



Treasurer's Office

Internal Audit

February 2019

Bernalillo County Internal Audit Treasurer's Office

Executive Summary

SUMMARY OF PROCEDURES

REDW performed internal audit procedures over selected processes in place at the Treasurer's Office. Our internal audit focused on evaluating selected aspects of the Bernalillo County Investment Policy (IP) to determine compliance.

We performed the following procedures:

- Reviewed the amended Investment Policy (IP) to identify and test significant changes, as well as ensure it was properly approved.
- Selected a sample of monthly, quarterly and the annual investment reports and tested to determine if the reports included information required by the IP.
- Selected a sample of investment transactions (purchases/sales) to determine if the transactions were performed in compliance with the IP.
- Selected a sample of monthly custodial reports and tested to determine if they included required information.
- Determined if collateral requirements were met for deposits held at banking institutions.
- Determined if the County's investments aligned with the authorized investment types identified in the IP.
- Determined if the portfolio diversification and maturity limits were in accordance with IP diversification limits.
- Determined if repurchase agreements were completed in accordance with IP requirements.
- Determine if a listing of all authorized broker-dealers, financial institutions, and investment counterparties was maintained on the County's transparency website.
- Determined if standards of conduct were being followed related to the Gift Act and disclosure of potential conflicts of interest.

SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

REDW observed areas during the course of the audit where controls were functioning properly and established procedures were followed. Our testing identified that the monthly, quarterly and annual reports contained the required information according to the IP, records were appropriately kept, collateral requirements met and information was appropriately posted on the County's transparency portal.

As a result of our testing, REDW did not identify any reportable observations.

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Further detail of our purpose, objectives, scope, and procedures are included in the internal audit report.

We received excellent cooperation and assistance from the Treasurer's Office during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
February 20, 2019

Bernalillo County Internal Audit Treasurer's Office

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Bernalillo County Internal Audit Treasurer's Office Report

INTRODUCTION

We performed the internal audit services described below solely to assist Bernalillo County in evaluating compliance with the Investment Policy (IP) and applicable Policies and Procedures (P/Ps). 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 February 8, 2019, and fieldwork began the week of February 11, 2019. An exit conference was held on February 20, 2019.

PURPOSE AND OBJECTIVES

The IP requires that the County's internal auditor review the investment activities of the County Treasurer's Office annually to determine the compliance of those activities with the IP and State Statute. The internal audit focused on evaluating various requirements in the IP, including reporting, transparency, diversification, investment eligibility and conflicts of interest. Additionally, we tested a selection of investment purchases and sales for the period beginning January 1, 2018 through December 31, 2018, as the previous audit covered the period up to December 31, 2017.

SCOPE AND PROCEDURES PERFORMED

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

- Kenneth Scott, Deputy Treasurer
- Ryan Travelstead, Principal Accountant
- Dennis Chavez, Compliance Officer

In order to gain an understanding of the processes, we read:

- Bernalillo County Amended Investment Policy (Amended August 14, 2018)
- Bernalillo County Investment Procedures (Amended September 26, 2017)
- Relevant parts of the Bernalillo County Code of Ordinances, Chapter 2, Article 3, Division 4 for code of conduct.
- Relevant parts of the New Mexico Statutes Annotated 1978, Chapter 6, Article 10, Part 17 for amounts of security to be deposited.

We performed the following testwork:

Investment Policy Changes: Obtained and read the amended Investment Policy and change tracker to identify and test any significant changes. Additionally, we tested that the IP was properly approved by the County Commission.

Monthly Reporting: Obtained the February, May and October 2018 monthly reports for operating funds and bond proceeds investment portfolios and evaluated them to ensure all applicable required information was included. For each monthly report, we tested to determine the report was posted to the County's intranet site and if the report contained:

- An executive summary providing an analysis of the status of the current Investment Portfolio and the individual transactions that were executed;
- An asset listing showing par value, cost, market value, type of investment, issuer, and interest rate of securities held;
- The weighted average maturity (WAM) and effective duration of the Investment Portfolio compared to applicable approved benchmarks;
- The average portfolio credit quality;
- The total rate of return for the Investment Portfolio for one month, three months, and twelve months with applicable approved benchmark returns for the same periods;
- Cash flow projections prepared for the portfolio;
- A sensitivity or shock analysis;
- A transaction listing for the reporting period;
- A report of primary issues purchased and report of secondary issues purchased or sold;
- Summaries for the reporting period and fiscal year to date that include trade volumes, distributions by type of investment and counterparty;
- Compliance information required for any violations of the IP, as applicable; and,
- A report on current collateral, according to criteria outlined in the IP.

Quarterly Reporting: Obtained the investment reports for quarters ending March 31, 2018 and June 30, 2018, and tested to determine:

- Report included a description of the investment strategy employed during the past quarter and the strategy planned for the next quarter.

- The quarterly investment strategy was adopted by the County Treasurer and County Manager;
- Report was presented at the quarterly County Board of Finance meetings.

Annual Reporting: Evaluated the annual investment report for fiscal year 2018 to determine if the report was completed and appropriately included the following IP requirements:

- Report described investment strategy employed in the past fiscal year;
- Report described the strategy planned for the next fiscal year;
- Report included annual comparisons of the portfolio return to performance benchmarks for the next fiscal year; and,
- Report was presented to the Board of Finance.

Additionally, we tested if the County Board of Finance adopted an Annual Risk Tolerance Analysis.

Investment Security Purchases: Selected 17 investment purchases from a total of 85 (20% of population) for the period beginning January 1, 2018 through December 31, 2018, and tested to determine if the following IP requirements were met:

- The investment purchase was approved by the County Manager and County Treasurer;
- The investment type was allowable;
- An effort to obtain at least three bids or documentation of comparable securities was retained;
- The investment selected was the best attainable price of the three bids; and,
- Support for all transactions were maintained within the investment file and investment confirmations were completed and retained.

Investment Sale (Swaps): Selected 3 sales from a total of 13 (20% of population) for the period beginning January 1, 2018 through December 31, 2018, and tested to determine:

- County was notified of the sale (swap);
- Reason for sale (swap) was obtained;
- Transaction was approved by the Treasurer and County Manager;
- Sale price was the most advantageous to the County; and,
- Swap was for investment allowable according to IP.

Custody Controls: Selected a sample of custodial reports for the months of February, May and October 2018, and tested to determine:

- Custodian provided monthly report;
- Report included month-end book and market value;

Bank Deposits: Obtained listing of all deposits, bank CDs and negotiated deposits held by the County as of December 31, 2018. Obtained the Monthly Collateral Report for the month ending December\ 31, 2018, and tested to ensure:

- Amounts according to the deposit listing agreed to amounts on the monthly collateral report.
- Collateral requirements were met in accordance with section 6-10-17 NMSA 1978.

Additionally, we obtained the 2018 audited Comprehensive Annual Financial Report to confirm no findings were identified in relation to collateral requirements.

Investment Eligibility: Obtained a listing of all investments by name of institution, amount invested and type of investments as of December 31, 2018. We scanned the listing and determined all investments fell within the allowable investment types according to the IP.

Diversification and Maturity: Using the investment listing as of December 31, 2018, we tested to ensure:

- Investments were within diversification limits of the IP according to portfolio.
- Maturities of the investments were within the limits of the IP.

Additionally, for the operating fund portfolio, tested to ensure:

- An amount equal to at least 15% of the annual General and Nongeneral Funds expenditure budget of the County, less the book value of the Bond Proceed fund as of June 30, shall have a maturity limit of thirty (30) days or less.
- The remainder of the liquidity component had a minimum of \$60 million maturing within 12 months.

Repurchase Agreements: Obtained agreements for the two repurchase agreements held by the County and tested to ensure:

- Agreements are with approved dealer/custodial bank;
- Counterparty has a rating of “A” or better;
- Term did not exceed 1 year; and,
- Collateral of at least 102% was pledged.

Transparency: Observed the County’s transparency portal to determine if the listing of authorized financial institutions and investment counterparties authorized to provide investment services to the County was posted, as required by the IP. From the listing of all investments and bank deposits held at year-end, we tested to ensure all institutions were authorized according to the listing.

Conflicts of Interest: Requested all gift disclosure forms submitted during 2018 by the Board of Finance and Treasurer in order to determine if the gift reporting was performed in accordance with the Gift Act. Requested all statements of economic interest submitted by any person involved in the investment process to determine disclosures were made to the County Clerk and tested to determine if all appropriate statements were on file.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

REDW observed areas during the course of the audit where controls were functioning properly and established procedures were followed. Our testing identified that the monthly, quarterly and annual reports contained the required information according to the IP, records were appropriately kept, collateral requirements met and information was being appropriately posted on the County's transparency portal.

As a result of our testing, REDW did not identify any reportable observations.

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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.

We discussed and resolved minor observations with management and received cooperation and assistance from the Treasurer's Office during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico
February 20, 2019