COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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June 27, 2012

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **REVIEW OF THE COUNTY TREASURER'S STATEMENTS OF NET ASSETS FOR THE QUARTER ENDED DECEMBER 31, 2011**

California Government Code Section 26920 requires quarterly reviews of each county treasurer's Statements of Net Assets in the county treasury. We contracted with an independent Certified Public Accounting firm, Macias, Gini & O'Connell, LLP (MGO), to review the County Treasurer and Tax Collector's (TTC) Statements of Net Assets for the quarter ended December 31, 2011. MGO conducted the review in accordance with the Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. MGO also performed several agreed-upon procedures, primarily in the areas of cash and investment reconciliations.

MGO's review report (Attachment 1) indicates that they are not aware of any material modifications that should be made to the Statements of Net Assets.

MGO's agreed-upon procedures report (Attachment 2) indicates they performed the following procedures:

1. Obtained TTC's bank reconciliations at December 31, 2011, verified that the bank accounts were reconciled to TTC's accounting records, and confirmed Treasury cash held by banks. Tested the mathematical accuracy of the reconciliations and traced material reconciling items to supporting documents.

2. Obtained TTC's reconciliations of investments and other safekept securities at December 31, 2011, verified that the investments recorded in TTC's records were reconciled to TTC's custodial bank and confirmed investments held by TTC's safekeeping agent and other custodians at December 31, 2011. Tested the mathematical accuracy of the reconciliations, and traced material reconciling items to supporting documents.

3. Obtained TTC's reconciliations of cash and investments at October 31, 2011, November 30, 2011, and December 31, 2011, and verified that cash and investments were reconciled between TTC's records and Auditor-Controller's records pursuant to Government Code Section 26905. Tested the mathematical accuracy of the reconciliations and traced material reconciling items to supporting documents.

4. Agreed the amounts reported on the Statements of Net Assets at December 31, 2011 to TTC's records.

MGO's agreed-upon procedures report did not identify any exceptions.

Please call me if you have any questions, or your staff may call Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MP

Attachments

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

Attachment 1

Los Angeles County Treasury

Statements of Net Assets and Independent Accountant's Review Report

December 31, 2011

MGO Certified Public Accountants.

LOS ANGELES COUNTY TREASURY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011

Table of Contents

	Page
Independent Accountant's Review Report	1
Statements of Net Assets	2
Note to the Statements of Net Assets	3

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

The Honorable Board of Supervisors of the
County of Los Angeles, California

We have reviewed the accompanying statements of net assets of the Los Angeles County Treasurer and Tax Collector (Treasury) as of December 31, 2011. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Treasury management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management of the Treasury is responsible for the preparation and fair presentation of the statements of net assets in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the statements of net assets.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, with the exception of the matter described in the following paragraph, we are not aware of any material modifications that should be made to the accompanying statements of net assets as of December 31, 2011 in order for it to be in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1 to the statements of net assets, management has not presented the risk disclosures required under Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*

Macias Gini & O'Connell LLP

Los Angeles, California
May 24, 2012

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LOS ANGELES COUNTY TREASURY
STATEMENTS OF NET ASSETS
DECEMBER 31, 2011

	External Investment Pool	Specific Purpose Investment	Other Specific Investments
Assets			
Treasurer Cash	$ 91,535,445	$ -	$ -
Investments (Fair Value)	25,914,840,820	74,030,930	301,931
Interest Receivable	54,303,757	93,156	-
Total Assets	26,060,680,022	74,124,086	301,931
Liabilities			
Trades Payable	115,078,963	-	-
Total Liabilities	115,078,963	-	-
Total Net Assets Held in Trust	$ 25,945,601,059	$ 74,124,086	$ 301,931

See accompanying note and independent accountant's review report.

Note 1 – Summary of Significant Accounting Policies

The Financial Reporting Entity

The Los Angeles County Treasurer and Tax Collector (Treasury) is responsible for tax collection, banking, investment and accountability of public funds. The Treasury maintains two investment portfolios, the External Investment Pool portfolio (the Pool) and the Specific Purpose Investment (SPI) portfolio with approximately $25.95 billion and $74.12 million, respectively, in total net assets as of December 31, 2011. The Pool is managed by the Treasury on behalf of the Pool participants, which include the County, local school districts, and the Superior Courts who are required by State statutes to participate in the Pool. Voluntary participants in the 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 $302,000 at December 31, 2011. These assets are held by the Treasury for a County Department in accordance with Section 1300.76.1, Title 28, California Code of Regulations (State Code). The State of California allows the Board of Supervisors (Board) the ability to delegate the investment authority to the Treasury in accordance with Section 53607 of the California Government Code. On an annual basis, the Board delegates the investment authority to the Treasury. The Pool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

Financial Statement Presentation

The accompanying statements of net assets were prepared on the accrual basis of accounting. Investments are reported at fair value, which is based on quoted market prices. Investment transactions are recorded on the trade date. Deposits and investments held by the Treasury are exposed to risks such as credit risk, concentration of credit risk, custodial credit risk, and interest rate risk. Treasury management has elected to omit risk disclosures required by Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures - an amendment of GASB Statement No. 3*, since such disclosures are not required by the California Government Code Section 26920 and are not necessary to meet the objectives of the users of the statements of net assets.

Cash and Deposits

No collateral was required as the FDIC insurance provided unlimited coverage until December 31, 2012 in accordance with Section 343 of the Dodd-Frank Act.

Treasury's Investment Strategy

The Treasury's investment strategy for the Pool is to ensure the safety of principal, to provide sufficient cash to meet disbursement needs and to achieve a return. The cash flow needs of the Pool participants are monitored daily to ensure that sufficient liquidity is maintained to meet the needs of participants. The Treasury's basic investment strategy is to buy and hold, to a designated maturity, high quality fixed income investments.

Note 1 – Summary of Significant Accounting Policies (Continued)

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 based on the requests from the participants.

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

The investments in the accompanying statements of net assets are reported at fair value in accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* The following table summarizes the investments stated at cost and fair value.

Pool	Fair Value	Cost
Commercial Paper	$ 8,934,081,330	$ 8,934,456,078
Corporate and Deposit Notes	740,688,618	740,343,654
Los Angeles County Securities	7,000,000	7,000,000
Negotiable Certificates of Deposit	4,742,097,985	4,747,079,816
U.S. Agency Securities	10,808,246,024	10,750,916,544
U.S. Treasury Securities:		
U.S. Treasury Notes	582,731,863	574,536,684
U.S. Treasury Bills	99,995,000	99,932,049
Total PSI Investments	$ 25,914,840,820	$ 25,854,264,825

SPI	Fair Value	Cost
Corporate and Deposit Notes	$ 3,150,495	$ 3,138,104
Local Agency Investment Fund	63,449,264	63,344,619
Los Angeles County Securities	5,065,000	5,065,000
Mortgage Trust Deeds	379,316	379,316
U.S. Agency Securities	1,877,849	1,872,000
U.S.Treasury Securities:		
U.S. Treasury Bonds	109,006	85,943
Total Investments	$ 74,030,930	$ 73,884,982

Note 1 – Summary of Significant Accounting Policies (Continued)

Other Specific Investments	Fair Value	Cost
U.S. Treasury Bills	$ 301,931	$ 302,000
Total Investments	$ 301,931	$ 302,000

Attachment 2

Los Angeles County Treasury

Independent Accountant's Report on Applying Agreed-Upon Procedures

December 31, 2011

MGO Certified Public Accountants.

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

The Honorable Board of Supervisors of the
County of Los Angeles, California

We have performed the procedures enumerated below, which were agreed to by the Los Angeles County Auditor-Controller (Auditor-Controller) and the Los Angeles County Treasurer and Tax Collector (Treasury), solely to assist you with respect to the Statements of Net Assets of the Treasury as of December 31, 2011 (Statements). Treasury management is responsible for the Statements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and our findings are as follows:

1. Obtained the Treasury's bank reconciliations at December 31, 2011, verified that the bank accounts were reconciled to the Treasury's accounting records and confirmed Treasury cash held by banks. Tested the mathematical accuracy of the reconciliations and traced reconciling items of $500,000 and greater to supporting documents.

   Results: No exceptions were noted as a result of our procedures.

2. Obtained the Treasury's reconciliations of investments and other safekept securities at December 31, 2011, verified that the investments recorded in the Treasury's records were reconciled to the Treasury's custodial bank and confirmed investments held by the Treasury's safekeeping agent and other custodians at December 31, 2011. Tested the mathematical accuracy of the reconciliations and traced reconciling items of $500,000 and greater to supporting documents.

   Results: No exceptions were noted as a result of our procedures.

3. Obtained the Treasury's reconciliations of cash and investments at October 31, 2011, November 30, 2011, and December 31, 2011 and verified that cash and investments were reconciled between the Treasury's records and the Auditor-Controller's records pursuant to Government Code Section 26905. Tested the mathematical accuracy of the reconciliations and traced reconciling items of $500,000 and greater to supporting documents.

   Results: No exceptions were noted as a result of our procedures.

4. Agreed amounts reported on the Statements at December 31, 2011 to the records of the Treasury.

   Results: No exceptions were noted as a result of our procedures.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the Statements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the members of the Board of Supervisors, Treasury and Auditor-Controller management, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
May 24, 2012