



JOHN NAIMO
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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September 9, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo
Auditor-Controller

SUBJECT: REVIEW OF THE COUNTY TREASURER'S STATEMENTS OF NET POSITION FOR THE QUARTER ENDED SEPTEMBER 30, 2015

California Government Code Section 26920 requires quarterly reviews of each county treasurer's Statements of Net Assets (i.e., Statements of Net Position) in the county treasury. We contracted with an independent Certified Public Accounting firm, Macias Gini & O'Connell LLP (MGO), to review the County Treasurer and Tax Collector's (TTC) Statements of Net Position for the quarter ended September 30, 2015. MGO conducted the review in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. MGO also performed several agreed-upon procedures, primarily in the areas of cash and investment reconciliations.

MGO's review report (Attachment I) indicates that MGO is not aware of any material modifications that should be made to the Statements of Net Position in order for them to be in accordance with California Government Code Section 26920.

As part of the review, MGO issued a Report to Management, which includes recommendations designed to strengthen TTC's internal controls and operating efficiency over their review of reports provided by the custodian bank (Attachment II). TTC's management response has been incorporated into the Report to Management. TTC agreed with the finding and recommendations, and indicates the Department has taken action and plans to implement the recommendations.

MGO's agreed-upon procedures report (Attachment III) indicates they performed the following procedures:

1. Obtained TTC's bank reconciliations as of September 30, 2015, verified that the bank accounts were reconciled to TTC's accounting records, and confirmed TTC's cash held by banks. Tested the mathematical accuracy of the reconciliations and traced material reconciling items to supporting documents.
2. Obtained TTC's reconciliations of investments and other safekept securities as of September 30, 2015, verified that the investments recorded in TTC's records were reconciled to, and confirmed with, TTC's custodial bank, safekeeping agent, and other custodians at September 30, 2015. Tested the mathematical accuracy of the reconciliations and traced material reconciling items to supporting documents.
3. Obtained TTC's reconciliations of cash and investments as of July 31, 2015, August 31, 2015, and September 30, 2015, and verified that cash and investments were reconciled between TTC's records and Auditor-Controller's records pursuant to Government Code Section 26905. Tested the mathematical accuracy of the reconciliations and traced material reconciling items to supporting documents.
4. Agreed the amounts reported on the Statements of Net Position at September 30, 2015 to TTC's records.

MGO's agreed-upon procedures report did not identify any exceptions.

If you have any questions please call me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:PH:RS:YK

Attachments

c: Sachi A. Hamai, Chief Executive Officer
Joseph Kelly, Treasurer and Tax Collector
Public Information Office
Audit Committee

**LOS ANGELES COUNTY TREASURER
AND TAX COLLECTOR**

Statements of Net Position and Independent
Accountant's Review Report

September 30, 2015



Certified
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Accountants

LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
September 30, 2015

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San Diego

Independent Accountant's Review Report

The Honorable Board of Supervisors of the
County of Los Angeles, California

We have reviewed the accompanying statements of net position of the Los Angeles County Treasurer and Tax Collector (Treasury), California, as of September 30, 2015 and the related note to the statements of net position. A review includes primarily applying analytical procedures to the Treasury's financial data and making inquiries of the Treasury's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the statements of net position. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the statements of net position in accordance with the California Government Code Section 26920; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the statements of net position that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the California Government Code Section 26920. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying statements of net position in order for them to be in accordance with the California Government Code Section 26920.

Basis of Accounting

As discussed in Note 1 to the statements of net position, the financial statements are prepared on an accrual basis of accounting by the Treasury to comply with the financial reporting provisions of the California Government Code Section 26920, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

Restriction on Use

This report is intended solely for the information and use of the managements of the County of Los Angeles and the Board of Supervisors of the County of Los Angeles and is not intended to be, and should not be, used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
July 28, 2016

LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
Statements of Net Position
September 30, 2015

	<u>External Investment Pool</u>	<u>Specific Purpose Investment</u>	<u>Other Specific Investments</u>
Assets			
Treasurer Cash	\$ 408,385,448	\$ -	\$ -
Investments (Fair Value)	21,640,401,249	148,656,696	302,007
Interest Receivable	37,700,825	285,919	-
Total Assets	<u>22,086,487,522</u>	<u>148,942,615</u>	<u>302,007</u>
Liabilities			
Trades Payable	125,000,000	44,750,000	-
Total Liabilities	<u>125,000,000</u>	<u>44,750,000</u>	<u>-</u>
Total Net Position Held in Trust	<u>\$ 21,961,487,522</u>	<u>\$ 104,192,615</u>	<u>\$ 302,007</u>

See accompanying note and independent accountant's review report.

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LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
Note to the Statements of Net Position
September 30, 2015

Note 1 – Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County Treasurer and Tax Collector (Treasury) is responsible for billing, tax collection, banking, investment and accountability of public funds. The Treasury maintains three investment portfolios, the External Investment Pool portfolio (the Pool), the Specific Purpose Investment portfolio (SPI) and Other Specific Investments portfolio (OSI) with approximately \$21.96 billion, \$104.19 million and \$302 thousand, respectively, in total net position as of September 30, 2015. The Pool is managed by the Treasury on behalf of the Pool participants that include the County of Los Angeles (County) and other entities that are required by State statutes to participate in the Pool, such as, local school districts, community colleges and the Superior Courts. Voluntary participants in the Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District, and certain other municipal agencies. The deposits held for these entities are invested in the Pool and SPI portfolios. The assets in OSI are held by the Treasury for a County Department pursuant to Section 1300.76.1, Title 28, California Code of Regulations (State Code). The State of California allows the County Board of Supervisors (Board) the ability to delegate the investment authority to the Treasury in accordance with Section 53607 of the California Government Code (Government Code). On an annual basis, the Board delegates the investment authority to the Treasury. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Financial Statement Presentation

The accompanying statements of net position are prepared on an accrual basis of accounting by the Treasury to comply with the financial reporting provisions of the Government Code Section 26920, and is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America. Investment transactions are recorded on the trade date. Deposits and investments held by the Treasury are exposed to risks such as credit risk, concentration of credit risk, custodial credit risk, and interest rate risk. Treasury management has elected to omit risk disclosures required by Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3* and the fair value disclosure required by GASB Statement No. 72, *Fair Value Measurement and Application*, since such disclosures are not required by the California Government Code Section 26920.

Cash and Deposits

As of September 30, 2015, the Treasury maintained accounts in six banks. The carrying amount of the Treasury's total deposits in financial institutions was \$408.12 million plus \$0.27 million in cash in the Treasury's vault.

Under California Government Code Section 53652, each financial institution in California is required to pledge a pool of securities as collateral against all of its public deposits. Government Code Section 53651 and 53652 delineates the types of eligible securities and the required collateral percentage of at least 110%, respectively. In addition, under Government Code Section 53653, the Treasury has discretion to waive security for the portion of any deposits as insured pursuant to federal law. Through contractual agreement, the Treasury has opted to waive security for the portion of deposits, which is federally insured.

LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
Note to the Statements of Net Position (Continued)
September 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

The total balance of deposits in financial institutions was covered by federal depository insurance or collateralized with securities monitored by the Local Agency Security Program (LASP) of the California Department of Business Oversight. LASP confirmed that the pools of collateral related to the County Treasury's deposits were maintained at required levels as of September 30, 2015.

Treasury's Investment Strategy

The Treasury's investment strategy for the Pool is to ensure the safety of principal, to provide sufficient cash to meet disbursement needs and to achieve a return. The cash flow needs of the Pool participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The Treasury's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

The SPI portfolio is used to account for the net position of individual investment accounts, in aggregate. The related investment activity occurs separately from the Pool and is provided as a service to Pool participants and external investors. The individual investment strategies are based on the requests from the participants.

The OSI portfolio is used to account for the assets placed with the Treasury pursuant to State Code. The investment activity occurs separately from the Treasury's Pool and the related investment strategies are governed by State Code.

The investments in the accompanying statements of net position are reported at fair value. The table below summarizes the investments stated at fair value and cost for the Pool:

<u>Pool</u>	<u>Fair Value</u>	<u>Cost</u>
Commercial Paper	\$ 5,457,745,712	\$ 5,457,777,040
Corporate and Deposit Notes	149,938,725	149,973,938
Los Angeles County Securities	47,000,000	47,000,000
Negotiable Certificates of Deposit	2,777,973,472	2,777,908,940
U.S. Agency Securities	12,107,650,440	12,095,774,721
U.S. Treasury Securities:		
U.S. Treasury Notes	100,209,000	99,889,028
U.S. Treasury Bills	999,883,900	999,324,840
	<u> </u>	<u> </u>
Total Pool Investments	<u>\$ 21,640,401,249</u>	<u>\$ 21,627,648,507</u>

LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
Note to the Statements of Net Position (Continued)
September 30, 2015

Note 1 – Summary of Significant Accounting Policies (Continued)

The tables below summarize the investments stated at fair value and cost for the SPI and OSI portfolio:

<u>SPI</u>	<u>Fair Value</u>	<u>Cost</u>
Local Agency Investment Fund	\$ 42,356,910	\$ 42,331,737
Los Angeles County Securities	4,655,000	4,655,000
U.S. Agency Securities	101,556,119	101,656,523
U.S. Treasury Securities:		
U.S. Treasury Bonds	88,667	85,134
Total SPI Investments	\$ 148,656,696	\$ 148,728,394
<u>OSI</u>	<u>Fair Value</u>	<u>Cost</u>
U.S. Treasury Bills	\$ 302,007	\$ 302,000
Total OSI Investments	\$ 302,007	\$ 302,000

**LOS ANGELES COUNTY TREASURER
AND TAX COLLECTOR**

Report to Management

September 30, 2015



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LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
Report to Management
September 30, 2015

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Sacramento
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To the Management of the
Los Angeles County Treasurer and Tax Collector

We have reviewed the statements of net position of the Los Angeles County Treasurer and Tax Collector (Treasury) as of September 30, 2015 and the related note to the statements of net position.

During our review, we became aware of a matter for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comment and recommendation.

We would like to thank Treasury's management and staff for the courtesy and cooperation extended to us during the course of our engagement.

This information is intended solely for the use of the management of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
July 28, 2016

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LOS ANGELES COUNTY TREASURER AND TAX COLLECTOR
Report to Management
Comment and Recommendation
September 30, 2015

Observation #1 – Discrepancy noted in fair value reported by the Treasury

Condition

As part of the September 2015 quarterly review, we reviewed the fair value of the investments as reported by the Treasury. We compared the monthly pricing sheet for investments held by Citibank (Citi), which is prepared by Interactive Data, the third-party pricing vendor that Citi contracts with, to the audit confirmation received directly from Citi as of September 30, 2015 and noted that one federal home loan bank security had a variance of \$8.5 million in the fair value reported between the two sources. Upon further inquiry, it was then discovered that the pricing information provided by Interactive Data was incorrect, resulting in an incorrect fair value reported by the Treasury.

Recommendation

We recommend the Treasury implement the following procedures to review the reasonableness of monthly pricing worksheets provided by the custodian bank:

1. Request a Service Organization Control Type 1 (SOC 1) report for pricing vendors used by the County's custodian bank and review the report to ensure that reliance can be placed on the vendor's systems.
2. Make inquiries to the custodian bank to understand their monitoring procedures of pricing information provided by third-party pricing vendors.
3. Identify pricing sources independent from the custodian bank and periodically compare fair value of investments to determine reasonableness of valuations.

Management Response

We agree with the recommendations, and note that the \$8.5 million variance was less than 0.04% of the total investments. We reviewed the Service Organization Control Type 1 (SOC 1) report for the pricing vendor and noted no control deficiencies for the current year. We will continue to review the pricing vendor's SOC 1 report annually, to ensure the pricing vendor maintains adequate controls over the pricing process. We also made inquiries of the custodial bank regarding their monitoring procedures, and at our request, Citibank agreed to provide additional oversight of the pricing process to detect errors should they occur. In addition, we will perform periodic market pricing comparisons on a sample basis to ensure the prices we receive are reasonable.

**LOS ANGELES COUNTY TRASURER
AND TAX COLLECTOR**

Independent Accountant's Report on Applying Agreed
Upon Procedures

September 30, 2015



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Sacramento
Walnut Creek
San Francisco
Oakland
Los Angeles
Century City
Encino
Newport Beach
San Diego

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

The Honorable Board of Supervisors of the
County of Los Angeles, California

We have performed the procedures enumerated below, which were agreed to by the Los Angeles County Auditor-Controller (Auditor-Controller) and the Los Angeles County Treasurer and Tax Collector (Treasury), solely to assist you with the requirements of California Government Code Section 26920 for review of the statements of net position of the Treasury as of September 30, 2015 (Statements). The Treasury's management is responsible for the Statements. 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 those parties specified in the report. 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.

The procedures and our findings are as follows:

1. Obtained Treasury's bank reconciliations at September 30, 2015, verified that the bank accounts were reconciled to the Treasury's accounting records, and confirmed Treasury's cash held by banks. Tested the mathematical accuracy of the reconciliations and traced reconciling items of \$500,000 and greater to supporting documents, including bank statements subsequent to September 30, 2015.

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

2. Obtained Treasury's reconciliations of investments and other safe kept securities at September 30, 2015, verified that the investments recorded in Treasury's records were reconciled to, and confirmed with, Treasury's custodial bank, safekeeping agent, and other custodians at September 30, 2015. Tested the mathematical accuracy of the reconciliations and traced reconciling items of \$500,000 and greater to supporting documents.

Results: No exceptions were noted as a result of our procedures. Supporting documentation was defined as follows:

- For the External Investment Pool and Other Specific Investment portfolios, we reconciled Treasury's records to Treasury's custodial bank statements as of September 30, 2015.
- For the Specific Purpose Investment portfolio, we reconciled the Treasury's records to the Treasury's custodial bank as of September 30, 2015 for the investments safe kept by the custodial bank. Investments that are not safe kept by the custodial bank were traced and agreed to supporting documents including LAIF statements as of September 30, 2015, LAC-CAL Bond Anticipation Notes Board Resolution and Rancho Palos Verdes Redevelopment Agency Project Area No. 1 Tax Allocation Bond issuance document of 1997.

3. Obtained Treasury's reconciliations of cash and investments at July 31, 2015, August 31, 2015, September 30, 2015 and verified that cash and investments were reconciled between Treasury's records and the Auditor-Controller's records pursuant to Government Code Section 26905. Tested the mathematical accuracy of the reconciliations and traced reconciling items of \$500,000 or greater to supporting documents, including deposit permits and journal vouchers generated from the County's general ledger system, concentration banks' daily activity reports, and daily cash reports generated by the Cashier's Office.

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

4. Agreed the amounts reported on the Statements of Net Position at September 30, 2015 to Treasury's records.

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

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on the statements of net position. 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 members of the Board of Supervisors, Treasury and Auditor-Controller management and is not intended to be and should not be used by anyone other than those specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
July 28, 2016