



Treasurer's Office

Internal Audit

March 2017

# **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 the Bernalillo County Investment Policy and comparing to best practice guidance. We also tested a selection of requirements from the Investment Policy to determine compliance.

We performed the following procedures:

- Compared the County's Investment Policy to the Certified Financial Analyst (CFA) Institute guidance to determine if the policy appeared to incorporate best practice elements.
- Selected a sample of fiscal year 2017 monthly and quarterly reports and the 2016 annual investment report, to determine if each report contained required information in accordance with the Investment Policy, and agreed back to supporting documentation.
- Tested a sample of months to determine if the custodian provided the reports timely and that the Treasurer's Office reconciled and retained these reports in accordance with the Investment Policy. Additionally, we tested the monthly transactions and agreed the transactions back to the monthly investment summary prepared by the Treasurer's Office.
- Observed the County's Intranet site and Transparency portal to determine if required reports were posted in accordance with the Investment Policy.
- Evaluated the written policies and procedures (P/Ps) and interviewed staff responsible for performing the internal controls required in the Investment Policy, to determine if controls were in place and operating effectively.
- Tested a sample of investment security purchases to determine if the transactions were processed in compliance with the Investment Policy.

## **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 and quarterly reports contain all of the required information and the monthly investment summaries prepared by the Treasurer's Office were compared to the custodial reports and information tied out appropriately. Additionally, the Treasurer's Office was following the purchase and sales of securities process as required by the Investment Policy.

There were no high or moderate risk observations to report.

\* \* \* \* \*

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

REDW LLC

Albuquerque, New Mexico  
April 26, 2017

# **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 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.

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.

An entrance conference was held on February 24, 2017, and fieldwork began the week of February 27, 2017. An exit conference was held on April 5, 2017.

## **PURPOSE AND OBJECTIVES**

The Investment Policy 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 Investment Policy and state statute. The internal audit focused on evaluating various requirements in the Investment Policy, including reporting requirements and required internal controls. Additionally, we tested investment purchases, as there were no sales for the period tested.

## **SCOPE AND PROCEDURES PERFORMED**

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

- Nancy Bearce, Bernalillo County Treasurer
- Irene Sena, Deputy Treasurer
- Chris Sanchez, Accounting Manager
- Crystal Trujillo, Senior Accountant

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

- Bernalillo County Investment Policy (August 2016 Revision)
- Bernalillo County Investment Procedures (Amended November 15, 2016)
- 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
- Elements of an Investment Statement for Institutional Investors created by the CFA Institute

**We performed the following testwork:**

***Investment Policy Best Practices:*** Obtained the Investment Policy, revised August 2016 and compared it to the Elements of an Investment Statement for Institutional Investors created by the CFA Institute, to determine if the policy appeared to incorporate best practice elements. Although the County follows GFOA's guidance, REDW utilized the CFA's guidance as it is more comprehensive than GFOA and provides a reasonable guideline to identify if there were any significant gaps in the policy.

***Monthly Reporting:*** Selected the July 2016, December 2016, and January 2017 monthly operating and bond proceeds reports and agreed them to supporting documentation to ensure all applicable requirements were included and supported. For each monthly report, we tested the following requirements were included:

- An executive summary provided an analysis of the status of the Investment Portfolio and included the individual transactions that were executed.
- An asset listing was included showing par value, cost and market value, type of investment, issuer, and interest rate of securities held.
- The weighted average maturity 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.
- Transaction listing for the reporting period.
- A report of primary issues purchased and a report of secondary issues purchased or sold.
- Transaction summaries for the reporting period and fiscal year to date that include trade volumes, distributions by type of investment, and counterparty.
- An investment compliance review to include any violations of the investment policy.

**Quarterly Reporting:** Evaluated the 2017 first and second quarter investment reports and tested that the reports included the current investment strategy and a forecasted strategy plan as required by the Investment Policy. Additionally, we tied the reports to external statements to ensure they were accurate.

**Annual Reporting:** Tested the annual investment report for fiscal year 2016 to determine if the report was completed and appropriately included the following requirements according to the Investment Policy:

- Investment strategy employed in the past fiscal year,
- Strategy planned for the next fiscal year, and
- Annual comparisons of portfolio return to performance benchmarks for the next fiscal year.

**Custodial Reports:** Selected the January, July, and October 2016 custodial reports and tested to determine if the custodian, Wells Fargo, provided monthly reports to the Treasurer's Office and that they were reconciled and retained in accordance with the Investment Policy. Additionally, we tested these reports to determine that the cash, money market fund, fixed income securities cost, and fixed income securities market value agreed to Bernalillo County's internally prepared monthly investment summary reports.

**Reporting Transparency:** We observed the County's intranet site to determine if the reporting requirements according to the Investment Policy were being met. We also observed the selected monthly reports tested above, to determine if the reports were posted timely. Finally, we observed the County's transparency portal to determine if the list of financial institutions and counterparties was posted to the portal as required by the Investment Policy.

**Internal Controls:** Interviewed staff and performed internal control walkthroughs over the internal controls included in the Investment Policy to determine if the controls existed and appeared to be operating effectively.

**Investment Security Purchases:** We tested eight investment purchases for the period January 1, 2016 through January 31, 2017, to determine if the following Investment Policy 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,
- The transfer of funds for purchase was approved by the Treasurer and the Deputy Treasurer and accompanied by the trade ticket, and
- The investment selected was the best attainable price of the three bids.

## **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 and quarterly reports contain all of the required information and the monthly investment summaries prepared by the Treasurer's Office were compared to the custodial reports and information tied out appropriately. Additionally, the Treasurer's Office was following the purchase and sales of securities process as required by the Investment Policy.

As a result of our testing, REDW identified the following observations:

### ***Investment Policy***

The Investment Policy includes specific requirements that are to be met within the investment process. We found that:

- a. The information required by the Investment Policy for the annual report was included in other reports but there was not a formal annual report prepared for FY 2016. The Investment Policy requires that at the next meeting after September 30<sup>th</sup> of each year, the County Treasurer and the Investment Officer prepare an annual investment report that describes the investment strategy employed during the past year, the strategy planned during the next year, and the report should include comparisons of portfolio return to performance benchmarks for the preceding fiscal year.
- b. While many of the reports and documents on the transparency portal include the financial institutions used there was no official list of these on the transparency portal as required by the Investment Policy.

**Potential Risk: Low** – The identified areas that did not meet Investment Policy requirements appeared to have an alternative process or reporting method that addressed the Investment Policy requirements.

**Recommendation:** The following are suggested changes to the Investment Policy:

- a. Consider revising the annual report requirement to be combined with the 4th quarter report that is presented to the County Board of Finance.
- b. Consider revising the Investment Policy to remove this requirement as it appears to be redundant information.

### **Management Response:**

- a. We agree with the auditor's comments, and the following action will be taken to improve the investment processes. The Investment Policy is reviewed annually to review and recommend revisions to the Investment Policy to the County Treasurer and County Board of Finance at the minimum annually. The Investment Committee will address this specific reporting requirement in the August 2017 Investment Committee Meeting. The following recommendation of revising the annual report requirement to be combined with the 4th quarter report will be addressed to modify the information required in the Investment Policy for the annual report to reflect current business processes.

- b. We agree with the auditor's comments that the reports and documents on the transparency portal include the financial institutions the County utilizes. Although, there is no official list on the transparency portal this list will be updated and placed on the County's Transparency website in accordance to Investment Policy that a list will be maintained by the County Treasurer and Investment Officer of financial institutions authorized to provide investment services to the County. Although this information may be redundant it is important to ensure transparency of all Bernalillo County authorized financial institutions.

\* \* \* \* \*

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 Department during the course of our interviews and testing. We sincerely appreciate the courtesy extended to our personnel.

REDW LLC

Albuquerque, New Mexico  
April 26, 2017