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March 5, 2009

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Treasurer's Investment Report Fourth Quarter, July – September 2008, Consulting Report dated February 13, 2009, DAP No. 2009-57-804. The contents of this final report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on February 24, 2009 and formerly accepted by the Wayne County Commission on March 5, 2009.

We are pleased to inform you that officials and staff of the Treasurer's Office offered their full cooperation during the review. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to address these matters with you at your convenience. This report is intended for your information and should not be used for any other purposes. Copies of all Office of Legislative Auditor General's final reports can be found on our website: http://www.waynecounty.com/commission/agAuditReports.asp.

Willie Mayo, CPA, CICA
Auditor General

REPORT DISTRIBUTION

Treasurer's Office
Honorable Raymond J. Wojtowicz, Wayne County Treasurer
Robert J. Grden, Deputy Treasurer
Barbara Aulepp, Department Executive

Department of Management & Budget
Carla E. Sledge, Chief Financial Officer
Terry L. Hasse, Director, Grants and Contract Administration

County Executive

RESOLUTION

No. 2009-100

By Commissioner Woronchak

RESOLVED, by the Wayne County Commission this 5th day of March, 2009 that approval be, and is hereby, granted approving the Fourth Quarter Investment Report and consulting report for the period of July through September 2008; This quarterly report covers the cash and investment activities of the Wayne County General Pool as required by Public Act 213 of 2007, which requires local governments to perform their investment reporting quarterly to the governing body; This investment activity for the quarter is in compliance with Wayne County's Comprehensive Investment Policy.

(2009-75-003) & (2009-57-804)

DAP No: 2009-57-804

County of Wayne

Office of the Wayne County Treasurer

TREASURER'S INVESTMENT REPORT FOURTH QUARTER JULY – SEPTEMBER 2008

Consulting Report

February 13, 2009

REPORT SUMMARY

Why We Performed this Engagement

Based on a change in state law, which became effective December 27, 2007, the Wayne County Treasurer (Treasurer) is required to make quarterly reports on investments to the governing body.

More specifically, the State of Michigan amended Public Act (PA) 20 of 1943 to include PA 213 of 2007. Public Act 213 relates to investing funds of political subdivisions of the state and requires the investment officer to provide a quarterly written report to the governing body concerning the investment of funds. In addition, Section 117 of the Wayne County Code of Ordinances was established to provide a comprehensive investment policy for the county.

The fourth quarter Treasurer's Investment Report was referred from the audit committee on February 10, 2009, to the Office of the Legislative Auditor General for our review, assessment and recommendations. Our objectives were to: (1) determine whether the Treasurer's quarterly investment report complied with state statutes; (2) determine whether the Treasurer's investment holdings were in compliance with the county's Comprehensive Investment Policy; and (3) assess the Treasurer's governance, risk management, and control activities over county investments.

What We Did

We reviewed Michigan Public Acts 20 of 1943, 196 of 1997, 213 of 2007, and 404 of 2008; and, the Wayne County Comprehensive Investment Policy (Investment Policy) which is contained in Section 117 of the Wayne County Code of Ordinances. We also reviewed the Treasurer's Investment Report – Fourth Quarter for the period July through September 2008, conducted interviews with appropriate Treasurer officials to determine whether the established procedures

ensured safety of principal as the primary investment objective, and performed other tests and analyses as deemed appropriate to fully and adequately address the objectives.

The fieldwork for this engagement was completed on February 13, 2009. Our engagement is not an audit in accordance with Government Auditing Standards, but rather a consulting engagement performed in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

What We Found

Although the State of Michigan Public Act requires the Treasurer to provide a quarterly written report to the commission, it does not specify a particular format or content of the information to be reported. Specifically, we observed:

- The Treasurer manages three portfolios: General Pool, Bond Reserve, and Building Authority.
- The Treasurer's investment report as presented complies with Michigan Public Act 213 of 2007.
- The investments in the General Pool portfolio, Bond Reserve portfolio, and Building portfolio comply with state statutes and the county's investment policy.
- The governance process over the Treasurer's investments was sufficient.
- Investment risk is sufficiently minimized and managed by the Treasurer's office.
- The internal controls over the county's investments are adequate.
- The county is inherently vulnerable to custodial credit risk related to their bank deposits. This risk is related to cash deposits with financial institutions that exceed the Federal Deposit Insurance Corporation (FDIC) insured amount of $250,000. As of October 3, 2008, and temporarily through December 31, 2009, the FDIC increased the deposit insurance amount per depositor from $100,000 to $250,000. Based on discussions with Treasurer's officials and a review of the audited financial statements for FY 2007, the Treasurer is complying with the county's guidelines established for deposits over $100,000 in any one financial institution, and we believe the risk is being properly managed.
- Fourth quarter interest earnings for the General, Bond Reserve, and Building Authority portfolios were $1,685,498, compared to $1,694,515 from the previous quarter. This was a result of the average yield decreasing from 2.43 percent to 2.41 percent in the General Pool Portfolio, which is 79 percent of total portfolio investments. The General Pool Portfolio average yield as of September 30, 2008 was 2.41 percent, which exceeded the 90-day T-Bill average yield of 0.92 percent.

- Total investments as of September 30, 2008 were $466,802,057, compared to $268,518,579 as of June 30, 2008. According to Treasurer officials, historically, during the fourth quarter of each year the investment portfolio will be higher due to property tax collections that occur in the latter part of September. The September property tax collections are distributed to local taxing authorities in October.

- The Treasurer's report states the total cumulative interest earned on the investment portfolio for the period October 1, 2007 through September 30, 2008 is $10,015,548. The cumulative interest earned for the same comparable period in 2007 was $17,035,269.

- The Wayne County Stadium Authority and Downriver Sewage Disposal System are managed by trustees other than the County Treasurer for a fee. The county could generate cost savings and possible additional interest if they consider having the Treasurer invest and manage all county funds, when permissible by statute.

- We noted there are no funds being invested in credit unions, although investments in credit unions are an allowable investment in accordance with the Wayne County Comprehensive Investment Policy, Section 117 - 7 (a)(2).

- The Treasurer is currently seeking the commission's approval to modify the Wayne County Comprehensive Investment Policy to allow the percentage invested in mutual funds to be increased from 50 percent to 100 percent.

OAG Observation

When permissible by statute, ordinance, or resolution, in the future the county should consider having the Treasurer manage all county funds, including those held by component units.

Prior Recommendation

We recommended the Treasurer's report summarize the average yield earned on all portfolios and explain any significant variance(s) as compared to the previous quarter/year. According to Treasurer officials, they plan to implement this recommendation starting with the first quarter 2009 report.

What We Recommend

We recommend:

- The Treasurer explore the feasibility of investing in credit unions when it is economically profitable and does not pose any additional risk to the county.

- Due to the volatility of the economy and the core principles related to a sound philosophy of diversification, we believe the current diversification strategy as outlined in the

ordinance is sufficient and we do not support the justification for amending the Investment Policy.

- The Treasurer's investment reports in the future should be revised to provide comparisons, on an annual basis, of principle investments and interest earned as well a discussion regarding any trend analysis and projected increases/decreases in cash and yield on investments.

REPORT DETAILS

OBJECTIVES

Based on a referral from the audit committee, the purpose and objectives of this engagement are to: (1) determine whether the Treasurer's quarterly investment report, fourth quarter, July – September 2008, complied with Michigan Public Act 213 of 2007 and applicable state statutes; (2) determine whether the Treasurer's investments were in compliance with the county's Comprehensive Investment Policy; and, (3) assess the Treasurer's governance, risk management and control activities over county investments.

SCOPE

This report is not an audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. This is a consulting engagement and the procedures were performed in accordance with the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA).

The IIA standards define a consulting engagement as advisory and related service activities, the nature and scope of which are agreed with management and which are intended to add value and improve the county's governance, risk management, and internal control processes without assuming management responsibility.

The consulting procedures performed by the OAG for this engagement were limited to: reviewing ordinances, laws, and regulations; obtaining and reviewing the Treasurer's Investment Report for the Fourth Quarter – July through September 2008; and, interviewing appropriate management officials. The fieldwork for this engagement was completed on February 13, 2009.

METHODOLOGY

We reviewed state statutes and county ordinances, and conducted interviews with appropriate Treasurer officials to determine: the Treasurer's compliance with Michigan Public Acts 20 of 1943, 196 of 1997, and 213 of 2007; and, whether the established procedures ensured safety of principal as the primary investment objective. We also reviewed the Treasurer's Investment Report – Fourth Quarter for the period July through September 2008.

BACKGROUND

The Treasurer is required by Michigan Public Act 20 of 1943, as amended, and Investment Policy Section 117 to invest in certain types of investments. The 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 Treasurer manages three portfolios: General Pool, Bond Reserve, and Building Authority. Only the General Pool Portfolio is available to meet the county's current obligations.

Michigan Public Act 213 of 2007 requires the Treasurer to provide a quarterly written report to the Wayne County Commission concerning the investment of the funds. Although the Act did not become effective until December 27, 2007, the Treasurer made its first quarterly report to the commissioners for the period October 1, 2007 – December 31, 2007.

COMPLIANCE WITH STATE STATUTES

Objective (1)

Determine whether the Treasurer's quarterly investment report complied with state statutes.

Investment Options

Michigan Public Act 20 of 1943, as amended, authorizes the Treasurer to invest public funds in one or more of the following:

- Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution (state or nationally chartered bank, or a state or federally chartered savings and loan association, saving bank, or credit union whose deposits are insured by an agency of the United States government, etc.)
- Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services (e.g., Moody's and Standard & Poor's) and that matures not more than 270 days after the date of purchase.
- Repurchase agreements.
- Bankers' acceptances of United States banks.
- Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

- Mutual funds and Investment pools.

Investment Strategy

- The Treasurer's investment strategy is consistent with the Investment Policy, Section 117-2(b), which states that it is to regularly exceed the average return on three-month U.S. Treasury Bills. The policy goes on to identify this benchmark as a minimum standard and the investment program should seek to augment returns above this threshold with prudent investment principles whenever possible.
- According to Treasurer officials, General Pool funds are available to pay day-to-day operating expenses.
- Select investments (i.e., certificates of deposit, demand notes, and money market accounts) for periods of 60 days or less, because cash is constantly needed to meet the county's current obligations.
- Given the current market volatility and economic crisis, the Treasurer seeks to reduce the amount held in certificates of deposit which are insured by the FDIC for only $250,000 per financial institution.
- Seek commission approval to modify the Investment Policy to allow the percentage invested in mutual funds to increase from 50 percent to 100 percent. The funds would only be invested in government bonds, government securities, and other obligations of the United States or an agency or instrumentality of the United States.
- Based on the volatility of the economy and the principles of diversification, the OAG does not support amending the Investment Policy to allow the percentage invested in mutual funds to increase from 50 percent to 100 percent; we have not been satisfactorily convinced there is a need for the change.

This quarterly report identifies funds managed by the Treasurer as follows:

General Pool Portfolio
As of September 30, 2008

Type of Investment	Portfolio Size	Percentage
Certificate of Deposit	$121,695,917	32.81
Demand Deposit	52,752,808	14.22
Commercial Paper	20,000,000	5.39
Money Market	176,501,586	47.58
Total	**$370,950,311**	**100.00**

Bond Reserve Portfolio
As of September 30, 2008

Type of Investment	Portfolio Size	Percentage
Certificate of Deposit	$18,581,904	19.93
Demand Deposit	47,203,652	50.64
Commercial Paper	10,168,707	10.91
Money Market	17,267,337	18.52
Total	**$93,221,600**	**100.00**

Building Authority Portfolio
As of September 30, 2008

Type of Investment	Portfolio Size	Percentage
Certificate of Deposit	$934,989	35.55
Demand Deposit	751,971	28.59
Commercial Paper	500,906	19.04
Money Market	442,280	16.82
Total	**$2,630,146**	**100.00**

Interest Earnings Summary
All Portfolios
Fourth Quarter 2008

Type of Portfolio	Interest Earned	Percentage
General Pool	$1,075,833	63.83
Bond Reserve	587,266	34.84
Building Authority	22,399	1.33
Total	**$1,685,498**	**100.00**

Portfolio Analysis
As of September 30, 2008

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Cumulative Earnings
General Pool Portfolio	$3,310,451	$2,011,162	$1,286,728	$1,075,833	$7,684,174
Bond Reserve Portfolio	742,071	464,348	381,343	587,266	2,175,028
Building Authority Portfolio	68,684	38,819	26,444	22,399	156,346
Total Interest Earnings	**$4,121,206**	**$2,514,329**	**$1,694,515**	**$1,685,498**	**$10,015,548**
Total Investment Portfolio	**$224,045,945**	**$256,965,807**	**$268,518,579**	**$466,802,057**	
Treasurer's Avg. Yield *	4.59%	2.96%	2.43%	2.41%	
90-day T-Bill Yield	3.36%	1.38%	1.90%	0.92%	

The Treasurer's quarterly report complies with applicable state statutes.

* On General Pool Portfolio

Diversification

The investment policy of the county and state statute allows the Treasurer to invest in credit unions. Based on our review of the funds presently being invested by the Treasurer, it is noted that the Treasurer is not investing any funds in credit unions.

We believe an investment in credit unions would provide even greater diversification and would not pose any additional risk to county funds.

Increase in Investment Portfolio

The General Pool Portfolio increased by more than $205.4 million as compared to the third quarter of the FY 2008. According to Treasurer officials, historically, during the fourth quarter of each year the investment portfolio will be higher due to property tax collections that occur in the latter part of September. The September property tax collections are distributed to local taxing authorities in October.

We are recommending in the future the Treasurer's report include a section labeled "trend analysis" that compares the investment portfolios and earnings on an annual basis, as well as discuss major fluctuation in the Treasurer's cash position and future anticipated earnings.

COMPLIANCE WITH WAYNE COUNTY COMPREHENSIVE INVESTMENT POLICY

Objective (2)

Determine whether the Treasurer's investments were in compliance with the Wayne County Comprehensive Investment Policy.

Based on our review and analysis of the Treasurer's report, we are of the conclusion that the investments are in compliance with the Wayne County Comprehensive Investment Policy as promulgated by the Wayne County Commission.

ASSESS GOVERNANCE, RISK MANAGEMENT AND CONTROL ACTIVITIES

Objective (3)

Assess the Treasurer's governance, risk management and control activities over county investments.

We assessed the governance, risk management, and control activities over the Treasurer's investments. See the appendix for a discussion and definition of those terms.

The results of our observations, review and assessment are as follows:

Governance Process

The governance process can be defined as the authoritative direction, control or leadership provided by management. In assessing the governance process over the Treasurer's investments, we considered the common elements of a control environment: integrity and ethical values; management's commitment to competence; and, management's philosophy and operating style. We also reviewed the organizational structure, responsibilities and practices, and assignment of authority.

We concluded that the governance process over the Treasurer's investments was sufficient. Some of the favorable aspects are the integrity and ethical values of management; also, the management team has been in place for a number of years and hold sessions on a regular basis to discuss state statutes, objectives, and review performance of investments.

Risk Management

Government Accounting Standards Board Statement No. 40 (Deposit and Investment Risk Disclosures) requires investment risk disclosures in the financial statements. Those disclosures are made each year in the county's Comprehensive Annual Financial Report. The Treasurer's investments also must comply with Michigan Public Acts 196 of 1997 and 213 of 2007, and the Wayne County Comprehensive Investment Policy. Our assessment has determined that the fourth quarter investments are in compliance with state statutes and the Wayne County Comprehensive Investment Policy.

Therefore, it is our opinion that investment risk is sufficiently minimized and managed by the Treasurer's office.

Control Activities

The Treasurer is limited by state statutes and the Wayne County Comprehensive Investment Policy on the types of investments that can be made with public funds. The objective of the Treasurer is safety of principal; as a result, to adequately manage risk, the Treasurer regularly invests in certificates of deposit, demand deposits, money market accounts, and commercial paper to comply with state statutes and the county's investment policy.

Based on our review of the Treasurer's adherence to the investment policies required by state statute and county ordinances, as well as our understanding of their internal administrative and accounting controls, we have concluded that the internal controls over the county's investments are adequate.

OAG OBSERVATION

To generate cost savings and possible additional interest income, the county should consider, in the future, having the Treasurer invest and manage all county funds, including component units, when permitted by statutes and the by-laws of the respective board of directors.

PRIOR RECOMMENDATION

We recommended the Treasurer's report should summarize the average yield earned on all portfolios and explain any significant variance(s) as compared to the previous quarter. According to Treasurer officials, they plan to implement this recommendation starting with the first quarter 2009 report.

OAG RECOMMENDATION

Recommendation 09-01

The Treasurer should explore the feasibility of investing in credit unions when it is economically profitable and does not pose any additional risk to the county.

Recommendation 09-02

Due to the volatility of the economy and the core principles related to a sound philosophy of diversification, we believe the current diversification strategy as outlined in the ordinance is sufficient, and the OAG does not support a recommendation for it to be changed.

Recommendation 09-03

The Treasurer's investment reports in the future should be revised to provide comparisons, on an annual basis, of principal investments and interest earned as well as a discussion regarding any trend analysis and projected increases/decreases in cash and yield on investments.

CONCLUSION

Michigan Public Act 213 of 2007 requires the Treasurer to submit a quarterly written report to the Wayne County Commission. The Treasurer has submitted a quarterly report for the period July 1 through September 30, 2008. This quarterly report satisfies the requirements of the Public Act.

Due to the uncertainty of how the current downturn in economic conditions are affecting investments in the markets, it would be prudent to include in future reports a discussion regarding any trend analysis and any projected increases/decreases in cash and yield on investments.

It is our opinion that the Treasurer is in full compliance with the State of Michigan's investment policies and the requirement to make quarterly reports to the governing body; the Treasurer's investment holdings were also in compliance with the Wayne County Comprehensive Investment Policy. Also, the Treasurer's governance, risk management and control activities over investments were sufficient. Based on our analysis and inquiries, we have concluded that the county's investment portfolio is performing at or above the 90-day T-Bill rate, and investment risk is being well managed.

This report is intended solely for the information and use of the Treasurer's Office and the Wayne County Commission and is not intended to be and should not be used by another other than these specified parties. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

Willie Mayo, CPA, CIGA
Auditor General

APPENDIX

DISCUSSION/DEFINITION: GOVERNANCE, RISK MANAGEMENT AND CONTROL ACTIVITIES

GOVERNANCE, RISK MANAGEMENT, AND CONTROL ACTIVITIES

Governance

The governance process is considered one of the most important elements of internal controls. According to auditing/accounting literature, governance (also known as the control environment) is the foundation for all other components of internal controls. The control environment sets the tone of an organization, program, or activity, influencing the control consciousness of its employees. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include: the integrity, ethical values and competence of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees; and, the attention and direction provided by the commissioners.

The absence of good governance structures and lack of adherence to basic governance or management principles increases the risk of loss, fraudulent financial reporting, and misappropriation of an organization's assets and resources. Good governance is one of the key controls to reduce the risk of management overrides.

Risk Management

Risk Management is another critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified and assessed. Risk Management is the identification and analysis of relevant risk, which exists within the organization as a whole, as well as within its individual components (departments, divisions, programs, etc.) regarding the achievement of the organization's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

The identification of risk is a necessary component to installing compensating controls, where required, to enhance the probability of achieving the organizations objectives and protecting the interest of the stakeholders.

Control Activities

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks that may prevent the achievement of the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and reviews of operations and performance, security of assets and segregation of duties. It is action taken to minimize risk. The need for a control activity is established in the risk management process.

Control activities can be preventive or detective. Preventive activities are designed to deter the occurrence of an undesirable event, while detective activities are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.