

**MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA**

REGULAR MEETING

March 24, 1999

A Regular Meeting of the Treasury Oversight Committee (TOC) was held on March 24, 1999 and called to order by Robert Fauteux, Chair, at 3:00 p.m.

PRESENT: Committee Members: Robert Fauteux, Chair
Jan Mittermeier
John Dean
David Sundstrom

Also present were:

John Moorlach, Treasurer-Tax Collector; Dick Hilde, Assistant Treasurer; Paul Gorman, Accounting Supervisor, Joanne Guerriero, Secretary; Wendy Margarita, Department of Education; Ann Fletcher, County Counsel; Andrew Schneider, Carol Swe and Dana Swart, Internal Audit

1. Meeting Called to Order

Robert Fauteux called the meeting to order.

2. Welcome and self-introductions

Introductions were made.

3. Public Comments

None

4. Approval of Minutes

The Minutes of the November 4, 1998 meeting were previously tabled and tabled again today pending a ruling from Ann Fletcher, County Counsel. Mr. Steve Lewis retired from the County and Ms. Mittermeier was not present at the November 4 meeting which resulted in not having a quorum. Change "data that is" to "data that are" on Page 2, first paragraph, as noted by Dr. Dean.

Mr. Fauteux stated on page two, second paragraph of the Minutes of the December 2, 1998 meeting, Mr. Moorlach suggested adding a public member and the annual appointment of the pro tem at the next meeting. He clarified that statement by explaining that the chair and the vice chair has to be elected at the first calendar meeting each year of the Committee. This item will be agendized for the next meeting. Ms. Fletcher concurred. Mr. Fauteux asked if there were any more comments or changes. There were none.

Recommended Action: Agendize the election of the chair and the vice chair at the next meeting. Mr. Fauteux asked for a motion to approve the December 2, 1998 minutes. Dr. Dean moved to approve the minutes. Seconded by Ms. Mittermeier. Passed 3-0

5. **Treasurer's Report**

Mr. Moorlach began his report by stating the Treasurer's Conference his department held in February was very successful. There was a good turnout and the speakers were outstanding. The title, "Orange County Finances: Past, Present and Future," was suggested by Bruce Hughes of the Treasurer's Advisory Committee.

Since the last TOC meeting, he has attended a couple of conferences. He found the Money Market Expo 99 very useful. Ms. Jacobson also attended. It was the first conference provided by IBC, a publisher which is used for our index for money market funds, that addressed both money market funds and local government investment pools. He felt it was the most on-target conference for what his office is doing that he has attended to date.

Mr. Moorlach and his two assistants recently attended the California Association of County Treasurers & Tax Collectors Area 5 conference that they found very informative.

Mr. Moorlach handed out an update of the 14 bills presented by his department to the CACTTC's Legislative Committee. They rejected only one. Numbers five and seven on the list were submitted by the Association near the conclusion of that last legislative session and have subsequently been signed into law by Governor Wilson. Three are pending, five are in omnibus bills and three are stand alone bills.

Dr. Dean asked about the conditions under which small refunds are issued. Mr. Moorlach asked Gary Cowan to join the meeting to explain to the Committee the reasons we have small refunds, as provided under R&T Code Section 75.43. Mr. Cowan reported this legislation refers to supplemental tax refunds where there has been a change of ownership and property is purchased at a lower value than the existing assessed value by the Assessor. This causes a negative liability which creates a refund. He explained how refunds are calculated based on the negative value, sometimes causing many refunds less than \$20, some as little as \$1.50. Mr. Cowan further explained there are other provisions in the R&T Code where we do not have to refund small amounts, but not on the supplemental roll. In our legislative proposal we attempted to have the law changed to not refund anything less than \$10 because of the cost. Ms. Mittermeier inquired if the refund amount could be rolled over to next year's tax bill. Mr. Cowan responded the law requires that if the property owner does not pay the current or prior year tax bill on that same property and has a supplemental refund due, the refund can be applied to the bill. Ms. Mittermeier suggested, as an alternative, to subtract that amount from their next year's tax bill because that would be more economical than issuing a check, adding the legislature might agree on that. Mr. Cowan stated it would be worth looking into and Mr. Moorlach concurred.

Mr. Moorlach continued his report and provided a handout on the Basis Point Calculation explaining this is another item that the Committee oversees. He stated he would like to agendize it for the next meeting. Mr. Gorman explained that we were charging 15 basis points. Our actual cost to provide our services was 12.91 basis points, because our average pool balances exceeded our projections. Also, our costs were a little lower. As in prior years, the excess of

our charge over our actual costs will be rebated to our participants.

Mr. Moorlach reported that at the Money Market Expo 99 Conference Standard & Poors gave a presentation detailing the Local Government Investment Pool index. We have been debating for the last four years how far out we should be going with our weighted average maturity (WAM). We have limited ourselves to 90 days. Mr. Moorlach expressed that he was shocked when the speaker from S&P stated they have an index tracking some 50 local government investment pools throughout the country representing \$45 billion in assets, and the average WAM is 32 days. His thoughts were that it would be 200 or 300 days. A graph (Exhibit 10) in the February monthly report illustrates our Investment Pools vs. Benchmarks. He explained we decided to include S&P's rated local government investment pool index and show our performance at gross and S&P's index as net. In next month's report, we are going to compare gross-to-gross and net-to-net. We are doing much better even after a 15-basis point, or even a 12 or a 13-basis point expense ratio than the LGIP index.

We have been debating for a long time if we should extend our own WAM beyond 90 days, which would kick us out of the money market category, but it would put us closer to what is happening around the State in the other 57 counties. After the S&P presentation, he was convinced to continue with the money market pool and perhaps start a medium term pool. We are already working with IWMD for some alternatives to have a separate pool utilizing net asset values.

Mr. Moorlach reported that he did a survey for a four-page abbreviated version of the monthly report. Most of the recipients stated they wanted to go with a full report. It would require many hours of extra work to print a small four-page version, condense the information and produce it in addition to our full report, so we decided to pass on the four-page fold-up kind of approach for now. For people on our distribution list who want something shorter, we can provide them the first dozen pages stapled instead of giving them all the portfolio data. He hopes to have the whole portfolio on the Internet soon, and they can refer to that. Mr. Fauteux asked for any further comments. There were none.

6. Chairman's Report

Mr. Fauteux began his report by stating on December 15, Mr. Moorlach made a presentation to the Board of Supervisors of the IPS and the Annual Report of the TOC for 1998. They were accepted without any problems or questions and a couple of compliments were received. Unfortunately, Mr. Fauteux arrived too late. As discussed earlier in the meeting, Mr. Fauteux commented on the appointing of the chair and vice chair at the next meeting.

7. Internal Audit Annual Compliance Audit

A. Report for Year Ended 12-31-97 Mr. Moorlach, referring to Internal Audit's Senate Bill 866 Compliance reports, previously distributed to the Committee members, stated Andrew Schneider, Interim Director, and Auditors, Carol Swe, and Dana Swart are present for questions. Mr. Sundstrom inquired if the response in Recommendation one, page 11, which is a

partial concurrence that the scope of the IPS does not cover specific, or nonpooled, investments held in the Treasury, satisfies Internal Audit's concerns. Ms. Swe responded that Internal Audit did not see eye-to-eye, but the Treasurer did agree to pursue clarification. Mr. Sundstrom asked for clarification from Mr. Moorlach of his response and if his recommendation is to obtain clarification from the State of the intent of GC 27133. If he is asking for legislative "change," he understands that. Internal Audit recommends asking for legislative "interpretation." He finds these two things slightly ~~out~~ of askew. Mr. Moorlach responded he does not agree with Internal Audit's statement, "It is our interpretation that nonpooled investments should be covered by the IPS and subject to the same criteria as pooled investments, including authorized security type." Mr. Sundstrom commented he is surprised that Internal Audit did not question the Treasurer's response. He is not in disagreement with Mr. Moorlach, but believes that Internal Audit was still persuaded one way or another. Mr. Schneider stated they may have been misled by "clarification." Mr. Moorlach stated the IPS refers to our money market investment pool, so it doesn't include or exclude anyone else.

Ms. Mittermeier recommended obtaining a separate IPS from the Board for nonpooled investments, for example IWMD. Mr. Hilde responded that we can obtain specific authorization from the Board separate from the IPS. The language in the IPS can state that there will be other investments nongoverned by the IPS. Ms. Mittermeier asked Internal Audit if the issue restricted to Government Code requires nonpooled investments be covered by the IPS, or if there is anything wrong with having one IPS. Ms. Swe responded no. Ms. Mittermeier also recommended rather than asking for clarification of legislation, Mr. Moorlach should get a separate IPS for nonpooled investments. Discussion continued whether or not all investments in the Treasury, including nonpooled investments, should be covered in the IPS and subject to the SB866 requirements. Ms. Swe stated her interpretation of the Government Code is that all investments should be covered by the IPS. Ms. Mittermeier further stated we need to go back to the intent of the IPS, which is where the Board decides how much risk they want to take. Their decision is based on what the Treasurer recommends to them. If Mr. Moorlach has investments for any reason that are not covered by this IPS and are not otherwise directed by the Board, he should go to them regardless of what Government Code states. Ms. Mittermeier also added Mr. Moorlach agrees that in a situation not covered by a bond indenture, or other document specifying the investment, he needs to get some sort of investment policy agreement. Mr. Sundstrom concluded the topic by stating, he needed clarification as the response did not sound like it was quite to the point with the intent of the recommendation.

Mr. Fauteux commented on page 13, Item IV, Recommendations five and six of the Compliance Reports as an overkill. He explained in reviewing the rules on page 2 of the Bylaws, as specified by Senate Bill 866 that set up the Oversight Committee, that by the Committee signing an annual endorsement only supports the annual audit. There is no question about the annual audit, but when a person joins the Committee, it is not necessary to swear allegiance to the bylaws. A copy is provided to the new member and they are well aware of the restrictions involved in being a member. If they don't agree, they will not be allowed to be members. He does agree to signing an annual endorsement. Every year he makes the effort to update the bylaws with any new legislation that comes out of Sacramento, and he is not very happy with the recommendations or the responses on item IV. He particularly does not agree

with the Treasurer's response to propose an appendix to the bylaws setting forth the requirements and restrictions for members because it is already contained in the body of the bylaws. He asked Mr. Moorlach what the appendix would contain. Mr. Moorlach responded the appendix would state that the members have to approve the bylaws. Ms. Mittermeier stated she thought the response could be left the same, and she informed Mr. Moorlach it was up to him to decide how he wants to respond. Mr. Moorlach stated he wanted to agendize it for the next meeting and he will have something prepared.

Ms. Mittermeier agreed with Mr. Fauteux to sign an annual statement at the initial appointment with the understanding that you are aware of the type of restrictions and in agreement. Mr. Fauteux stated if there is concurrence with the other members, he will make an amendment to the bylaws. It will be included the next time it is presented to the Board. Mr. Sundstrom, as a new member of the Committee, requested copy of the bylaws. Mr. Fauteux stated he understands some of the arguments from Internal Audit with regard to signing on an annual basis. If a member joins understanding the bylaws and changed in subsequent years their compliance to the bylaws, Internal Audit would not know that. For example, at the first calendar meeting every year and in addition to electing the chair and vice chair, we would have to have everybody sign the oath. Ms. Mittermeier stated you will need to know what the penalty would be and what Internal Audit would do if we don't comply. Mr. Schneider stated he was not sure what the penalty would be, but they do have to understand and comply with the restrictions and requirements. Mr. Fauteux stated that could be included in the bylaw's contents. If that code is changed and stipulates signing every year, it would become an amendment to the bylaws. He will provide a draft of the bylaw revision for the next meeting. Mr. Moorlach thanked Internal Audit for their first SB 866 audit of the TOC. Mr. Fauteux concurred. Mr. Moorlach stated there were a lot of issues, as Ms. Swe pointed out we didn't know what it was all about. Mr. Sundstrom concurred that it was an excellent report. Mr. Moorlach advised Internal Audit is going to start their next audit on March 22, so there will be another report. Mr. Moorlach stated a copy of this report will be included in our next month Treasurer's Management Report. Mr. Fauteux asked for any other comments from the Committee on the report. There were none.

B. Preferred reporting Period - Calendar or Fiscal Mr. Moorlach stated Orange County runs on a fiscal year end of June 30. This review ends on the year ended December 31, 1997. He originally discussed this with Mr. Sundstrom who requested that after he got out of his busy season he could do the report on a fiscal year end. Mr. Moorlach thought at the time deferring it was fine, but continue to keep it on a fiscal year basis, which is what he thought this would be, a June year-end report. He is comfortable with an off year, if this Board is comfortable with it. He wanted to discuss it today because we can now do a six-month report, a 18-month report, or stay with what we are doing, which is going from December to December. Ms. Mittermeier did not see a problem with December because it is not likely the Treasurer has to have their numbers for a financial statement or budget. Mr. Sundstrom asked if the plan to get it a little tighter is to the end of the calendar year. Mr. Moorlach responded, in defense of Internal Audit, there were a lot of things that came up even where this Committee had a tough time convening to sign engagement letters. We experienced many delays that were unique to the situation. If everyone is comfortable, we will stay on a calendar year basis. Mr. Moorlach

suggested to the Chairman to make a motion on Item "A" to receive and file the audit report and Item "B" to approve a calendar year period.

Recommended Action: Mr. Fauteux asked for a motion to receive and file Item "A," Internal Audit Annual Compliance Audit for year ended December 31, 1997. Moved by Dr. Dean. Seconded by Mr. Sundstrom. Passed 4-0

Mr. Fauteux asked for a motion to approve Item "B," stay on a calendar basis for the reporting period. Moved by Mr. Sundstrom. Seconded by Ms. Mittermeier. Passed 4-0

C. Engagement Letter for Year Ended 12-31-98 Mr. Moorch began by stating the engagement letter dated March 16 is ready for Mr. Fauteux's signature. Before the signing, a discussion followed on the amount of hours and the fees it takes Internal Audit to provide their services to the Treasurer. Mr. Schneider pointed out they have an escape clause. They will notify the Treasurer immediately of circumstances they encounter that could significantly affect their initial estimate of total hours and fees. Mr. Fauteux asked if there were any comments or observations. There were none.

Recommended Action: Mr. Fauteux asked for a motion to approve the engagement letter. Dr. Dean moved to accept the engagement letter. Seconded by Ms. Mittermeier. Passed 4-0. Mr. Fauteux signed the letter.

D. Fitch IBCA Fee Quote Mr. Moorch reported that Fitch is increasing their quarterly compliance fee from \$15,000 to \$17,000. He is very pleased with Fitch being another guard in the monitoring of compliance issues. Based on the internal audit Fitch has done and based on our own internal compliance, Fitch has not found something that we have not already found ourselves. Mr. Gorman explained the only thing they found, and reported in their Compliance Report dated March 10, 1998, is that we round our weighted average maturity to 90 days and on December 10, 1997 they tested our WAM to 90.06 days and stated we are over. Mr. Moorch added that is because our software rounds off. He wanted to bring this issue to the Committee for discussion to see if we need to continue using their service. He believes Fitch should do the quarterly monitoring and recommends continuing for another year because it is a good safeguard. Dr. Dean stated he would support and move on that recommendation. Further discussion followed on the benefits of retaining Fitch and the cost saved by eliminating them. Mr. Moorch recommended reviewing Fitch's work for another year and then bring it back for discussion. Mr. Gorman provided some background stating Internal Audit originally became involved in our compliance monitoring because the previous Auditor-Controller made a point that Fitch was not doing any verification of the information. Mr. Moorch further added Fitch has been a great resource, very helpful and asked the Committee if he should invite Fitch to come out to justify their services. The Committee did not think that was necessary. Ms. Mittermeier agreed with Mr. Moorch to continue Fitch's services for another year and to revisit the issue in a year. She further suggested having Fitch do a semiannual compliance rather than quarterly instead of eliminating them altogether stating that \$37,000 is money well spent. Dr. Dean added it is good insurance money. Mr. Fauteux asked for a motion to retain Fitch for another year.

Recommended Action: Dr. Dean moved to retain Fitch for another year. Seconded by Ms. Mittermeier. Passed 4-0.

8. Committee Comments

Dr. Dean inquired about the "White Paper" Mr. Moorlach has been updating the Committee on at previous meetings. Mr. Moorlach stated he decided not to mention it in his Treasurer's Report because it is near completion. Mr. Fauteux welcomed Mr. Sundstrom to the Committee. No further comments.

9. Public Comments

None

10. Schedule Next Meeting Date

The next regular meeting was scheduled to be held on June 30, 1999 in the Treasurer's Office, Conference Room A, 3:00 p.m.

11. Adjournment

Mr. Fauteux adjourned the meeting at 4:23 p.m.