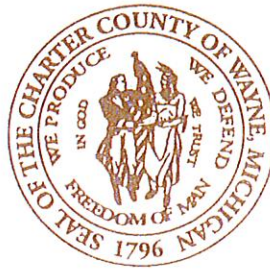


Office of Legislative
Auditor General

MARCELLA CORA CPA, CIA, CICA, CGMA
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May 5, 2017

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Limited Analytical Review report of the Wayne County Treasurer's Office, Investment Reports for Fiscal Year 2016. Our report is dated March 30, 2017; DAP No. 2017-57-900. The contents of this report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on April 26, 2017 and formally received by the Wayne County Commission on May 4, 2017.

We are pleased to inform you officials from the Office of the Wayne County Treasurer provided their complete and full cooperation during the engagement. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose. Copies of all Office of Legislative Auditor General's reports can be found on our website: <http://www.waynecounty.com/commission/legislative-auditor-general-reports.htm>

Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

REPORT DISTRIBUTION

Office of the Wayne County Treasurer

Honorable Eric R. Sabree, County Treasurer
Melanie Kersey, Chief Deputy Treasurer
Paul Zelenak, Deputy Treasurer, Financial Services

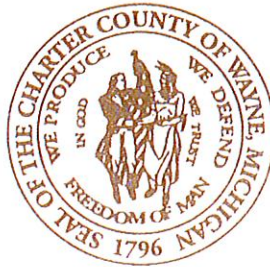
Department of Management & Budget

Tony Saunders, Chief Financial Officer
Mathieu Dube, Deputy Chief Financial Officer
Terry L. Hasse, Director, Grants Compliance and Contracts Management
Ashley V. Johnson Assistant Division Director of Grants and Contract Management
Tamara Brown, Grants Compliance Officer

Wayne County Executive

Office of Legislative
Auditor General

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March 30, 2017

DAP No: 2017-57- 900

Honorable Eric R. Sabree
Wayne County Treasurer
County of Wayne, Michigan
400 Monroe, 5th Floor
Detroit, MI 48226

Re: Limited Analytical Review Engagement of the Wayne County Treasurer's Office,
Investment Reports, Fiscal Year 2016, October 1, 2015-September 30, 2016.

Dear Honorable Eric R. Sabree:

Introduction

The Wayne County Office of Legislative Auditor General (OAG) has performed a Limited Analytical Review of the Wayne County Treasurer's Office, Investment Reports for Fiscal Year (FY) 2016; October 1, 2015 – September 30, 2016. We obtained copies of the Treasurer's FY 2016 Quarterly Investment Reports from the Wayne County Treasurer.

Scope of Work

The procedures we performed regarding this engagement were limited to an analytical review of investments managed by the Treasurer's Office and does not constitute an audit or review in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States or the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Because the procedures performed did not constitute an audit or review, we do not express any conclusion(s) or opinion(s) regarding the investment activities reported in the Treasurer's report.

We reviewed the: 1) completeness and thoroughness of the report; 2) report's compliance with applicable state statutes and the county's investment policy; and, 3) trends in investment balances and interest earnings.

Background

The Treasurer is required by Michigan Public Act 20 of 1943, as amended and Wayne County's Comprehensive Investment Policy Section 117 to invest in only certain types of investments. The Comprehensive Investment Policy states as an objective for the cash management portfolio "to regularly exceed the average return on three-month U.S. Treasury Bills."

The Wayne County Treasurer's Office stated the primary objective of the County's investment activities is the safety of principal, while providing liquidity and return on investment. The County makes deposits with financial institutions that consist of checking accounts, savings accounts, and certificates of deposit. For each quarter, the Federal Deposit Insurance Corporation (FDIC) insurance was limited to \$250,000 per institution.

The Treasurer manages four portfolios: General Operating, Building Authority, General Reserve (Bond Reserve,) and Delinquent Tax Note Repayment (Restricted). Only the General Operating Portfolio is available to meet the county's current obligations. The other three are restricted to specific purposes.

Michigan Public Act 213 of 2007, effective December 27, 2007, requires the Treasurer to provide quarterly a written report to the governing body, the Wayne County Commission, concerning the investment of county funds.

Submission of Quarterly Report

The applicable state statute, P.A. 213 of 2007, does not specify what information is specifically required for communication to the governing body or a specified date for submission. Based on our review, it appears the Treasurer's quarterly reports for fiscal year 2016 were complete and thorough in its reporting of the investments managed by the Treasurer.

The Treasurer's FY 2016 Quarterly Investment Reports were communicated to the Chair of the Wayne County Commission as follows:

<i>Reporting Period</i>	<i>Date of Communication</i>
1 st Quarter, October 2015 – December 2015*	June 17, 2016
2 nd Quarter, January 2016 – March 2016*	June 17, 2016
3rd Quarter, April 2016 – June 2016	October 24, 2016
4th Quarter, July 2016 – September 2016	January 9, 2017

* Sent simultaneously/together to Chair of Commission

Compliance with State Statutes and County Ordinance

As promulgated by law, the Treasurer is responsible for managing and investing the county's four cash portfolios: General Operating, Building Authority, General Reserve (Bond Reserve), and Delinquent Tax Note Repayment Restricted. Based on our review of the quarterly reports, it appears the investments and investment types were in compliance

with state statutes and the Wayne County Comprehensive Investment Policy as promulgated by the Wayne County Commission.

Trends in Investment Balances and Earnings

Increase in Investment Portfolio Balances

The portfolio balances managed by the WCTO decreased by \$50.29 million from FY 2015 to FY 2016 (see chart below). The majority of the decrease is in the DTAN pool, which decreased a total of \$56 million or 100% from FY 2015 to FY 2016.

Schedule of Investment Portfolio Balances For Fiscal Years Ending September 30, 2015 and 2016 (In millions)

Portfolio Name	FY 2016	FY 2015	Increase / (Decrease)
General Operating	\$ 501.88	\$ 495.58	\$ 6.30
Building Authority¹	57.97	58.28	(0.31)
General Reserves (Bonds)	30.29	30.63	(0.34)
DTAN	-	55.94	(55.94)
FY Total	\$ 590.14	\$ 640.43	\$ (50.29)

Source: Wayne County Treasurer's Office, FY 2015 and FY 2016 Investment Reports

- General Operating Portfolio
- Building Authority Portfolio
- General Reserve Portfolio (mainly bond reserve)
- Delinquent Tax Note Repayment Restricted Portfolio (DTAN)

According to a Treasurer Official:

The \$50.29 million decrease was primarily attributed to the DTAN portfolio decrease of \$55.94 million, which was offset by an increase in the General Operating portfolio of \$6.3 million: and

- The DTAN decrease of \$55.94 million was mainly due to the county making its final note payment on the 2013 bonds on June 1, 2016. Subsequently, the portfolio was no longer necessary due to a new payment arrangement with the bond trustee.
- The increase in the General Operating portfolio was partly due to an increase from FY 2015 to FY 2016 in property tax revenues by about \$2 million, which was due to increases in taxable value. For the remaining balance we were unable to obtain an explanation. However, this pool holds a combination of general operating cash,

¹ WCTO official stated the portfolio balance is unspent bond proceeds, of which 97% is *jail* bond proceeds.

cash restricted to certain operations (roads, sewage disposal systems, etc.) and trust and agency cash which could be a contributing factor to the increase.

Portfolio Average Yields

For the entire fiscal year 2016, all four investment portfolios' weighted average yields exceeded the 90-day T-Bill average yield (see chart below). Since the yields were exceeded, all four portfolios' complied with the county's Comprehensive Investment Policy.

Schedule of Investment Portfolio Average Yields For the Quarter Ending FY 2016

Quarter Ending	Dec. 31, 2015	Mar. 31, 2016	Jun. 30, 2016	Sept. 30, 2016
General Operating	0.68	0.83	0.90	0.81
Reserves (Bonds)	1.41	1.28	1.14	1.10
Building Authority	0.35	0.78	0.77	0.73
DTAN	0.39	0.30	0.40	0.00
90-Day T-Bill	0.23	0.29	0.22	0.18

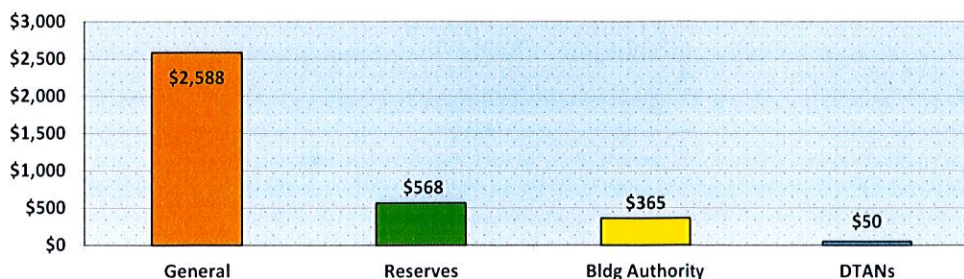
Source: Wayne County Treasurer's Office, FY 2016 Investment Reports

The weighted average yield in the DTAN pool at the end of the third quarter was 0.40; however, during the 4th quarter the yield was 0.00. According to WCTO officials, this was due to the payment of the remaining balance on the 2013 bonds on June 1, 2016. WCTO official further stated that no interest was earned after this date.

Net Interest Earned During Fiscal Year

During fiscal year 2016, net interest (interest less amortization of premium) earned on the four portfolios was \$3.57 million. The majority of the net interest earned was attributed to the General Operating Portfolio, which represented 72% of total interest earned. Comparatively, during FY 2015, net interest earned on the four portfolios was \$1.93 million. This represents an increase in interest earned from FY 2015 to FY 2016 of \$1.64 million or 46%.

Schedule of Interest Earned During Fiscal Year 2016 (In thousands)



In addition, according to a Treasurer Official, the accounts in the DTAN portfolio were set up specifically as a depository for the tax collections pledged for debt service payments. When the final note payment was made on June 1, 2016 for FY 2013 DTAN notes, the portfolio was no longer necessary.

Officials stated there were 2014 DTANs issued in FY 2015 for approximately \$188 million and 2015 DTANs issued in FY 2016 for \$171.3 million. However, due to the poor economic conditions of the County and the City of Detroit at the time of the issuance of these notes, transferring collections to the Trustee on a weekly basis was a required condition of the note agreement. This added security of funding to investors. The Treasurer Official also stated that interest income was less because of this arrangement with the trustee. In FY 2015, the DTAN portfolio earned \$39,372 during the 4th quarter.

Views of Responsible Officials

We shared the report with the Treasurer Official who provided responses to our inquiries.

Conclusion

It is our opinion that the Treasurer is in full compliance with the State of Michigan's investment policies, and investment holdings were in compliance with the Wayne County Comprehensive Investment Policy. Based on our limited analysis and inquiries, we have concluded that the county's General (Pool) Operating, General (Bond) Reserve, Building Authority, and Delinquent Tax Note Repayment Restricted Portfolios are performing at or above the 90-day T-Bill rate, and investment risk appears to be sufficiently managed.

On behalf of the OAG, we would like to thank the officials in the Wayne County Treasurer's Office for their cooperation during the engagement.

Respectfully Submitted,



Marcella Cora, CPA, CIA, CICA, CGMA
Auditor General

cc. Melanie Kersey, Chief Deputy Treasurer
Paul Zelenak, Interim Deputy Treasurer - Financial Services
Wayne County Audit Committee