directive imposed by the County."

7. Determine whether the County has contracted with an agency of financial institution for investment management or advisory services that would lessen the Treasurer's control of the investment portfolio other than for money market funds authorized by Government Code Sections 53601 and 53635, paragraph (k).

Finding: No exceptions were noted as a result of our procedures.

8. Determine that investments or reinvestments of note proceeds are limited to and do not exceed the maturity date of the notes, in keeping with Government Code Sections 53821.5, 53852.5, and 53859.02.

Finding: No exceptions were noted as a result of our procedures.

F. Other Investing Activities

County of Riverside Asset Leasing Corporation
County Housing Authority
Economic Development Agency
Riverside County Flood Control and Water Conservation District
County Executive Office for:
Community Facility Districts/Assessment Districts
County of Riverside Court Financing Corporation
County of Riverside District Court Financing Corporation

G. For each of the aforementioned entities, we performed the following procedures on the quarterly portfolio disclosure report for the fiscal year ended 2008 (June 30, 2008):

1. Assure accurate identification and classification of all securities noted on portfolio reports by agreeing all securities listed on the investment portfolio reports to third-party investment statements.

County of Riverside Asset Leasing Corporation

Finding: The various money market funds on the report entitled "AIM ..." are now called "Invesco AIM Short Term ..." The name changed March 31, 2008.

Management Response: To accurately reflect the correct name of the AIM money market funds, any new investment report will have "Invesco" added to the title.

County Housing Authority

Findings:

We noted that the Housing Authority is reporting their demand checking accounts to the Investment Oversight Committee on their quarterly reports. These accounts are not investments and are probably not subject to reporting.

- 1) The Housing Authority does not identify which Money Market Fund the Debt Service Funds are invested in.
- 2) The format used by the Housing Authority does not identify the level of risk associated with their investments.

Management Response: As discussed with Laurie Marscher during her site visit, effective July 1, 2008 which is the start of Fiscal Year 2009, the Housing Authority will eliminate the demand checking accounts on its quarterly Investment Report. Further, the Investment Report will include the Money Market Fund that the Debt Service Funds are invested in, which is the First American Treas Oblig CL Y, and the level of risk associated with this investment.

Economic Development Agency

Finding: No exceptions were noted as a result of our procedures.

Riverside County Flood Control and Water Conservation District

Finding: "Uninvested Cash," in the amount of \$88.47, in account number 95417330 (Improvement District #4-2 of Zone 4 - San Jacinto River, Issue of 1988 Bond Service Fund) was reported to the Investment Oversight Committee as being invested in "First American Treas Oblig CL Y."

Management Response: The correction has been made pursuant to the finding. We will pay attention in future to classifying investments appropriately.

County Executive Office for:

Community Facility Districts/Assessment Districts

Findings:

- 1) There is one bond escrow account being included in the report to the Investment Oversight Committee. The account relates to CFD 89-1 2006 – Special Tax Refunding Bonds, Series 2006. The total for this account is \$9,861,445. This amount is distorting the values and holdings of the Community Facility Districts/Assessment Districts in total.

Management Response: This escrow account consists of bond proceeds as well as interest until the time the district can defease the 2001 bonds on the first callable date in September 2009. To not distort the holdings of the CFD/AD's we will remove this account from future reports.

- 2) The "Aim Treasury Private CI" money market funds on the report are now called "Invesco AIM Short Term Investment Trust Treasury." The name changed March 31, 2008.

Management Response: The title of the fund has not changed only the parent company. In the quarterly report the investment name was abbreviated. We will work with Bondlogistix to reflect the full name as well as the new parent company name in future reports.

- 3) Ixis Funding Corp. name has been changed to Natixis Funding Corp.

Management Response: The counter party's name to the Ixis Funding Corp. investment agreement was changed in March 2006, which previous audits failed to report. Neither the Trustee nor the Community Facility Districts/Assessment Districts were notified of the name change. Future reports will reflect the name change.

County of Riverside Court Financing Corporation

Finding: The name of the Money Market fund as of March 31, 2008 is "Invesco AIM Short Term Treasury" not "AIM Short Term Investment Treasury."

Management Response: To accurately reflect the correct name of the AIM money market funds, any new investment report will have "Invesco" added to the title.

County of Riverside District Court Financing Corporation

Finding: The name of the Money Market fund as of March 31, 2008 is "Invesco AIM Short Term Treasury" not "AIM Short Term Investment Treasury."

Management Response: To accurately reflect the correct name of the AIM money market funds, any new investment report will have "Invesco" added to the title.

2. Assure accurate market value pricing of all securities and identify the source of the pricing information by agreeing market values and pricing information for all securities listed on the investment portfolio reports to third-party investment statements.

County of Riverside Asset Leasing Corporation

Finding: No exceptions were noted as a result of our procedures.

County Housing Authority

Findings:

- 1) There are two fiscal agent accounts with balances. They are being combined and reported as one line item.
- 2) The combined total reported to the Investment Oversight Committee includes accrued interest on the Revenue Fund.

Management Response: Effective July 1, 2008, the Housing Authority Investment Report will show the Debt Service Funds separately and will eliminate the accrued interest in the calculations.

Economic Development Agency

Finding: No exceptions were noted as a result of our procedures.

Riverside County Flood Control and Water Conservation District

Finding: No exceptions were noted as a result of our procedures.

County Executive Office for:

Community Facility Districts/Assessment Districts

Finding: No exceptions were noted as a result of our procedures.

County of Riverside Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

County of Riverside District Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

3. We confirmed the present ratings assigned by New York Rating Agencies on all commercial paper, medium term notes, money market funds, municipal securities and investment agreement contracts, by agreeing all investments to Moody's, Standard and Poor's or Fitch's rating services. We confirmed other ratings assigned, if available, for any investment not rated by New York Rating Agencies.

County of Riverside Asset Leasing Corporation

Finding: No exceptions were noted as a result of our procedures.

County Housing Authority

Finding: The Housing Authority does not state a rating on their report to the Investment Oversight Committee. The rating for the Money Market investments in their Debt Service Funds was AAAM. The Bank of America Money Market Account rating would be based on the bank's credit rating which is AA+.

Management Response: As mentioned on the Housing Authority's Management response for item number G1, the Housing Authority will revise its Investment Report to include the Money Market Fund that the Debt Service Funds are invested in and the level of risk associated with this investment.

Economic Development Agency

Finding: No exceptions were noted as a result of our procedures.

Riverside County Flood Control and Water Conservation District

Finding: No exceptions were noted as a result of our procedures.

County Executive Office for:

Community Facility Districts/Assessment Districts

Finding: No exceptions were noted as a result of our procedures.

County of Riverside Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

County of Riverside District Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

H. For each entity listed above, perform the following procedures on the investments:

1. Confirm that maturities on investments coincide with cash-flow requirements (i.e. debt service and claim disbursement requirements)

County of Riverside Asset Leasing Corporation

Finding: No exceptions were noted as a result of our procedures.

County Housing Authority

Finding: No exceptions were noted as a result of our procedures.

Economic Development Agency

Finding: No exceptions were noted as a result of our procedures.

Riverside County Flood Control and Water Conservation District

Finding: No exceptions were noted as a result of our procedures.

County Executive Office for:

Community Facility Districts/Assessment Districts

Finding: No exceptions were noted as a result of our procedures.

County of Riverside Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

County of Riverside District Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

2. Determine that policies governing bond fund investments are current and internal control measures are deemed adequate.

County of Riverside Asset Leasing Corporation

Finding: No exceptions were noted as a result of our procedures.

County Housing Authority

Finding: No exceptions were noted as a result of our procedures.

Economic Development Agency

Finding: No exceptions were noted as a result of our procedures.

Riverside County Flood Control and Water Conservation District

Finding: No exceptions were noted as a result of our procedures.

County Executive Office for:

Community Facility Districts/Assessment Districts

Finding: No exceptions were noted as a result of our procedures.

County of Riverside Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

County of Riverside District Court Financing Corporation

Finding: No exceptions were noted as a result of our procedures.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

Jeunen Ramirez & Smith

October 6, 2008