San Mateo County Treasurer-Tax Collector

San Mateo County Investment Pool Review

December 2011

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Controller's Office
Audit Division

San Mateo County Treasurer-Tax Collector

San Mateo County Investment Pool Review

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Executive Summary

The Executive Summary is divided into 3 sections. Section I is on scope, including the risks that were considered. Section II provides information on the San Mateo County Investment Pool (Pool) and its oversight. Section III summarizes our observations. The rest of the report provides additional information regarding the Office of the County Treasurer-Tax Collector, Local Government Investment Pools, other audits and some of the risks noted below.

I. Scope of Review

State law requires the County Controller to perform or cause to be performed periodic reviews and an annual audit of assets in the County treasury. The County complies with these State law requirements and procures additional reviews as discussed later in the report. No reportable issues were noted from these audits and reviews.

This particular review is part of the Controller's routine audits of County departments and processes per State and local laws. These audits are generally risk-based and to avoid duplication rely upon other available audits and reviews to the extent they sufficiently address identified risks. As noted later in the report we relied on various reports and reviews of the Pool assets, especially on issues relating to accountability and compliance.

This review considered risk in the following inter-related areas:

- Compliance
- Liquidity
- Performance
- Board/Committee Review/Oversight
- Management Review/Oversight
- Fraud and other risks

Treasurer's Office Accomplishments include -

- Developed the Treasurer website to provide access and transparency to the public. Provides information on investment policies, agendas, meeting minutes for the Treasury Oversight Committee, press releases, and investment reports.
- Maintain customer satisfaction rating of over 90%

Source: County of San Mateo FY 2010-11 and FY 2011-12 Recommended Budget

Our examination of available audits and reviews, some of which are fairly comprehensive, indicates that adequate processes and controls exist in the areas of compliance, liquidity, performance and board/committee review/oversight. We also did not note any apparent problems in the other areas - management review/oversight or fraud and other risks. However, these other areas involve specific risks that could only be adequately addressed by obtaining a sufficient understanding directly from interviews of cognizant personnel and review of transactions, which were not in the scope of this review but will be performed in the next review. The risks identified also include those that may not be easily conducive to objective measurement and evaluation, such as credit or market risk that relies on ratings by third parties who are not directly accountable to investors such as the Pool participants. For example, the Lehman Brothers Holdings, Inc. investments complied with policy based on the rating criteria but still failed. Nothing in our review indicates the risk of a recurrence of a loss of the type and magnitude as the

Lehman Investments. A brief background and an update on Lehman investments are given below.

Lehman Investments

Lehman Brothers Holdings, Inc. ("Lehman") declared bankruptcy on September 15, 2008. As of that date, the Pool held Lehman financial instruments totaling $155 million in par value, making up 5.9% of Pool assets. This was within the 2008 Investment Policy limit of under 10% (reduced to 5% in the 2010 Investment Policy). The County's share of the loss was $36.7 million.

At the time of finalizing this report, the latest update from the Treasurer-Tax Collector dated September 22, 2011 states that the "Lehman estate, the Ad Hoc Creditors Group to which we belong, and the formal creditors group led by Goldman Sachs, have arrived at a compromise plan that would pay San Mateo County 21.1 cents on the dollar or higher". The update also mentions that the County is vigorously pursuing litigation seeking recovery from the individual officers and directors of Lehman, and their accountants and advisors.

Lehman Investments	
Recorded Loss	
Pool Total	$155 million
County Total	36.7 million
Anticipated Recovery*	
Pool Total	32.7 million
County Total	7.7 million

* Conservative estimates based on current status - recovering 21.1 cents on the dollar

In response to the Lehman loss the County had hired Alan Biller and Associates, investment consultants, to analyze Lehman investment decisions and review Treasurer's investment function. The consultants summarized their findings as follows:

- "The Pool was in compliance with California Government Code and the Policy from June 2007 through August 2008.
- Rationale to invest in Lehman securities was sound. Lehman had been a staple in the Pool for many years and was an issuer with whom the Treasurer's office was familiar.
- However, aggregate issuer exposure of 10% or greater (for Lehman and other issuers) was inconsistent with industry best practices and arguably in conflict with the Prudent Investor Rule."

  The Treasurer's office now limits aggregate non-US Government/Agency issuer exposure to 5%.

The Lehman investments were rated investment grade by the rating agencies virtually up to the day of Lehman's declaration of bankruptcy. The rating agencies have generally been immune to litigation as they have maintained that their ratings are "opinions" and so protected free speech. However, we noted that in an unrelated case, Moody's Investors Service Inc. and Standard & Poor's lost their bid to dismiss California Public Employees' Retirement System's $1 billion lawsuit over their ratings that were relied on by the pension plan to make certain investments. The investments consisted primarily of risky subprime mortgages that eventually collapsed.

As noted below current policy requires investing of public funds in a manner which will provide maximum security of principal invested. We also note that the Treasury Oversight Committee's duties include evaluation of general strategies, monitoring results and including in its discussions the economic outlook, portfolio diversification, maturity structure and potential risks to the funds.

II. San Mateo County Investment Pool and Oversight

As of December 31, 2011, the Pool was valued at $2.7 billion. County funds comprised 34% of the Pool. In the last fiscal year ended June 30, 2011 the Pool grew by $31.4 million (1.27%) due to investments. The target for fiscal year 2011-12 is conservatively estimated at $26.5 million (1.25%).

Under Section 2.91.040 of the San Mateo County Ordinance Code the County Treasurer-Tax Collector is delegated the authority to invest or reinvest the funds of the County and the funds of other depositors in the County Treasury pursuant to State law.

San Mateo County Pool December 31, 2011	
Par Value	$2,698,059,000
Market Value	2,712,723,108
Total Cost	2,698,846,872
Net Gain/Loss	13,876,236
Annual Income	19,193,452
County Funds	34.0%
School Districts	31.7%
Voluntary Participants	23.0%
Community College	6.7%
Special Districts	4.6%
Average Moody Rating	Aa3
Average S&P Rating	A+

Source: Treasurer's December 2011 Monthly Investment Report

A Treasury Oversight Committee, formed in 1996 pursuant to State law, oversees investments. The Committee has a membership of 12 and its mission is to evaluate and monitor local agency investments to ensure safe and high rate of return on public assets. More information, including member roster and meeting dates and minutes, is available from the County's Boards and Commissions website at http://www.co.sanmateo.ca.us/portal/site/bnc.

The rules, regulations and policies relating to investments are included in a formal Board-approved Investment Policy, which is reviewed and updated periodically. As noted therein, it is the policy of the County Treasurer to invest public funds in a manner which will provide maximum security of principal invested with secondary emphasis on providing adequate liquidity to pool participants, achieving the highest yield while conforming to all applicable statutes and resolutions governing the investment of public funds. The Investment Policy is available online at the Treasurer-Tax Collector's website at http://www.sanmateocountytreasurer.org/, which also includes links to various other pertinent information such as investment reports, compliance reports, audit reports, etc.

As mentioned previously, State law requires the County Controller to perform or cause to be performed periodic reviews and an annual audit of assets in the County treasury. The reviews include counting of cash and reconciliation of Treasurer's records with Controller's records, and are duly performed by Controller's staff. The annual audit is performed by the Grand Jury auditors as part of their annual audit of the County's Comprehensive Annual Financial Report (CAFR). The County also procures an annual 'Agreed Upon Procedures' audit to evaluate compliance with investment requirements per State law and Investment Policy. There were no adverse findings noted from the reviews and audits. The CAFR is available at the Controller's website at http://www.co.sanmateo.ca.us/portal/site/controller. The 'Agreed Upon Procedures' audit reports are available at the Treasurer-Tax Collector's website.

The current Treasurer-Tax Collector has hired PFM Asset Management LLC, an investment advisor, to review the Pool portfolio and provide monthly reports. The purpose of these reports is to verify the accuracy of the County's portfolio holdings information and verify the portfolio's compliance with the California Government Code and County's Investment Policy. These reports are also available at the Treasurer-Tax Collector website.

III. Summary of Observations

As noted above, there were no reportable exceptions. Some highlights are as follows:

- *Cash Flow and Cash Reserves (See pages 7-8 for details)*
    - *Cash Flow*: Policy on liquidity attempts to match maturities with a 15 month projected cash flow. An inspection of the monthly reports of actual versus estimate of the net cash flow shows insignificant variance.
    - *Cash Reserves:* The 2010 Comprehensive Annual Financial Report (CAFR) shows the total cash (and cash equivalents) represent 2% of the County's total cash and investments. In other words, 98% is currently invested.
- *Performance of the San Mateo County Investment Pool (See appendix on pages13-14)*
    - Pool yields are higher than CA Local Agency Investment Fund (LAIF) in 6 out of the last 10 fiscal years (yield is identical in one fiscal year) and 90 Day T-Bills in 8 out of the last 10 fiscal years.
    - The 10-year average return for the Pool is 3.0% compared to 2.8% average return of selected CA counties. Of the 20 largest CA counties by population, 14 counties historical data was available and used in this average.
    - As shown above, the Pool's average return compares favorably with other counties when taking a long term view despite the significant loss incurred by the Pool on Lehman investments. The Pool's average returns in the short term, however, lagged behind other counties: 5-year average - 2.5% vs. 2.8% and 3-year average - 1.3% vs. 1.6%.
- *Investment Fees*

    We were only able to obtain investment fee data for three other counties. Compared to the three counties, the Pool incurred identical or lower investment fees as a percentage of fund value. See table on page 9.
- *Best Practices*

    The Pool currently follows all the best practices compiled from a report by the Government Finance Officers Association (GFOA) and by a global investment consulting firm.

San Mateo County Treasurer-Tax Collector

San Mateo County Investment Pool Review

This section of the report includes additional information regarding the Office of the County Treasurer-Tax Collector, Local Government Investment Pools, other audits and some of the risks noted on page one.

Office of the Treasurer-Tax Collector

The Office of the Treasurer-Tax Collector consists of three departments organized by major functional areas – Tax Collector, Revenue Services, and Treasurer. The Tax Collector provides funding for taxing agencies through the collection of property taxes. Revenue Services provides billing and revenue debt collection services to County departments. The Treasurer manages the financial assets of the County and maintains the value of the investment pool through administration of the County treasury for County departments, special districts, schools, cities and taxpayers. The Treasurer is also responsible for providing the following services to the County and its taxpayers: cashiering; banking; receiving and preparing payments for processing; Paying Agent responsibilities for General Obligation bonds and Tax Revenue Anticipation Notes; Transient Occupancy Tax and miscellaneous small business licenses.

Local Government Investment Pool

The inflow of revenues to local government agencies rarely matches the timing of their expenditure obligations. As a result, local agencies can amass significant amounts of idle cash surpluses at certain times of the year. Local governments have pooled such surpluses for investment purposes for many years. In particular, smaller agencies, such as school districts and special purpose districts, have pooled investment funds with larger county governments. Pooling has provided such agencies with investment benefits and opportunities similar to that of larger agencies without requiring the same level of administrative cost and oversight. The investment objectives of all Local Government Investment Pools generally are, in order of priority, 1) safety of principal, 2) liquidity, and 3) yield.

Procedures Performed

As noted in the Executive Summary, this review considered risk in Compliance, Liquidity, Performance, Board/Committee Review/Oversight, Management Review/Oversight, and Fraud and other risks.

To address the risks described above we performed the following procedures:

- ✓ Ascertained procedures performed by Controller’s Office staff to determine compliance with California Code Section 26920 and 26905 (details in Audit Requirements - State Law).
- ✓ Summarized and reviewed the Agreed-Upon Procedures Audit Report performed by Macias Gini & O’Connell for the last five fiscal years. Identified and followed up on any findings.
- ✓ Ensured the Pool met its liquidity requirement and compared monthly cash flow estimates to actuals through investment reports.
- ✓ Compared the investment returns of the Pool to other Local Government Investment Pools (LGIPs). Determined if an opportunity exists to emulate investment pools that consistently outperformed other pools while maintaining investment objectives such as safety of principal and liquidity.
- ✓ Compared the investment fees of the Pool to other California County Pools.

- ✓ Researched the cash reserve policy of the County to calculate the minimum amount required. If this amount was met, determined whether the reserves exceeded policy or funds were not effectively utilized.
- ✓ Compiled a list of LGIP Best Practices and evaluated whether the Investment Policies of San Mateo County follows these practices.
- ✓ Reviewed and compared the San Mateo County Investment Policy dated January 2008 and January 2011 to compare the changes after the Lehman bankruptcy. Also, researched financial reform bills and measures passed to prevent another collapse.

Audit Requirements - State Law

State law requires the County Auditor/Controller to perform or cause to be performed periodic reviews and an annual audit of assets in the County treasury. The County complies with these State law requirements as discussed below. No reportable issues were noted from these audits and reviews.

<u>California Code - Section 26920</u>

(a) At least once in each quarter, the county auditor shall perform, or cause to be performed, a review of the treasurer's statement of assets in the county treasury. Each county shall fund and allocate the cost of the review in accordance with that county's established budgetary practice. The auditor's review shall be accomplished in accordance with the appropriate professional standards, as determined by the county auditor. The treasurer shall prepare a statement showing the amount and type of assets in the county treasury as of the date of the review. The review shall include:

(1) Counting cash in the county treasury.

- ➢ *This requirement is performed quarterly by the Controller’s Office.*

(2) Verifying that the records of the county treasurer and auditor are reconciled pursuant to Section 26905.

<u>California Code - Section 26905</u>

Not later than the last day of each month, the auditor shall reconcile the cash and investment accounts as stated on the auditor's books with the cash and investment accounts as stated on the treasurer's books as of the close of business of the preceding month to determine that the amounts in those accounts as stated on the books of the treasurer are in agreement with the amounts in those accounts as stated on the books of the auditor.

- ➢ *This requirement is performed daily by the Controller’s Office.*

(3) A report to the board of supervisors issued in accordance with the appropriate professional standards, as determined by the county auditor.

- ➢ *This requirement is fulfilled annually as part of the audit of the Comprehensive Annual Financial Report (CAFR).*

(b) The auditor shall, at least annually, perform or cause to be performed an audit of the assets in the county treasury and express an opinion whether the treasurer's statement of assets is presented fairly and in accordance with generally accepted accounting principles. The audit report shall be addressed to the board of supervisors. The review required by subdivision (a) need not be performed for the period when an audit is conducted in accordance with this subdivision.

- *This requirement is fulfilled annually as part of the audit of the Comprehensive Annual Financial Report (CAFR).*

Agreed-Upon Procedures Audit

The County procures an annual Agreed-Upon Procedures audit by an independent external auditor. As mentioned previously, the Agreed-Upon Procedures Audit Report is available online at the Treasurer-Tax Collector's website at http://www.sanmateocountytreasurer.org/. Currently the audit is conducted by Macias Gini & O'Connell LLP, Certified Public Accountants & Management Consultants (Macias). This is done to assist the County evaluate its compliance with the investment requirements presented in Article 6, Sections 27130 through 27137 of the California Government Code and the San Mateo County Investment Policy. In the last six years, 14 procedures were performed each fiscal year with one finding in FY 2009-10 and another in FY 2010-11.

The finding in FY 2009-10 stated the County Treasurer continued to follow the Investment Policy dated January 2008. At the time this finding was reported, the revised Investment Policy as of January 2010 had been submitted for Board review and approval. The 2010 policy was subsequently approved on February 9, 2010.

The finding in FY 2010-11 relates to the procedure verifying that the County requested and received written acknowledgement that each Pool participant received a copy of the Investment Policy. The finding stated that the County requested but did not receive a written acknowledgement from the City of Burlingame. The status remains outstanding as Burlingame considers its options regarding its participation in the Investment Pool.

Risk Issues

Compliance

As noted in the Executive Summary, our observations regarding compliance indicate that adequate processes and controls exist based on available audits and reviews. In addition to the statutory audits/reviews and an annual Agreed-Upon Procedures audit by Macias as noted above, a consultant hired by the Treasurer's Office, PFM Asset Management, performs a monthly compliance review, which covers sector allocation, fund limitation, issuer limit, maturity date, and credit rating. The PFM reports that were available at the time of the review state that the "portfolio complies with the California Government Code and the County of San Mateo's Investment Policy as of the date of the report".

Liquidity

Cash Flow: California Government Code Section 53646 (b) (3) addresses the requirement for a local agency to include a statement denoting the ability of the local agency to meet its pool's expenditure requirements for the next six months or provide an explanation as to why sufficient money may or may not be available. There are no other requirements for identifying cash flows and setting liquidity targets at the local agency.

San Mateo County's Investment Policy on liquidity attempts to match maturities with its 15 month projected cash flow. The cash flow is planned in advance. The Monthly Investment Report provides a rolling year projected cash flow by participant. An analysis of the monthly actual versus estimate cash flow shows an insignificant variance. The actual versus estimate for each quarter from 2008 through 2011 shows a variance of 0.01% of the total cash in and cash out amounts, which is inconsequential.

Cash Reserves: The San Mateo County policy on cash reserves is to "Maintain a minimum reserve equivalent to 2% of net appropriations for one-time emergencies, unanticipated mid-year losses of funding, and short-term coverage of unanticipated cost overruns." The net appropriations for FY 2010-11 was $1.5 billion, 2% of which equals $30 million – the exact amount of cash deposited in a Bank of New York earnings credit account as of June 30, 2011.

The 2011 Comprehensive Annual Financial Report (CAFR) shows the total cash and cash equivalents represent 2% of the County's total cash and investments. In other words, 98% is currently invested.

Performance

This section covers Pool performance, investment fees, and best practices. We have also included a brief discussion on Lehman investments and related risk.

<u>Pool Performance</u>

Unlike San Mateo County pool reports that are detailed and available online, the investment pool reports for other Bay Area counties are generally unavailable or provide very limited data. The bulk of the comparative data comes from Southern California counties. The likely explanation for this disparity is due to the Orange County Investment Pool bankruptcy in 1994. This may have pressured county governments in the region to provide detailed monthly reporting available to the public.

The San Mateo County Pool can be compared to any California LGIP since laws and regulations that govern LGIPs are prescribed by the State. While the location, size of the fund or the number of participants may not affect performance significantly as the funds are invested based on State guidelines that significantly limit discretion within specified investment types and allocation, yield variations can occur due to the selection and weighting of investment types within the prescribed guidelines.

The 20 largest counties by population were selected to compare investment yields (see Appendix 1) and fees in this review. About half the counties posted historical data of up to five years. The other half had incomplete data or did not make reports available to the public.

The San Mateo County Investment Pool outperforms the selected California counties' LGIPs 10-year average, but lags behind the 3-year average.

Description	3 Year Avg. (FY 09 to FY 11) (during Lehman Bankruptcy)	10 Year Avg. (FY 02 to FY 11)
San Mateo County Investment Pool	1.3%	3.0%
Selected CA Counties' LGIP Avg.	1.6%	2.8%

The pool investment yields show that no county outperforms others on a consistent basis. The California State Code imposes restrictions and limits for each investment type. It is up to the discretion of each county to set investment policy limits and allocate their funds within the confines set by State Code. For this reason, the yield among investment pools will vary based on the selection and weighting of investment types that outperform or underperform over time. The current San Mateo County asset allocation is shown below with limits per the Investment Policy and the California State Code.

Investment Type	Pool Asset Allocation*	Specified Limits	
		Investment Policy	CA State Code
US Treasury Obligations	22.0%	no limit	no limit
Repurchase Agreements by US Treasury/Agency	5.3%	no limit	no limit
Negotiable CDs/BNs	1.7%	30.0%	30.0%
Collateralized Time Deposits	**0.0%**	**15.0%**	**no limit**
Commercial Paper	**4.5%**	**40.0%**	**65.0%**
Corporate Bonds	17.2%	30.0%	30.0%
US Agencies	47.6%	no limit	no limit
Mortgages	0.0%	20.0%	20.0%
LAIF	1.7%	Up to State Limit**	$50 million
Banker's Acceptances	**0.0%**	**30%*** **	**40.0%**
Asset Backed Securities	0.0%	20.0%	20.0%
Money Market	**0.0%**	**10.0%**	**20.0%**
Reverse repurchase agreements	0.0%	n/a	20% of portfolio base value
Total	100.0%		

*As of September 30, 2011
**State Limit is $50 million
***15% Domestic & 15% Foreign
BOLD items where San Mateo County Investment Policy Limits stricter than State maximum

Investment Fees

Comparison of fee data with the available data for four counties:

Investment Fees (for FY 2010-11)			
County	**Total Fees %**	**Total Fees $**	**Fund Value $**
San Mateo County*	0.13%	3,101,366	2,467,497,614
Orange County	0.13%	4,311,714	3,316,703,543
Solano County	0.16%	1,147,932	701,373,979
Sonoma County	0.13%	1,998,526	1,568,971,868

*Total Fees consist of 0.12% administrative fees and 0.01% bank fees.

The table above shows the total fees as a percentage of the fund value for San Mateo County is identical or lower than other counties.

Best Practices

Below is a compilation of LGIP best practices from multiple sources. The sources include reports by the Government Finance Officers Association (GFOA) and a global investment consulting firm.

- Recordkeeping - accurate and timely recordkeeping practices

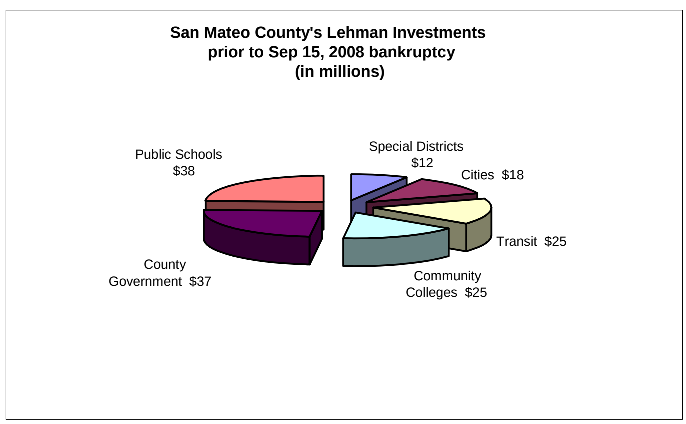
- Custodian experience and expertise with Local Government Investment Pools
- Investment Management – use of outside managers or qualified in-house staff
  - Evaluate qualifications and experience of oversight committee
- Compliance with investment guidelines, policies and statutes
- Emulate "2a-7-like" funds (money market funds regulated by SEC Rule 2a-7), with the objectives of principal preservation and liquidity
- Explore the possibility of expanding the lineup of pools available to participants
- Calculate the yield on the LGIP based on yield calculation rules
- Formalize the process of communication
- Investment Guidelines & Strategies in line with the purpose and objectives of a Local Government Investment Pool
- Communications with participants on providing information in order to manage liquidity, understand yield and track purchase and redemption activity
- Evaluate variable net asset value of LGIPs to appropriate benchmarks
- Confirm that an LGIP provides regular, detailed reporting to pool participants and follows accepted reporting standards.

The Pool currently follows all the best practices mentioned above. This is verified through the Agreed-Upon Procedures Audit Report.

Lehman Investment and Related Risk

On September 15, 2008, Lehman filed for Chapter 11 bankruptcy protection. The Pool held Lehman investments totaling $155 million in par value, making up 5.9% of Pool assets. The County's share was $36.7 million. The municipalities worst hit by the collapse and a breakdown of San Mateo County's $155 million in Lehman investments by participant are shown below.

Investment in Lehman (Prior to Sep 2008 Bankruptcy)		% of Fund
1. San Mateo County, CA	$155M	5.9%
2. Sarasota County, FL	$40M	4.4%
3. Monterey County, CA	$30M	3.0%
4. Long Beach, CA	$20M	1.2%
5. Port St. Lucie, FL	$18M	5.5%



After 2008, changes have been made to the San Mateo County Pooled Fund Investment Policy. This includes a drop in the limitations on the percentage of fund per issuer from 10% to 5% for Bankers Acceptances, Collateralized Time Deposits, Negotiable Certificate of Deposits, Commercial Paper, and

Corporate Bonds. Also, the maturity date for Obligations from the U.S. Treasury, U.S. Agencies, and Government Sponsored Enterprises has been reduced from 15 years to 7 years.

At the national level, the Dodd-Frank Financial Reform Bill includes two provisions to prevent an event like the Lehman collapse from reoccurring. The first is the Speier Amendment, which would limit the amount of leverage for systemically significant firms to 15:1 (in late 2007, the leverage at Lehman was 31:1). Federal regulators require banks to keep their leverage under control by holding a certain amount of capital as cushion in case their investments lose money. The second provision is the Collins Amendment, which would require banks to hold high-quality capital in determining the leverage ratio since banks may try to get around the Speier Amendment by using low-quality assets. In combination, the Speier and Collins Amendments reduce the risk of another Lehman-like crisis from reoccurring in the future.

Board/Committee Review/Oversight

As noted in the Executive Summary, there is a Treasury Oversight Committee that oversees Pool investments. The 'Agreed Upon Procedures' audit mentioned above includes ensuring that Committee members were qualified under requirements prescribed by State law and not participating in investment related activities prohibited by State law.

Management Review/Oversight

Fraud and Other Risks

As mentioned in the Executive Summary, these areas involve specific risks identified through our risk analysis that could only be adequately addressed by obtaining a sufficient understanding directly from interviews of cognizant personnel and review of transactions, which were not in the scope of this review but will be performed in the next review.

County of San Mateo Controller

Redwood City, California
March 5, 2012

References:

- FY 2011-12 San Mateo County Adopted Budget
- Treasurer-Tax Collector's Monthly Investment Reports
- Treasury Oversight Committee and Investment Policy – Independent Accountant's Report on Applying Agreed-Upon Procedures FY 2009-10 & FY 2010-11
- 'Lehman's Ghost Haunts California' – Wall Street Journal, February 24, 2010.
- Statement of the Honorable Jackie Speier House Committee on Financial Services, Hearing on the Effect of the Lehman Brothers Bankruptcy on State and Local Governments, May 5, 2009
- Lehman Update Letter to Pool Participants - Treasurer-Tax Collector, September 22, 2011.
- Finance and Operations Committee Meeting Minutes – June 17, 2009
- County Of San Mateo Investment Pool Investment Consultant's Report by Alan Biller and Associates - June 17, 2009
- 'Moody's, S&P Lose Bid to End Calpers Lawsuit Over Ratings of SIV Vehicles' – Bloomberg, January 11, 2012.
- County of San Mateo Pooled Fund Investment Policy 2008 & 2011
- County of San Mateo Comprehensive Annual Financial Report – Fiscal Year Ended June 30, 2010 & 2011
- Local Agency Investment Guidelines – California Debt & Investment Advisory Commission, January 1, 2011
- Best Practice: Considerations for Using Local Government Investment Pools (LGIPs) – Government Finance Officers Association, October 17, 2008.
- Best Practices Review of the LGIP: Independent Advice for the Institutional Investor – Ennis Knupp + Associates, June 2009.
- 'How to Avoid the Next Lehman Brothers' – The Motley Fool, June 22, 2010.

The graphic on the cover page is from 'Insight: Delivering Value to Stakeholders' (by Patty Miller, CIA, CISA, CPA and Tara Smith, CIA) and depicts the Value Proposition of the internal auditing profession as developed by The Institute of Internal Auditors to provide an overview of how internal audit delivers value.

San Mateo County Treasurer-Tax Collector

San Mateo County Investment Pool Review

Appendix 1: California Local Government Investment Pools Yields

POOL INVESTMENT YIELDS										
Description	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11
San Mateo County	4.0%	3.5%	2.8%	3.0%	3.7%	4.3%	4.3%	1.6%	1.1%	1.3%
CA Local Agency Investment Fund (LAIF)	3.4%	2.2%	1.5%	2.3%	3.9%	5.1%	4.3%	2.2%	0.7%	0.5%
Avg. 90 Day US T-Bills	2.7%	1.2%	1.3%	2.2%	4.1%	4.9%	2.8%	0.5%	0.1%	0.1%
Fresno County		2.6%	2.0%	2.3%	3.4%	5.0%	4.7%	2.9%	2.1%	1.9%
Los Angeles County				2.2%	3.9%	5.3%	4.6%	2.6%	1.5%	1.3%
Monterey County						5.2%	n/a	n/a	0.7%	0.6%
Orange County	3.1%	1.8%	1.3%	2.2%	4.0%	5.2%	4.4%	2.1%	1.0%	0.7%
Riverside County		1.8%	1.4%	2.3%	3.8%	5.0%	4.5%	2.4%	1.1%	0.7%
Sacramento County							4.5%	2.5%	1.0%	0.6%
San Bernadino County	4.4%	2.8%	2.1%	2.5%	3.8%	4.8%	4.5%	2.6%	1.4%	0.9%
San Diego County						5.1%	4.6%	2.5%	1.2%	0.7%
San Francisco City & County	4.1%	2.8%	1.9%	2.3%	4.2%	5.2%	4.3%	2.6%	1.4%	1.2%
Santa Barbara County						4.5%	4.3%	2.5%	1.2%	0.9%
Santa Clara County									1.1%	0.6%
Solano County									1.2%	0.9%
Sonoma County										0.7%
Stanislaus County	3.8%	2.5%	1.8%	2.2%	3.3%	4.6%	4.3%	2.8%	1.5%	1.1%
Selected Counties' LGIP Avg.	3.9%	2.4%	1.7%	2.3%	3.8%	5.0%	4.5%	2.5%	1.3%	0.9%
Variance	0.2%	1.1%	1.1%	0.7%	-0.1%	-0.7%	-0.2%	-0.9%	-0.2%	0.3%

The accepted performance benchmarks used by LGIPs include the CA Local Agency Investment Fund (LAIF) and the average 90 Day US T-Bills. The LAIF is a voluntary program created by statute as an investment alternative for California's local governments and special districts. This program offers local agencies the opportunity to participate in a major portfolio, which invests hundreds of millions of dollars, using the investment expertise of the State Treasurer's Office investment staff. The state limit, however, is set at $50 million.

The table above shows the San Mateo County Investment Pool:

- Has higher yields than LAIF 6 out of 10 FY's (yield is the same in one FY)
- Has higher yields than the 90 Day T-Bills in 8 out of 10 FY's
- Higher yields than the selected California County LGIP average in 5 out of 10 FY's

Description	Last 3 Year Avg.	Last 5 Year Avg.	Last 10 Year Avg.
San Mateo County Investment Pool	1.3%	2.5%	3.0%
CA Local Agency Investment Fund (LAIF)	1.1%	2.6%	2.6%
Avg. 90 Day US T-Bills	0.3%	1.7%	2.0%
Selected CA County LGIP Avg.	1.6%	2.8%	2.8%

The table above shows the San Mateo County Investment Pool (3-, 5-, and 10-year averages):

- Has higher yields than LAIF in 3-year and 10-year averages; 0.1% lower in 5-year average

- Has higher yields than 90 Day US T-Bills in 3-,5-, and 10-year averages
- Has higher yields than the selected California County LGIP in 10-year average; 0.3% lower in 3- and 5-year averages (due to the Lehman bankruptcy discussed in a later section).