



Treasurer's Office

Internal Audit

January 2018

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:

- Selected a sample of monthly, quarterly, and the annual investment reports and tested to determine if the reports included information required by the IP.
- Observed the transparency portal to determine if a listing of authorized financial institutions was available.
- Selected a sample of monthly custodial reports and tested to determine they included required information required by the IP.
- Selected a sample of investment purchases/sales and tested to determine if the transactions were performed in accordance with the IP.
- Determined if the County's investments aligned with the authorized investment types identified in the IP.
- Determined if the portfolio diversification was in accordance with IP diversification limits.
- 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 Investment Policy, records were appropriately kept, conflict of interest requirements appeared to be properly reported 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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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

March 2, 2018

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 January 23, 2018, and fieldwork began the week of January 29, 2018. An exit conference was held on March 2, 2018.

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 from February 1, 2017 through December 31, 2017 as the previous audit covered up to the period of January 31, 2017.

SCOPE AND PROCEDURES PERFORMED

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

- Nancy Bearce, Treasurer
- Kenneth Scott, Deputy Treasurer
- Dennis Chavez, Compliance Officer
- Chris Sanchez, Accounting Manager

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

- Bernalillo County Amended Investment Policy (Amended August 8, 2017)
- Bernalillo County Investment Procedures (Amended September 26, 2017)
- Applicable portions of the Bernalillo County Code of Conduct
- The Governmental Conduct Act
- The Gift Act, NMSA 1978
- Applicable portions of the State of New Mexico Procurement Code

We performed the following testwork:

Monthly Reporting: Obtained the July and August 2017 monthly operating funds and bond proceeds reports and evaluated them to ensure all applicable required information was included. For each monthly report, we tested to determine 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 the 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.

Quarterly Reporting: Obtained the third quarter 2017 and second quarter 2018 investment reports and tested to determine if the reports included the current investment strategy and a forecasted strategy as required by the IP. Additionally, we tested to determine if:

- Quarterly investment strategy was adopted by the County Treasurer and County Manager.
- Quarterly investment report describes the investment strategy employed during the past quarter and the strategy planned for the next quarter.

Annual Reporting: Evaluated the annual investment report for fiscal year 2017 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.

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

Transparency: Observed the County's transparency portal to determine if the list of approved financial institutions was posted to the portal, as required by the IP.

Custody Controls: Selected a sample of custodial reports for the months of July and August 2017, and tested to determine if the:

- Monthly report was provided by custodian.
- Report included month-end book and market value.

We also tested selection of financial institutions to determine if they were included on the list of approved financial institutions on the County's transparency portal.

Investment Security Purchases: Selected 7 investment purchases from a total of 33 for the period from February 1, 2017 through December 31, 2017, and tested to determine if the following IP requirements were met:

- Three bids were obtained for each investment purchase.
- The investment purchase was approved by the County Manager and County Treasurer.
- Support for all transactions was maintained by the Treasurer's Office.
- Investment file and investment confirmations were completed and retained.
- The investment selected was the best attainable price of the three bids.

Investment Sale (Swaps): Selected the only sale for the period from February 1, 2017 through December 31, 2017, and tested to determine if:

- Treasurer's Office was notified of sale (swap).
- Swap was for investment allowable according to IP.

Investment Eligibility: Obtained a listing of all investments by name of institution, amount invested and type of investments as of December 2017. We scanned the listing and determined all investments fell within the four allowable investment types according to the IP.

Diversification: Obtained the July and August monthly investment reports and tested to determine if the diversification limits of each portfolio were followed in accordance with the limits specified in the IP.

Conflicts of Interest: Requested all gift disclosure forms submitted during the third and fourth quarter of fiscal year 2017 by the Board of Finance and Treasurer in order to determine if the gift reporting was performed in accordance with the Gift Act.

Additionally, we requested all statements of economic interest submitted by any person involved in the investment process to determine disclosure was 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, conflict of interest requirements were properly reported 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
March 2, 2018