



Internal Audit

Treasurer's Office - Investments

September 2011

Bernalillo County Internal Audit Treasurer's Office - Investments

Executive Summary

SUMMARY OF PROCEDURES

REDW performed an internal audit of Bernalillo County investments procedures and processes. Our internal audit focused on determining if reasonable internal controls were in place and being followed to initiate, track, record and safeguard the County's investments.

We performed a variety of procedures, including:

- Obtaining an understanding of investment transactions and how they were initiated, executed and recorded.
- Evaluating the efficiency and effectiveness of policies and procedures used to comply with applicable laws and regulations and investment reporting requirements.
- Determining whether investments owned by the County were in compliance with the County's investment policy and applicable State requirements.
- Determining whether investment transactions were executed in accordance with applicable policies and procedures.
- Determined if the Investment Committee meeting reviewed the Investment Policy annually by reading through the FY 2011 minutes.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

We found areas during the course of the audit where controls were functioning properly and established procedures were followed. All monies in the investment portfolio were permissible investments and were properly reported to the Board of Finance. Responsibility for initiating, evaluating, and approving investment transactions was separated from the accounting functions.

Significant medium or high risk observations are presented below:

Investment Documents Storage—Most original records for investment transactions were not maintained at the Treasurer's office or other identified County location. We also found multiple copies of investment documents maintained in the Treasurer's Office and off-site; some did not appear to be well organized. Administrative Instruction Number 34 Public Records Access and 34.A Records Retention Schedule do not define appropriate storage locations for County records; however, best practices indicate records should be stored in standard County file retention

locations. The County should consider updating AI 34 and 34.A to better define appropriate record organization and storage.

Bid Documentation—Ten of forty-one investment bid sheets tested did not adequately document factors considered by management in determining the most favorable investment decision. In situations where professional judgment is used and the investment chosen is not clearly the most favorable option, brief documentation should be included to explain the rationale for purchasing the selected investment.

Multiple Bid Purchases—The Investment Policy states that when securities are purchased or sold, the County will obtain a minimum of two bids. Fifteen of forty-one investments tested had multiple investments purchased from one bid sheet. The County should consider modifying the Investment Policy to allow for more than one investment to be purchased from one bid sheet without violating the two bid requirement. Comments should also be added documenting the reason for multiple purchases from one bid sheet.

Other lower risk observations are included in the attached detailed report.

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Further detail of our purpose, objectives, scope, procedures, observations, and recommendations is included in the internal audit report. In that report, management describes the corrective action being taken for each observation.

REDW LLC

January 6, 2012

Bernalillo County Internal Audit Treasurer's Office - Investments

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Bernalillo County Internal Audit Treasurer's Office - Investments Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating and testing controls in place to initiate, track, record and safeguard County investments. Our services were conducted in accordance with the Consulting Standards issued by the American Institute of Certified Public Accountants, Generally Accepted Government Auditing Standards, and the terms of our contract agreement for internal audit services. Since our procedures were applied to samples of transactions and processes, it is possible that significant issues related to the areas tested may not have been identified. An entrance conference was held on September 19, 2011 at which time most items needed for the audit were requested. The last audit requests were received on November 15, 2011. An exit conference was held on January 5, 2012, and final management responses were received on January 6, 2012.

Although we have included management's responses in our report, we do not take responsibility for the sufficiency of these responses or the effective implementation of any corrective action.

PURPOSE AND OBJECTIVES

Our internal audit objective was to determine if investments were properly initiated, recorded, tracked and were in compliance with the County's investment policy and State statutes.

SCOPE AND PROCEDURES PERFORMED

In order to gain an understanding of the processes and operations for investments we interviewed the following personnel:

- Patrick Padilla, Treasurer
- Fidel Bernal, Chief Deputy Treasurer
- Emily E. Madrid, Accounting Manager of Treasury

In addition to our interviews we read the following:

- New Mexico State Statute (NMSA 1978) 6-8-10, and certain sections of 6-10
- Bernalillo County Investment Policy, dated August 25, 2009

We performed the following testwork over investments:

- We obtained the investment portfolio as of June 30, 2011 and a listing of called/sold investments that occurred in fiscal year 2011 and selected a sample of 41 investments (based on 95% CL and 5% TD) to determine if:
 - The investment was permissible in accordance with NMSA 1978 6-10-10 and 6-10-10.1;
 - The investment purchase information was provided to the Board of Finance in accordance with the Investment Policy;
 - Two bids, at a minimum, were obtained from an approved Broker, Dealer, and/or Bank in accordance with County policy;
 - Documentation was present supporting that the bid selected for purchase was the most favorable of the bids listed; and,
 - The investment trade was signed by the Treasurer and co-signed by a Deputy Treasurer or Investment Officer.

In addition, we tested whether the securities were held with the Custodian and the custodial agreement was on file.

- We gained an understanding of how investment transactions were initiated and recorded to determine if the responsibilities for initiating, evaluating, and approving transactions were separate from the accounting and general ledger functions. Additionally, we assessed if custodial responsibility for securities was restricted to authorized personnel and the defined roles and responsibilities were being carried out by the designated positions.
- We analyzed the three most recent quarterly Investment Reports submitted to the Board of Finance to determine if items such as: economic outlook, portfolio diversification, maturity structure, potential risks, the target rate of return and portfolio liquidity were present. We tied the total portfolio amount presented in the most recent report to the custodian receipt and the accounting system to verify the information being presented.
- We compared the portfolio rate of return against the State Investment Pool (LGIP) to determine if the rate of return was in excess of benchmark as required by County policy.
- We obtained the Investment Committee meeting minutes from July 2010 through June 2011 to determine if the Committee reviewed the Investment Policy annually. We also read through the minutes to evaluate the documentation of the discussions by those charged with oversight.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

We identified the following weaknesses relating to the Treasurer's investment processes and internal controls.

1) *Investment Documents Storage*

Most original records for investment transactions were not maintained at the Treasurer's office or other identified County locations. We also found multiple copies of investment documents

maintained in the Treasurer's Office and off-site; some did not appear to be well organized. Administrative Instruction Number 34 Public Records Access and 34.A Records Retention Schedule do not define appropriate storage locations for County records; however, best practices indicate records should be stored in standard County file retention locations.

Recommendation

Original records should be maintained in the Treasurer's Office. If additional copies must be maintained, consider keeping an electronic copy on a secure drive on the County's network. This will ensure there are not duplicated efforts or confusion as to which documents are the most up to date. The County should also consider updating AI 34 and 34.A to better define appropriate record organization and storage.

Management Response

The Treasurer agrees with the original investment transactions being maintained at the Treasurer's office. As of December 14, 2011, all original investment transaction documentation is maintained at the Treasurer's office. It was recommended and approved by the Investment Committee to add this to the Investment Policy, which will be presented to the Board of Finance during the February 20, 2012 meeting. To further improve our organization and document maintenance, we are working on creating a secured network drive for the electronic storage of all investment documents.

2) Bid Documentation

During our testing of forty-one investments we identified seven instances where the bid sheets did not include yields to maturity or other documentation that the most favorable investment decision was made. We also found three instances where the bid sheets did not include documentation of the investment decision when the selection was complicated by different maturities or other factors.

Recommendation

In situations where professional judgment is used and the investment chosen is not clearly the most favorable option, based on maturity, yield or other quantitative factors, brief documentation should be included to explain the rationale for the investment decision made.

Management Response

The Treasurer agrees with the recommendations regarding the bid documentation for investment decisions. When investment decisions are made they are based on various factors and judgment calls, not to mention these decisions are made within minutes of receiving the requested bids due to the fast pace of the market. Therefore, a new process to write a brief description on the original bid sheet detailing the reason for the investment decision was implemented. This process was put in place on December 1, 2011.

3) Multiple Bid Purchases

The Investment Policy states that when securities are purchased or sold, the County will obtain a minimum of two bids. The bid sheets utilized by the County contain a header describing the type, amount and maturity of the investment sought and enough spaces for a total of three bids. During

our testing we found fifteen of forty-one instances where multiple investments were purchased from one bid sheet.

Recommendation

The County should consider modifying the Investment Policy to allow for more than one investment to be purchased from more than one bid sheet without violating the two bid requirement. Comments should document the reason for multiple purchases from one bid sheet when investment decisions cannot be made in strict compliance with the two-bid requirement.

Management Response

The investment policy states, “When securities are being purchased or sold, the Treasurer will obtain a minimum of two bids.” The policy does not automatically exclude one bid from being purchased when both bids are beneficial for the County. However, the Treasurer presented to the Investment Committee the following change to clarify the Investment Policy and it was unanimously approved by the committee:

“When securities are being purchased or sold, the Treasurer will obtain a minimum of two bids, however when both bids for purchases are determined to be good choices for the county, then both bids can be accepted. Customer Deposits are excluded from the bidding process. Bid evaluation can be based on price, yield, liquidity, call date, service, and/or any combination of the five mentioned, which would best benefit the needs of the County. Purchases can be made at the Treasurer’s discretion and documented after the purchase is completed.”

The above change will be included with the Investment Policy to be presented to the Board of Finance for their approval during the February 20, 2012 meeting.

4) *Standardization of Investment Policy Review*

There is no designated timeframe for reviewing the Investment Policy. The Investment Policy requires that the Board of Finance conduct an annual review of the language in the policy. The most recent review of the policy took place at the July 29, 2010 Investment Committee meeting. As of September 30, 2011, the policy had not been again reviewed by the Investment committee or the Board of Finance. Also, during the 2010 review the Investment Committee minutes indicate that because there were no changes to the language of the policy a review by the Board of Finance was unnecessary.

Recommendation

To ensure the annual review requirement is met, the Investment Policy should be reviewed and updated at the beginning of each fiscal year, or at some other regular, planned time. Additionally, the Board of Finance should have the opportunity to review the Investment Policy annually even if there are no language changes made from the prior year.

Management Response

The Treasurer agrees with the standardized timeframe for reviewing the Investment Policy. It would be best if the annual review of the investment policy takes place at the end of the 4th quarter of the fiscal year. This should give a newly elected treasurer enough time to appoint

investment committee members and review the current polices. A new or revised investment policy would then be in place and correspond with the upcoming fiscal year.

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This report is intended for the information and use of Bernalillo County management, the audit committee, members of the board of commissioners of Bernalillo County and others within the organization. However, this report is a matter of public record, and once accepted its distribution is not limited.

REDW LLC

January 6, 2012