

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

212A



FROM: EXECUTIVE OFFICE

SUBMITTAL DATE:
November 10, 2009

SUBJECT: Annual Investment Audit Report

RECOMMENDED MOTION: That the Board receive and file the FY 08-09 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 08-09 Investment Audit, performed by Teaman, Ramirez, & Smith, Inc. contains findings which were reviewed and discussed at the Investment Oversight Committee (IOC) November 5, 2009 meeting. Management concurred with the findings and indicated corrective action will be implemented.

Departmental Concurrence

Lani Sioson
Management Analyst

FINANCIAL DATA	Current F.Y. Total Cost:	\$ N/A	In Current Year Budget:
	Current F.Y. Net County Cost:	\$ N/A	
	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:

APPROVE

BY:
Dean Deines

County Executive Office Signature

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

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

**COUNTY OF RIVERSIDE
INVESTMENT OVERSIGHT COMMITTEE**

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

TR**S** TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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 the specified parties 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, 2009. Management is responsible for the County's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these 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 2008/09 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: No exceptions were noted as a result of our procedures.

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

Finding: The Investment Policy, which was approved by the Board of Supervisors, states there are two reports to be filed with the Investment Oversight Committee, the "Treasurer's Monthly Disclosure Report on Investments" and the "Monthly Treasurer's Pooled Investment Fund Report." The Investment Oversight Committee is only receiving one monthly report on a quarterly basis.

In the section of the Investment Policy "Portfolio Reports/Auditing," the reference to Section 27134 needs to be reviewed. Section 27134 refers to the auditing requirements of county's treasury oversight committee, not the reporting requirements.

Management's Response: The Investment Oversight Committee only receives one monthly report, labeled the Monthly Treasurer's Pooled Investment Fund report on a monthly basis. The July 2009 Investment Policy revision corrected the difference in labeling.

The section of the Investment Policy "Portfolio Reports/Auditing" incorrectly refers to Section 27134, it should be Section 27133.

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

B. Determine that the Treasurer's current practice:

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 adopted 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 2008/09 written investment policy 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, 2009, 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: No exceptions were noted as a result of our procedures.

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

Other Purchase Restrictions: A \$5 million Federal Home Loan Bank Investment was left off the Treasurer's Pooled Investment Fund Report for the period ending March 31, 2009. The Treasury Staff identified the investment that was missing for inclusion in the amounts used to test diversification and issuer limits.

Schedule VI of the Investment Policy, under the bullet point entitled "Liquidity Provider Restrictions," refers to Schedule VII. No Schedule VII was attached to the Investment Policy.

The purchase dates for the CORAL CANS and US District Courthouse were changed in the current period; however these investments have been held for several years. The CORAL CANS purchase date was changed because of an 18 month extension that was exercised in the current period. The US District Courthouse purchase date was changed to the last maturity date while the maturity date was updated to coincide with the next maturity date, even though final maturity is not until 06/15/2020. We recommend that the Treasurer review the current reporting practice related to these investments to determine what revisions are necessary.

Management's Response: The July 2009 Investment Policy removed the reference to Schedule VII. There is no Schedule VII. The maturity dates on the securities in question have been corrected to the legal final maturity.

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. Determine 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, pursuant to Government Code Sections 53601.

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

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
Palm Desert Financing Authority

G. For each of the aforementioned entities, we performed the following procedures on the quarterly portfolio disclosure report for the fiscal year ended 2009 (June 30, 2009):

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

County Housing Authority

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

Economic Development Agency

Finding: In September 2008, the “BNY Hamilton Trsy Mny Fd Prem # 741” shares were exchanged for “Dreyfus Inst’l Res Treasury # 6541” shares. The report for the quarter ending June 30, 2009 was not updated. The security held was reported as “BNY Hamilton Trsy Mny Fd Prem # 741.”

Management’s Response: Dreyfus took over the management of BNY Hamilton Family of funds with the merger of Bank of New York with Mellon. This Dreyfus take-over was not updated in the submitted FY 08-09 investment report but will be corrected in the next FY 09-10 investment report.

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

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

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.” This comment is unchanged from the prior year.

Management’s Response: The title of the fund has not changed only the parent company that manages the AIM fund. Per the auditor’s recommendation, we will report only the name of the Money Market fund and not the fund manager’s name on future reports.

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.” This comment is unchanged from the prior year.

Management’s Response: The title of the fund has not changed only the parent company that manages the AIM fund. Per the auditor’s recommendation, we will report only the name of the Money Market fund and not the fund manager’s name on future reports.

Palm Desert Financing Authority

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

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: 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.

Palm Desert Financing Authority

Finding: Market value pricing was not disclosed on the report submitted for the period ended June 30, 2009. In agreeing the par value on the submitted report, we noted on the third party investment statements that par value and market value are equal.

Management's Response: The investment report has been revised to include the market value pricing.

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: 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.

Palm Desert Financing Authority

Finding: The report submitted for the quarter ending June 30, 2009 did not disclose the ratings of the investments held.

Management's Response: The investment report has been revised to include the ratings of the investment held.

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.

Palm Desert Financing Authority

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.

Palm Desert Financing Authority

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.

Jeannine Ramirez & Smith

September 25, 2009