COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
MARIA M. OMS

September 24, 2008

TO: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Acting Auditor-Controller

SUBJECT: **AUDIT OF THE LOS ANGELES COUNTY TREASURY AND REVIEW OF THE TREASURY OVERSIGHT COMMITTEE'S COMPLIANCE WITH GOVERNMENT CODE REQUIREMENTS FOR THE YEAR ENDED JUNE 30, 2007**

California Government Code Sections 26920 and 26922 require annual audits of the assets in the County Treasury, with an opinion on whether the Treasurer's statement of assets is presented fairly, in accordance with generally accepted accounting principles. We contracted with an independent Certified Public Accounting firm, Macias, Gini & O'Connell, LLP, (MGO), to audit the financial statements of the Los Angeles County Treasury for the year ended June 30 2007. The audit was conducted by MGO under the Auditor-Controller's Master Agreement.

MGO issued an unqualified opinion on the Treasurer's financial statements, indicating the statements are presented fairly, in accordance with accounting principles generally accepted in the United States of America (Attachment 1). As part of the audit, MGO reviewed the Treasurer's internal controls over financial reporting and identified no material weaknesses.

MGO also prepared a management letter (Attachment 2), which includes recommendations related to the review and approval of investment documentation, changes to the journal entry format for safekeeping securities, and filing of investment authorization letters with the corresponding trade tickets. The Treasurer indicated they are working to resolve these matters.

Finally, MGO examined the Treasurer's compliance with Government Code Sections 27130 through 27137, regarding requirements of the Treasury Oversight Committee, from July 1, 2006 through June 30, 2007. The Treasury Oversight Committee is responsible for reviewing the County's Investment Policy and monitoring the Treasury's compliance with the policy. MGO did not identify any matters involving non-compliance with the Government Codes regarding the Treasury Oversight Committee (Attachment 1, Page 22).

Please call me if you have any questions, or your staff may call Jim Schneiderman at (626) 293-1101.

WLW:MMO

Attachments

c: William T Fujioka, Chief Executive Officer
Mark J. Saladino, Treasurer and Tax Collector
Sachi A. Hamai, Executive Officer
Public Information Office
Audit Committee

ATTACHMENT 1

Los Angeles County
Treasury

Management's Discussion and Analysis and
Financial Statements with
Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2007

LOS ANGELES COUNTY TREASURY
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

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MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

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SACRAMENTO
OAKLAND
WALNUT CREEK
NEWPORT BEACH
SAN MARCOS
SAN DIEGO

INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles, California

We have audited the accompanying financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the Treasury's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Treasury and do not purport to, and do not, present fairly the financial position of the County of Los Angeles, California, as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Treasury as of June 30, 2007, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2008, on our consideration of the Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macias Gini & O'Connell LLP
Certified Public Accountants

Los Angeles, California
May 28, 2008

Los Angeles County Treasury
Management Discussion and Analysis (Unaudited)
June 30, 2007

The Los Angeles County Treasury maintains two investment portfolios, the External Investment Pool (Pool) and the Specific Purpose Investment (SPI) portfolio. The Treasury manages the Pool, on behalf of Pool participants, through the authority delegated to it annually by the Los Angeles County Board of Supervisors. The primary objective of the Treasury's Investment Policy is to ensure the safety of principal. The secondary objective is to meet the liquidity needs of the Pool participants. The third objective is to achieve a return on funds invested. The Treasury accomplishes these objectives through the purchase of high quality fixed income investments, held to a designated maturity.

Mandatory Pool participants include the County, local school and community college districts, and the Courts. There were approximately 1,700 Pool participants at the year ended June 30, 2007. The Treasury also maintains a SPI portfolio to manage specific investment objectives of certain Pool participants and other voluntary participants. The individual investment strategies of the SPI are established by the needs of the requesting entity.

Other Specific Investments represents assets held by the Treasury, in a custodial capacity, pursuant to State Code or a court order.

As management of the Pool, SPI portfolio and Other Specific Investments, we offer readers of the Treasury's financial statements this narrative overview and analysis of the financial activities of the Treasury for the fiscal year ended June 30, 2007. We hope that the information presented provides you with a solid understanding of the Treasury's financial status as of June 30, 2007.

Financial Highlights

- The Pool's total net assets at June 30, 2007 were $18.14 billion, an increase of $1.94 billion (11.96%) over the year ended June 30, 2006.

- The Pool had no liabilities at June 30, 2007.

- The investment income of the Pool increased $290.70 million (69.41%) from $418.84 million for the year ended June 30, 2006 to $709.55 million for the year ended June 30, 2007. The yield on investments increased from 3.93% in the prior year to 5.21% in the current year. This was primarily due to an increase in interest rates in fiscal year 2007.

- The fair value of the Pool showed an unrealized loss of $31.09 million (.17% of portfolio fair value) at June 30, 2007 compared to an unrealized loss of $37.28 million (.23% of portfolio fair value) at June 30, 2006.

- The Pool's allowable administrative expenses totaled $7.01 million for the year ended June 30, 2007. This represented approximately 4.0 basis points of the average daily-invested balance for the year. This ratio was consistent with the ratio for 2006.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Treasury's basic financial statements. The Treasury's basic financial statements consist of two components:

- 1-A) Statement of Net Assets, 1-B) Statement of Changes in Net Assets
- 2) Notes to the Basic Financial Statements.

The Statement of Net Assets presents information on the Pool's, SPI's and Other Specific Investments' assets and liabilities, with the difference between the two reported as net assets.

The Statement of Changes in Net Assets presents information on how the Pool's, SPI's and Other Specific Investments' net assets changed during the most recent fiscal year.

Statement of Net Assets

The Pool's net assets were $18.14 billion at June 30, 2007, an increase of $1.94 billion (11.96%) from the prior year ended June 30, 2006. SPI net assets were $1.96 billion, an increase of $154.44 million (8.54%) from the prior year. Other Specific Investment net assets were $44.44 million, an increase of $104,077 (0.23%) from the prior year.

Net Assets

A summary of the net assets is presented below.

	External Investment Pool			
			Increase/(Decrease)	
	2007	2006	Amount $	Percentage
Assets				
Investments at Fair Value	$ 17,928,785,830	$ 16,269,848,377	$ 1,658,937,453	10.20%
Cash	69,312,508	63,452,056	5,860,452	9.24%
Interest Receivable	145,503,574	109,978,751	35,524,823	32.30%
Total Assets	$ 18,143,601,912	$ 16,443,279,184	$ 1,700,322,728	10.34%
Liabilities				
Trades Payable	-	237,123,494	(237,123,494)	-100.00%
Total Liabilities	-	237,123,494	(237,123,494)	-100.00%
Total Net Assets	$ 18,143,601,912	$ 16,206,155,690	$ 1,937,446,222	11.96%

	Specific Purpose Investment			
			Increase/(Decrease)	
	2007	2006	Amount $	Percentage
Assets				
Investments at Fair Value	$ 1,911,675,079	$ 1,796,019,515	$ 115,655,564	6.44%
Trades Receivable	30,000,000	-	30,000,000	100.00%
Interest Receivable	21,620,573	13,716,063	7,904,510	57.63%
Total Assets	$ 1,963,295,652	$ 1,809,735,578	$ 153,560,074	8.49%
Liabilities				
Trades Payable	-	881,319	(881,319)	-100.00%
Total Liabilities	-	881,319	(881,319)	-100.00%
Net Assets	$ 1,963,295,652	$ 1,808,854,259	$ 154,441,393	8.54%

	Other Specific Investments			
			Increase/(Decrease)	
	2007	2006	Amount $	Percentage
Assets				
Investments at Fair Value	$ 44,435,962	$ 44,331,885	$ 104,077	0.23%
Total Assets	$ 44,435,962	$ 44,331,885	$ 104,077	0.23%
Net Assets	$ 44,435,962	$ 44,331,885	$ 104,077	0.23%

Changes in Net Assets

The additions include contributions by pool participants, investment income and changes in the fair value of investments. Administrative expenses are shown as a deduction to additions to the Pool and to SPI. Deductions represent distributions to pool participants.

Pool

- Contributions by Pool Participants were $51.26 billion during the year ending June 30, 2007, an increase of $2.63 billion (5.40%) from the prior year.

- The investment income of the Pool increased $290.70 million (69.41%) from $418.84 million for the year ended June 30, 2006 to $709.55 million for the year ended June 30, 2007. The yield on investments increased from 3.93% to 5.21% in the current year. This increase was attributed to an increase of the average daily investment balance and the full year impact of a 5.25% unchanged federal funds rate. The average daily investment balance was $17.67 billion during the year ended June 30, 2007, an increase of $1.96 billion (11.06%) from the prior year. The federal funds rate, set by the Federal Reserve, remained unchanged at 5.25% as of the year ended June 30, 2007. The federal funds rate in the prior fiscal year ranged from 3.25% to 5.25%.

- Administrative expenses, which are deducted from Investment Income, were $7.01 million for the year ending June 30, 2007, a decrease of $355,755 (-4.83%) from the prior year. The $7.01 million in total administrative expenses represented approximately 4.0 basis points of the average daily invested balance for the year ended June 30, 2007. This ratio was consistent with the ratio for 2006.

- The fair value of the Pool showed an unrealized loss of $31.09 million (.17% of portfolio fair value) at June 30, 2006 compared to an unrealized loss of $37.28 million (.23% of portfolio fair value) at June 30, 2006.

- Distributions to Pool Participants were $50.25 billion during the year ending June 30, 2007, an increase of $1.80 billion (3.71%) from the prior year.

SPI

- Contributions by Pool Participants were $2.37 billion during the year ending June 30, 2007, a decrease of $563.47 million (-19.18%) from the prior year.

- Distributions to Pool Participants of $2.30 billion were approximately $159.45 million (7.45%) above the prior year's figure of $2.14 billion.

- Investment income increased by $25.96 million (52.45%).

Other Specific Investments

- There were no new contributions by participants during the year ended June 30, 2007.

- Distributions to Participants were $2.14 million during the year. This includes a distribution of $15,092 in realized gains from investments.

All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, additions and deductions are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Summaries of the changes in net assets for the Pool, SPI and Other Specific Investments are presented below:

Statement of Changes in Net Assets
External Investment Pool

	2007	2006	Increase/(Decrease) Amount $	Percentage
Additions				
Contributions by Participants	$ 51,261,764,939	$ 48,633,635,609	$ 2,628,129,330	5.40%
Investment Income	709,546,659	418,844,847	290,701,812	69.41%
Administrative Expenses	(7,005,049)	(7,360,804)	(355,755)	-4.83%
Net Increase in Fair Value of Investments	223,954,220	204,807,429	19,146,791	9.35%
Net Increase from Investment Income	926,495,830	616,291,472	309,492,848	50.22%
Total Additions	$ 52,188,260,769	$ 49,249,927,081	$ 2,937,622,178	5.96%
Deductions				
Distributions to Participants	50,250,814,547	48,451,106,164	1,799,708,383	3.71%
Net Increase in Net Assets	1,937,446,222	798,820,917	1,137,913,795	142.45%
Net Assets beginning of year	16,206,155,690	15,407,334,773	798,820,917	5.18%
Net Assets end of year	$ 18,143,601,912	$ 16,206,155,690	$ 1,936,734,712	11.95%

Statement of Changes in Net Assets
Specific Purpose Investments

	2007	2006	Increase/(Decrease) Amount $	Percentage
Additions				
Contributions by Participants	$ 2,373,604,168	$ 2,937,074,885	$ (563,470,717)	-19.18%
Investment Income	75,449,275	49,490,225	25,959,050	52.45%
Administrative Expenses	(342,324)	(309,011)	33,313	10.78%
Net Increase (Decrease) in Fair Value of Investments	6,853,620	6,962,823	(109,203)	-1.57%
Net Increase from Investment Income	81,960,571	56,144,037	25,816,534	45.98%
Total Additions	$ 2,455,564,739	$ 2,993,218,922	$ (537,587,557)	-17.96%
Deductions				
Distributions to Participants	2,301,123,346	2,141,669,167	159,454,179	7.45%
Net Increase (Decrease) in Net Assets	154,441,393	851,549,755	(697,108,362)	-81.86%
Net Assets beginning of year	1,808,854,259	957,304,504	851,549,755	88.95%
Net Assets end of year	$ 1,963,295,652	$ 1,808,854,259	$ 154,441,393	8.54%

Statement of Changes in Net Assets
Other Specific Investments

	2007	2006	Increase/(Decrease) Amount $	Percentage
Additions				
Contributions by Participants	$ -	$ -	$ -	N/A
Investment Income	151	93	58	62.37%
Net Increase in Fair Value of Investments	2,243,630	6,885,030	(4,641,400)	-67.41%
Net Increase from Investment Income	2,243,781	6,885,123	(4,641,342)	-67.41%
Total Additions	$ 2,243,781	$ 6,885,123	$ (4,641,342)	-67.41%
Deductions				
Distributions to Participants	2,139,704	164,478,207	(162,338,503)	-98.70%
Net Increase (Decrease) in Net Assets	104,077	(157,593,084)	157,697,161	100.07%
Net Assets beginning of year	44,331,885	201,924,969	(157,593,084)	-78.05%
Net Assets end of year	$ 44,435,962	$ 44,331,885	$ 104,077	0.23%

Request for Information

This financial report is designed to provide a general overview of the Treasury's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Los Angeles County Treasurer and Tax Collector, 500 West Temple Street, Room 437, Los Angeles, California 90012-2766.

LOS ANGELES COUNTY TREASURY
STATEMENT OF NET ASSETS
JUNE 30, 2007

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
Assets			
Treasurer Cash	$ 69,312,508	$ -	$ -
Investments:			
Commercial Paper	5,767,991,351	77,825,795	-
Corporate and Deposit Notes	679,849,742	34,789,576	-
Local Agency Investment Fund	-	64,554,743	-
Los Angeles County Securities	30,000,000	5,410,000	-
Mortgage Trust Deeds	-	989,680	-
Negotiable Certificates of Deposit	2,779,240,629	217,900,882	-
U.S. Agency Securities	8,611,126,549	366,239,639	-
U.S. Treasury Securities			
U.S. Treasury Notes	49,953,125	299,509,448	-
U.S. Treasury Strips	-	1,911,915	-
U.S. Treasury Bills	-	699,811	44,435,217
U.S. Treasury Bonds	-	742,304	-
CalTrust Short Term Fund	10,624,434	-	-
Guaranteed Investment Contracts	-	841,101,286	-
Money Market Fund	-	-	745
Total Investments	17,928,785,830	1,911,675,079	44,435,962
Interest Receivable	145,503,574	21,620,573	-
Trades Receivable	-	30,000,000	-
Total Assets	18,143,601,912	1,963,295,652	44,435,962
Total Net Assets Held in Trust	$ 18,143,601,912	$ 1,963,295,652	$ 44,435,962

The accompanying notes are an integral part of these financial statements

LOS ANGELES COUNTY TREASURY
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	External Investment Pool	Specific Purpose Investments	Other Specific Investments
ADDITIONS:			
Contributions by Pool Participants	$ 51,261,764,939	$ 2,373,604,168	$ -
Investment Income:			
Investment Income	709,546,659	75,449,275	151
Administrative Expenses	(7,005,049)	(342,324)	-
Net Increase in Fair Value of Investments	223,954,220	6,853,620	2,243,630
Net Increase Resulting from Investment Income	926,495,830	81,960,571	2,243,781
Total Additions	52,188,260,769	2,455,564,739	2,243,781
DEDUCTIONS:			
Distributions to Pool Participants	50,250,814,547	2,301,123,346	2,139,704
Net Increase in Net Assets	1,937,446,222	154,441,393	104,077
Net Assets Held in Trust, July 1, 2006	16,206,155,690	1,808,854,259	44,331,885
Net Assets Held in Trust, June 30, 2007	$ 18,143,601,912	$ 1,963,295,652	$ 44,435,962

The accompanying notes are an integral part of these financial statements

Note 1 - Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County (County) Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The County Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investments (SPI) portfolio with approximately $18.14 billion and $1.96 billion, respectively, in total net assets as of June 30, 2007. The Pool is managed by the County Treasury on behalf of the Pool participants, which include the County, local school districts, and the Courts who are required by State statutes to participate in the Pool. Voluntary participants in the County 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 Treasury also maintains Other Specific Investments totaling approximately $44.4 million at June 30, 2007. These assets are held by the Treasury for both a municipal agency and a private corporation, per State Code and a court order, respectively. The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the County Treasury in accordance with Section 53607 of the California Government Code.

Pursuant to Sections 27130-27137 of the California Government Code, the Board has established a County Treasury Oversight Committee to review and monitor the Treasury's Investment Policy. The Committee membership includes the Treasurer, Auditor-Controller, Chief Executive Officer, Superintendent of Schools and a non-County representative. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Treasury's Investment Strategy

The County Treasury's investment strategy for the Pool is to maintain the principal and to provide sufficient cash to meet disbursement needs. The cash flow needs of the Pool members are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The County 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 assets 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 targeted for the needs of the requesting entity.

The Other Specific Investments are used to account for the assets placed with the County Treasury pursuant to State Code and court order. The investment activity occurs separately from the County's Pool and the related investment strategies are governed by State Code and court order.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions from pool participants are recognized as contributions in the period in which they are received. Distributions to pool participants are recognized in the period they are distributed. Earnings on investments are recognized as revenue in the period in which they are earned and administrative costs are recognized as expense when incurred, regardless of the timing of

related cash flows. In accordance with generally accepted accounting principles (GAAP), the County Treasury records investment purchases and sales on the trade date. In accordance with Governmental Accounting Standards Board (GASB) Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the accompanying financial statements reflect the fair value of investments. Fair value is determined monthly. Special disclosures related to GASB 31 appear in Note 3. Pool participants' cash balances and withdrawals are based on amortized cost. The Treasury has prepared its deposit and investments disclosures in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment to GASB Statement No. 3*. The related disclosures appear in Note 3.

Trades Payable

The Pool had no liabilities at June 30, 2007.

Trades Receivable

Trades receivable represents pending investment trades that have not settled at June 30, 2007.

Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ from the estimates.

Note 2 – Bank Deposits

As of June 30, 2007, the County Treasury maintained accounts in five banks. The carrying amount of the County Treasury's total deposits in financial institutions was $68,829,648 plus $482,860 in cash in the County Treasury's vault.

Under 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. Depending upon the type of security in the pool, the pool must have a minimum market value of 110 to 150 percent of the total amount of the public deposits.

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 (LASD) of California Department of Financial Institutions. LASD confirmed that the pools of collateral related to the County Treasury's deposits were maintained at required levels as of June 30, 2007. However, during the period of April 30, 2007 through May 3, 2007, the LASD indicated the Bank of America did not maintain adequate collateral. Bank of America subsequently obtained collateral with no impact on the County.

Note 3 – Investments

Government Code Sections 53601 and 53635 authorize the County Treasury to invest the Pool and SPI funds (Notes 5 and 6, respectively) in obligations of the United States Treasury, federal agencies, municipalities, asset-backed securities, mortgage-backed securities, bankers' acceptances, commercial paper rated A-1 by Standard and Poor's Corporation (S&P) or P-1 by Moody's, negotiable certificates of deposit, medium-term notes, corporate notes, repurchase agreements, reverse repurchase agreements, time

deposits, shares of beneficial interest of a Joint Powers Authority that invests in authorized securities, the State's Local Agency Investment Fund (LAIF), and guaranteed investment contracts. As permitted by the Government Code, the County Treasury developed, and the Board adopted, an Investment Policy that further defines and restricts the limits within which the Treasury may invest. The investments are managed by the County Treasury who reports investment activity to the Board on a monthly basis. The County Treasury also maintains Other Specific Investments which are invested pursuant to State Code and court order.

Investments held by the County Treasury are stated at fair value, except for certain non-negotiable securities that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as repurchase agreements, money market mutual funds, mortgage trust deeds, Los Angeles County securities, guaranteed investment contracts and investments in the Local Agency Investment Fund. The fair value of investments is determined monthly and is provided by the custodian bank. The method used to determine the value of participant's equity withdrawn is based on the book value, which is amortized cost, of the participant's percentage participation on the date of such withdrawals.

Investments in LAIF are governed by California Government Code and overseen by a five member Local Investment Advisory Board as designated by the California Government Code. Investments in LAIF are valued in these financial statements using a fair value factor provided by LAIF applied to the value of the SPI's shares in the investment pool. As of June 30, 2007 the total amount invested by all California local governments and special districts in LAIF was $19.7 billion. LAIF is part of the State of California's Pooled Money Investment Account (PMIA), which as of June 30, 2007 had a balance of $65.8 billion. The PMIA is not SEC registered, but is required to invest according to California State Government Code. Included in the PMIA's investment portfolio are certain derivative securities or similar products in the form of structured notes totaling $774 million, and asset-backed securities totaling $1.5 billion.

The School Districts and the Courts are required by legal provisions to participate in the Pool. At June 30, 2007, the total percentage share of the Pool that relates to these participants in addition to Los Angeles County and related entities is 91%. Voluntary participants in the County Treasury consist of the Sanitation Districts, the Metropolitan Transportation Authority, the South Coast Air Quality Management District and certain municipal agencies. The deposits held for these entities are included in the Pool and SPI portfolio. Certain specific investments have been made by the County Treasury, as requested by Pool participants and external depositors. This investment activity occurs separately from the Pool and is reported in the SPI portfolio.

Risk Disclosures

As of June 30, 2007, the major classes of the County's investments consisted of the following:

Pool	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity in Years
Commercial Paper	$ 5,767,991,351	$ 5,769,894,247	5.20% - 5.36%	07/02/07 - 10/05/07	0.03
Corporate and Deposit Notes	679,849,742	680,042,440	5.12% - 5.41%	07/10/07 - 12/28/09	0.59
Los Angeles County Securities	30,000,000	30,000,000	5.04% - 5.56%	06/30/08 - 06/30/09	1.67
Negotiable Certificates of Deposit	2,779,240,629	2,779,781,166	5.25% - 5.44%	07/02/07 - 09/19/08	0.26
U.S. Agency Securities	8,611,126,549	8,639,652,535	3.65% - 9.25%	07/03/07 - 06/06/12	2.93
U.S. Treasury Notes	49,953,125	49,888,358	4.88%	05/31/08	0.92
CalTrust Short-Term Fund	10,624,434	10,624,434	-	N/A	0.50
Total Investments	$ 17,928,785,830	$ 17,959,883,180			1.49

SPI	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity in Years
Local Agency Investment Fund	$ 64,554,743	$ 64,584,127	-	-	0.50
Commercial Paper	77,825,795	77,843,147	5.13% - 5.20%	07/09/07 - 10/02/07	0.10
Corporate and Deposit Notes	34,789,576	34,793,630	3.50% - 5.33%	08/02/07 - 08/03/09	0.11
Mortgage Trust Deeds	989,680	989,680	4.50% - 5.50%	08/01/12 - 04/01/17	7.28
Los Angeles County Securities	5,410,000	5,410,000	5.00%	09/02/21	14.19
Negotiable Certificate of Deposits	217,900,882	218,001,513	5.05% - 5.35%	07/09/07 - 03/16/09	0.38
U.S. Agency Securities	366,239,639	366,627,998	3.57% - 5.60%	08/03/07 - 08/11/11	1.21
U.S.Treasury Securities					
U.S. Treasury Notes	299,509,448	299,631,925	2.63% - 4.88%	07/31/07 - 07/31/11	0.65
U.S. Treasury Strips	1,911,915	1,911,495	-	08/15/07 - 08/15/09	0.91
U.S. Treasury Bills	699,811	699,618	4.91%	07/05/07	0.01
U.S. Treasury Bonds	742,304	637,497	7.25% - 11.25%	11/15/12 - 05/15/16	6.67
Guaranteed Investment Contracts	841,101,286	841,101,286	4.75% - 5.25%	10/01/07 - 03/15/10	1.02
Total Investments	$ 1,911,675,079	$ 1,912,231,916			0.87

Other Specific Investments	Fair Value	Principal	Interest Rate Range (%)	Maturity Range	Weighted Average Maturity in Years
Money Market Funds	$ 745	$ 745	4.86%	07/01/07	0.00
U.S. Treasury Bills	44,435,217	44,104,265	4.95%	08/16/07	0.13
Total Investments	$ 44,435,962	$ 44,105,010			0.13

Interest Rate Risk

The County Treasurer manages the Pool's exposure to declines in fair value by limiting its weighted average maturity to less than 1.5 years, in accordance with the Investment Policy. For purposes of computing weighted average maturity, the maturity date of variable-rate notes is the stated maturity. 50.09% of the Pool's $17,928,785,830 in investments at June 30, 2007 mature in six months or less. Of the remainder, 39.36% have a maturity of more than one year. At June 30, 2007, the weighted average maturity in years for the Pool was 1.49.

As of June 30, 2007, variable-rate notes comprised 3.37% of the Pool Investments. The notes are tied to one-month and three-month London Interbank Offered Rate (LIBOR) with monthly and quarterly coupon resets. The fair value of variable securities is generally less susceptible to changes in value than fixed rate securities because the variable-rate coupon resets back to the market rate on a periodic basis. There were no variable-rate notes in the SPI and Other Specific Investments.

Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. County management believes the liquidity in the portfolios is adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

Custodial Credit Risk

Custodial credit risk for investments is the risk that the Treasury will not be able to recover the value of investment securities that are in the possession of an outside party. Investments are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Treasury and are held by either the counterparty, or the counterparty's trust department or agent but not in the Treasury's name. At year-end, all Pool, SPI and Other Specific Investment securities were either held by the Treasury or by the custodian bank in the name of the Treasury and were not exposed to custodial credit risk.

Credit Risk

The Investment Policy sets forth the minimum acceptable credit ratings for investments from any two nationally recognized statistical rating organizations (NRSROs). For an issuer of short-term debt, the rating must be no less than A-1 (S&P) or P-1 (Moody's), while an issuer of long-term debt shall be rated no less than an A. The Guaranteed Investment Contracts (GIC), the State of California LAIF, and CalTrust Short-Term Fund (CALTRUST) are not rated.

Concentration of Credit Risk

The Investment Policy limits the maximum total par value for each permissible security type (e.g., commercial paper and certificates of deposit) to a certain percentage of the Pool portfolio. (An exception to this is obligations of the United States government, United States government agencies or government-sponsored enterprises, which do not have a limit.) Further, the Treasurer restricts investments in any one issuer based on the issuer's ratings from a NRSRO. For commercial paper, bankers acceptances, certificates of deposit, corporate notes and floating rate notes, the highest issuer limit, for those issuers with ratings of P-1/Aaa (Moody's) and A-1/AAA (S&P), was $750 million, or approximately 4.25% of the Pool's average daily investment balance.

The Pool and SPI had the following U.S Agency securities in a single issuer that represent 5 percent or more of total investments at June 30, 2007:

Issuer	Pool	SPI
Federal Farm Credit Bank	$ 3,117,505,523	$ 104,924,951
Federal Home Loan Bank	2,750,789,484	123,718,597
Federal Home Loan Mortgage Corp	2,742,831,542	136,681,095

In addition, SPI had a total of $841,101,286 invested in GIC. $206,420,198 was invested with XL Asset Funding Company, $163,669,722 with FSA Capital Management Services, $366,120,000 with Citigroup Financial and $104,891,366 was invested with Trinity Funding Co.

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of each portfolio's fair value at June 30, 2007:

Pool	S&P	Moody's	% of Portfolio
Commercial Paper	A-1	P-1	32.17%
Corporate and Deposit Notes	A-1	P-1	3.79%
Los Angeles County Securities	AAA	Aaa	0.17%
Negotiable Certificates of Deposit	A-1	P-1	15.50%
U.S. Agency Securities	AAA	Aaa	48.03%
U.S Treasury Securities	AAA	Aaa	0.28%
CalTrust Short-Term Fund	Not rated	Not rated	0.06%
			100.00%
SPI			
Local Agency Investment Fund	Not rated	Not rated	3.39%
Commercial Paper	A-1+	P-1	4.09%
Corporate and Deposit Notes	A-1+	P-1	1.83%
Mortgage Trust Deeds	AAA	Aaa	0.05%
Los Angeles County Securities	AAA	Aaa	0.28%
Negotiable Certificate of Deposit	A-1+	P-1	11.45%
Guaranteed Investment Contracts	Not rated	Not rated	43.76%
U.S. Agency Securities	AAA	Aaa	19.24%
U.S. Treasury Securities			
U.S. Treasury Notes	AAA	Aaa	15.73%
U.S. Treasury Strips	AAA	Aaa	0.10%
U.S. Treasury Bills	AAA	Aaa	0.04%
U.S. Treasury Bonds	AAA	Aaa	0.04%
			100.00%
Other Specific Investments			
Money Market Funds	AAA	Aaa	0.00%
U.S. Treasury Bills	AAA	Aaa	100.00%
			100.00%

Safekeeping Securities

At June 30, 2007, all Pool, SPI investments and Other Specific Investments were safe kept by The Bank of New York Mellon Corporation (effective July 1, 2007, The Bank of New York Company, Inc. and Mellon Financial Corporation merged and was renamed The Bank of New York Mellon Corporation), except for the County Improvement Bonds and Bond Anticipation Notes (BANs), certain certificates of participation issued by County entities, GIC, LAIF, CALTRUST, money market funds and the mortgage trust deeds. CALTRUST, (the Investment Trust of California, organized as a Joint Powers Authority), is a program established by public agencies in California for the purpose of pooling and investing local agency funds.

The bonds, BANs, and certain certificates of participation were held in the Treasury's vault and are recorded in the Los Angeles County Securities line item. The mortgage trust deeds were held and administered by Bank of America or by the County Treasury.

The County has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2007 to support the value of shares in the Pool.

Investment Income

The earned rate, which includes investment income, net of allowable administrative expenses, on all Pool investments held by the County Treasury for the fiscal year ended June 30, 2007 was 5.21% on an average daily investment balance of the Pool portfolio of $17,665,658,761.

The change in fair value of investments consists of both unrealized and realized gains and losses. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior year(s) (as an unrealized gain or loss) and the current year (as a realized gain or loss). Securities in the aggregate amount of $2,545,393,707 and $181,396,843 were called or sold during the year with a net gain of $453,776 for the Pool and a net loss of ($4,427,490) for SPI, respectively. The net increase in the fair value of investments for the year ended June 30, 2007 was $223,954,220 for the Pool, $6,853,620 for the SPI and $2,243,630 for Other Specific Investments.

Derivatives

The California Government Code and the County Treasury's Investment Policy allow the County Treasury to purchase floating rate notes, that is, any instruments that have a coupon interest rate that is adjusted periodically due to changes in a base or benchmark rate.

The County Treasury's Investment Policy limits the amount of floating rate notes to 10% of the Pool portfolio. The Pool contained floating rate notes at par of $605,000,000 (3.37% of the Pool) as of June 30, 2007. The policy also prohibits the purchase of inverse floating rate notes and hybrid or complex structured investments and for the fiscal year ending June 30, 2007, there were none.

Los Angeles County Securities – External Investment Pool

The Board authorized the Treasury to purchase Los Angeles County Capital Asset Leasing Corporation's (LACCAL) BANS for the Pool, which are floating rate notes. LACCAL is a nonprofit corporation established by the Board to issue tax-exempt bonds to finance the purchase of certain equipment on behalf

of the County. The BANS were created to provide LACCAL with operating cash prior to the sale of financing bonds. LACCAL issues BANS and sells them to the County Treasury periodically, based on cash needs. As part of the 2006-2007 Debt Management Guidelines, the Board authorized the issuance of an aggregate amount of BANS not to exceed $65 million. As of June 30, 2007, the Pool had $30,000,000 invested in LACCAL BANS.

BANS are payable within five years of the purchase date. In addition, the BANS are issued with a formal agreement that, in the event they are not liquidated by the end of the five-year period, they convert to capital leases with a three-year term secured by County real property.

Los Angeles County Securities – Specific Purpose Investments (SPI)

As of June 30, 2007, the Los Angeles County Securities category included the Rancho Palos Verdes Redevelopment Agency Tax Allocation Bond for $5,410,000 issued on December 2, 1997. It earns an interest rate of 5% per annum and matures in September 2021. The original loan provided funding for landslide mitigation measures in the Abalone Cove area pursuant to a 1987 settlement agreement.

Mortgage Trust Deeds

In December 1986 and October 1987, the Board approved the disbursing of funds for mortgage trust deeds as part of the settlements of the Flying Triangle and the Abalone Cove landslide litigation. Such disbursements are authorized under Government Code Section 23004, the County's power to compromise and make payment of claims being implicit in the County's power to sue and be sued. Per the Flying Triangle and Abalone Cove settlements, the combined amount of all mortgage loans is not to exceed $8,500,000.

The trust deeds, which are fully secured, have terms of 15 to 30 years and fixed interest rates of between 4.5% and 5.5%, except for one loan that had a variable rate of 4.5% as of June 30, 2007. As of June 30, 2007, $989,680 in mortgage trust deeds are included in the SPI portfolio.

Note 4 – Interest Receivable

Receivables primarily consist of interest accrued on investments. In addition, certain securities were purchased with accrued interest. At June 30, 2007, the Pool had $145,503,574 of interest receivable of which $1,462,486 represents accrued interest purchased. At June 30, 2007, the SPI portfolio had $21,620,573 of interest receivable of which $59,512 represents accrued interest purchased.

Note 5 – External Investment Pool

The Treasury maintains the Pool, which includes all funds deposited by County entities and external legal entities. The purpose of the Pool is to provide safe, liquid investment opportunities for pooled surplus funds deposited into the County Treasury. Earnings on Pool investments are allocated monthly to Pool participants by the County Auditor-Controller based upon each participant's average daily balance in the allocation period. Investment gains and losses are proportionately shared by the entities participating in the Pool as an increase or reduction in investment, net of administrative costs. Section 27013 of the California Government Code authorizes the County Treasury to deduct certain Treasury-related administrative fees.

Investments purchased with the intent to be held to maturity are accounted for in the non-trading portion of the Pool. Investments purchased with the intent to be sold prior to maturity are accounted for in the trading portion of the Pool. During the year ended June 30, 2007, the County Treasury did not purchase any investments for trading purposes.

Note 6 – Specific Purpose Investments

The County Treasury maintains the SPI portfolio to manage specific investments requested by specific entities with the approval of the County Treasury. Investment income/loss distribution is credited/debited to the specific entity for which the investment was made.

Note 7 – Other Specific Investments

Other Specific Investments represents assets held by the County Treasury pursuant to State Code and a court order, and totaled $44,435,962 at June 30, 2007.

This amount is comprised of $44,132,006 in U.S. Treasury bills, held in the Treasury's Special Safekeeping Account II at Bank of New York, Western Trust and $745 in Dreyfus Money Market Fund. The funds were deposited by Phillip Morris USA Incorporated to stay enforcement, pending appeal, of two judgments by the Superior Court of the County of Los Angeles. The remaining $303,211, also in U.S. Treasury bills, is held in the Treasury's Special Safekeeping Account on behalf of the County's Community Health Plan (CHP). The funds were assigned to the California Commission of Corporations to meet CHP deposit requirements imposed by the California Code of Regulations.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Supervisors
County of Los Angeles, California

We have audited the basic financial statements of the Los Angeles County Treasury (Treasury), as of and for the year ended June 30, 2007, and have issued our report thereon dated May 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Treasury's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Treasury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Treasury's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Treasury's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Treasury's basic financial statements that is more than inconsequential will not be prevented or detected by the Treasury's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Treasury's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Treasury's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to Treasury management in a separate letter dated May 28, 2008.

This report is intended solely for the information of the Treasury's management, Treasury Oversight Committee, and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Los Angeles, California
May 28, 2008

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INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE WITH GOVERNMENT CODE SECTIONS 27130 THROUGH 27137

Board of Supervisors
County of Los Angeles, California

We have examined the Los Angeles County Treasury's compliance with California Government Code Sections 27130 through 27137, which addresses requirements of the Treasury Oversight Committee, during the year ended June 30, 2007. Management is responsible for the Treasury's compliance with those requirements. Our responsibility is to express an opinion on the Treasury's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Treasury's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasury's compliance with specified requirements.

In our opinion, the Treasury complied, in all material respects, with the aforementioned requirements during the year ended June 30, 2007.

This report is intended solely for the information of the Treasury's management, Treasury Oversight Committee, and the Board of Supervisors, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP
Certified Public Accountants

Los Angeles, California
May 28, 2008

ATTACHMENT 2

LOS ANGELES COUNTY TREASURY

Report to Management

For the Year Ended June 30, 2007

MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

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May 28, 2008

County Board of Supervisors
Los Angeles County, California

In planning and performing our audit of the basic financial statements of the Los Angeles County Treasury (Treasury), for the year ended June 30, 2007, we considered the Treasury's internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal accounting controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the Treasury's internal control in our report dated May 28, 2008, in conjunction with our audit of the Treasury's basic financial statements for the year ended June 30, 2007. This letter does not affect that report.

This report is intended solely for the information and use of the Board of Supervisors, the Treasurer's Oversight Committee, and Treasury management and is not intended to be and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with Treasury personnel and have included management's responses to our recommendations in the attached memorandum. We will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

Current Year Findings and Recommendations

2007-01 - Documentation of Review and Approval

The Treasurer's trade ticket includes a section to document both an Internal Controls accounting staff and management staff review. Of the 110 sales, withdrawals, purchases, and repo purchase transactions reviewed, MGO noted 14 (13%) trade tickets that were not signed by an Internal Control manager indicating their review of the transactions noted on the trade tickets. However, none of the investment transactions included on the trade tickets reviewed, were out of compliance with the Investment Policy.

Recommendation

Treasury management to ensure that all investment transactions are properly reviewed and approved and trade tickets signed off, as required by the Investment Policy.

Management Response

The Treasury's Internal Control Branch's practice is to document an initial review and a management review of all tickets/delivery instructions, and to document a management review of all call notices. Management has reiterated to staff the need to comply with these practices.

2007-02 - Safekeeping Accounting

During our test work of safekeeping transactions, we noted that the Treasury did not prepare a journal voucher for the free delivery of U.S. Treasury Bills to Phillip Morris USA Incorporated. Upon further inquiry, MGO noted that the Treasury was incorrectly accounting for the transactions within the Safekeeping accounts. All security transactions (purchases, sales, withdrawals, and maturities) were booked only to a cash and liability account as follows:

Purchase:	Maturity:
Dr. Liability	Dr. Cash
Cr. Cash	Cr. Liability

However, the liability account balance should have remained at the original principal balance and should only be affected by investment earnings/losses or wire transfers of excess earnings to Phillip Morris. All other investment activities should have been booked as follows:

Purchase:	Maturity:
Dr. Investments	Dr. Cash
Cr. Cash	Cr. Investments
	Cr. Liability (earnings on investments)

Recommendation

MGO recommends that the Treasury follow the prescribed journal entries above for accounting for safekeeping securities.

Management Response

Staff will consult with the Auditor-Controller to correctly account for these safekeeping securities.

2007-03 – Authorization Letters

During our Specific Purpose Investments (SPI) control test work, we noted that out of twenty-five (25) samples selected for review, nine (9) transactions included an authorization letter from participants that was filed with the yellow trade ticket, authorization letters for ten (10) transactions were filed in a completely separate and unrelated folder, and authorization letters for four (4) transactions were filed solely with the Investment Office. Ideally, authorization letters, if provided, should be filed with the yellow trade tickets maintained by the Internal Controls Group.

Recommendation

MGO recommends that the Treasury establish a formal policy whereby authorization letters from SPI participants, if provided, are filed centrally with the corresponding trade tickets maintained by the Internal Controls Group.

Management Response

The Treasury's practice is for the Investment Office to attach an authorization letter from the SPI participant to the yellow trade ticket. Management has reiterated to staff the need to comply with this practice.

Prior Year Findings and Recommendations

2006-01 - Documentation of Review and Approval

The Treasurer's trade ticket includes a section to document both an Internal Controls accounting staff and management staff review. Of the 130 trade tickets reviewed, MGO noted 6 (5%) that were not signed by an Internal Control manager indicating review of the trade ticket. (The 6 trade tickets were signed by an Internal Controls accounting staff.) However, none of the investment transactions included on the trade tickets were out of compliance with the Investment Policy.

The Treasurer's Return of Cost book is to be reviewed by an Internal Controls accounting staff who should document that review by signing his/her name. MGO reviewed 136 Return of Cost entries and noted 3 instances (2%) where the entry was not signed by an Internal Controls accounting staff, indicating a review and approval of the information contained therein.

Recommendation

Treasury management ensure that all investment transactions are properly reviewed, approved and signed off, as required by its Investment Policy.

Management Response

The Treasury's Internal Control Branch's practice is to document an initial review and a management review of all trade tickets/delivery instructions and a staff review of the Return of Cost book. All trade tickets reviewed were in compliance with the Investment Policy and all Return of Cost accounting entries were appropriately recorded. Management has reiterated to staff the need to comply with these practices.

Status

Please see current year finding.

2006-02 - Safekeeping Accounting

During our test work for safekeeping transactions, we noted that the Treasury did not prepare a journal voucher for the free delivery of U.S. Treasury Bills to Phillip Morris. Upon further inquiry, MGO noted that the Treasury was incorrectly accounting for the transactions within the Safekeeping accounts. All security transactions (purchases, sales, withdrawals, and maturities) were booked only to a cash and liability account as follows:

Purchase:	Maturity:
Dr. Liability	Dr. Cash
Cr. Cash	Cr. Liability

However, the liability account balance should have remained at the original principal balance and should only be affected by investment earnings/losses or wire transfers of excess earnings to Phillip Morris. All other investment activities should have been booked as follows:

Purchase:	Maturity:
Dr. Investments	Dr. Cash
Cr. Cash	Cr. Investments
	Cr. Liability (earnings on investments)

Recommendation

MGO recommends that the Treasury follow the prescribed journal entries above for accounting for safekeeping securities.

Management Response

Staff will consult with the Auditor-Controller to correctly account for these safekeeping securities.

Status

Please see current year finding.