

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1987

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

F-703

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1987

JULY 1988



Telephone:
(916) 445-0255

STATE OF CALIFORNIA
Office of the Auditor General

Thomas W. Hayes
Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

July 1, 1988

F-703

Honorable Bruce Bronzan, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 448
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its financial audit report of the State Treasurer's Office Statement of Security Accountability as of June 30, 1987.

The State Treasurer's Office is responsible for the safekeeping of all securities owned by or pledged to the State, except those securities owned by or pledged to the University of California. The State Treasurer's Office is not responsible for securities owned by or pledged to the Public Employees' Retirement System and the State Teachers' Retirement System. The Statement of Security Accountability is only intended to provide an accountability of securities held by the State Treasurer for safekeeping. As a result, the valuation of securities presented in the Statement of Security Accountability are values selected for ease of accountability rather than for purposes of valuing securities to cost or market value. For example, all stock certificates are valued at \$1 per share, rather than actual cash or current market value. Therefore, the values presented in the Statement of Security Accountability should not be used to determine the dollar amounts of investments of, or pledged to, the State. We found that the statement presents fairly the security accountability of the State Treasurer's Office of June 30, 1987.

We conducted this audit to comply with the California Government Code, Section 13299.1.

Respectfully submitted,

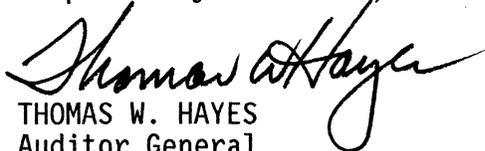

THOMAS W. HAYES
Auditor General

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Members of the Joint Legislative Audit Committee
State of California

We have examined the Statement of Security Accountability of the State Treasurer's Office as of June 30, 1987. We made our examination in accordance with generally accepted auditing standards and the California Government Code, Section 13299.1. Our examination included a count of all securities held for safekeeping purposes in the vault of the State Treasurer's Office and included such other tests of the accounting records and auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying statement presents fairly the security accountability of the State Treasurer's Office as of June 30, 1987, in accordance with the basis of accounting described in Note 1.

This report is intended solely for the purpose of complying with the provisions of the California Government Code, Section 13299.1, and is not intended for any other purpose.

OFFICE OF THE AUDITOR GENERAL

A handwritten signature in black ink, appearing to read "Curt Davis".

CURT DAVIS, CPA

Deputy Auditor General

Date: March 28, 1988

Staff: Philip Jelicich, CPA, Audit Manager
Nancy C. Woodward, CPA
Jeffery Stevens, CPA

STATE OF CALIFORNIA
STATEMENT OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1987

<u>Account Title</u>	<u>Deposits in the Vault of the State Treasurer's Office</u>	<u>Deposits With Banks or Trust Companies</u>	<u>Securities in Transit</u>	<u>Total</u>
<u>Pooled Money Investment Account (Note 1)</u>				
Securities (Note 2)	\$ 382,870,046	\$18,475,067,323	\$ 10,000,000	\$18,867,937,369
Agreements to Repurchase Securities (Note 3)			<u>125,000,000</u>	<u>125,000,000</u>
Total Pooled Money	<u>382,870,046</u>	<u>18,475,067,323</u>	<u>135,000,000</u>	<u>18,992,937,369</u>
<u>Investments of Individual State Accounts</u>				
Antioch and Carquinez		3,175,000		3,175,000
California Housing Finance Authority	197,331,630	131,341,236		328,672,866
California National Guard		2,276,000		2,276,000
California Pollution Control Financing Authority		29,078,000		29,078,000
Central Valley Water District		220,309,100		220,309,100
Central Valley Project Revenue Bond		5,000,000		5,000,000
State Compensation Insurance Fund	432,169,603	1,748,407,125	42,783,670	2,223,360,398
Department of Water Resources		180,159,600		180,159,600
First Time Home Buyers	4,277,422			4,277,422
Legislators' Retirement System	10			10
Public Employees' Retirement System	28,748	10,327,400		10,356,148
State Public Works Board		314,051,105		314,051,105
Special Deposit - Alice Burch	2,040	18,000		20,040
State Lottery Fund		304,446,000		304,446,000
State Teachers' Retirement System		46,600		46,600
State Controller's Office		335,000		335,000
Veterans' Debenture Revenue Fund		65,000,000		65,000,000
Veterans' Farm and Home Building Fund		<u>271,324,889</u>		<u>271,324,889</u>
Total Investments	<u>633,809,453</u>	<u>3,285,295,055</u>	<u>42,783,670</u>	<u>3,961,888,178</u>
<u>Pledges To Secure Bank and Savings and Loan Deposits</u>				
Agency Bank Deposits	490,000	93,245,254		93,735,254
State Treasurer's Demand Deposits	30,047,700	320,548,433		350,596,133
State Treasurer's Time Deposits	<u>79,150,347</u>	<u>1,680,473,464</u>		<u>1,759,623,811</u>
Total Pledges for Bank Deposits	<u>109,688,047</u>	<u>2,094,267,151</u>		<u>2,203,955,198</u>
<u>Miscellaneous Pledges</u>				
Banking Department, State	9,992,700	52,709,742		62,702,442
Consumer Affairs, Department of	13,130,538	4,000		13,134,538
Corporations, Department of	3,355,805			3,355,805
Corrections, Department of	200,000			200,000
Deposit Officer Pending		150,000		150,000
Employment Development Department	58,362,363	368,850		58,731,213
Equalization, Board of	179,000			179,000
Franchise Tax Board	4,138			4,138
Health Services, Department of	1,000,000			1,000,000
Industrial Relations, Department of	96,382,000			96,382,000
Insurance, Department of	2,054,720,741			2,054,720,741
Real Estate, Department of	2,190,000			2,190,000
State Lands Commission	6,599,539	52,000		6,651,539

<u>Account Title</u>	<u>Deposits in the Vault of the State Treasurer's Office</u>	<u>Deposits With Banks or Trust Companies</u>	<u>Securities in Transit</u>	<u>Total</u>
<u>Miscellaneous Pledges (Continued)</u>				
Transportation, Department of	32,178,142	11,500,000		43,678,142
Trustees of California State University	437,950			437,950
Water Resources Control Board	657,093		6,000	663,093
Water Resources, Department of	<u>2,055,000</u>			<u>2,055,000</u>
Total Miscellaneous Pledges	<u>2,281,445,009</u>	<u>64,784,592</u>	<u>6,000</u>	<u>2,346,235,601</u>
<u>General Safekeeping</u>				
Alan Gene Whitaker Reimbursement Fund	1			1
Corrections, Department of		1,071		1,071
Developmental Services, Department of	11,100	2,025,000		2,036,100
Education, State Department of	28,777	103,000		131,777
Quimby Island Reclamation District	156			156
Rehabilitation, Department of	10,138			10,138
Secretary of State	10,000			10,000
State Controller's Office	12,035,645			12,035,645
State Treasurer's Office				
Bearer bonds exchanged for registered bonds	774,433,000			774,433,000
Trust accounts	98,452,166			98,452,166
Trustees of California State Colleges	<u>3,500</u>			<u>3,500</u>
Total General Safekeeping	<u>884,984,483</u>	<u>2,129,071</u>		<u>887,113,554</u>
Grand Total	<u>\$4,292,797,038</u>	<u>\$23,921,543,192</u>	<u>\$177,789,670</u>	<u>\$28,392,129,900</u>

The accompanying notes are an integral part of this statement.

**NOTES TO THE STATEMENT
OF SECURITY ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE**

1. Summary of Significant Accounting Policies

A. Security Accountability

The State Treasurer's Office holds for safekeeping all securities owned by or pledged to the State except those that are owned by or pledged to the University of California. The State Treasurer's Office is not responsible for securities owned by or pledged to the Public Employees' Retirement System and the State Teachers' Retirement System that are not deposited with the State Treasurer's Office. The Statement of Security Accountability provides an accountability for securities held by the State Treasurer's Office for safekeeping and includes the following securities:

- Pooled Money Investment Account securities purchased with available cash from all state funds or accounts that do not have investment authority of their own, all or a portion of the available cash from state funds or accounts having investment authority of their own, state deposits that have not been credited to specific funds in the State Treasury, and balances representing outstanding state warrants;
- Individual state accounts;
- Pledges to secure bank and savings and loan deposits of the State of California;
- Miscellaneous pledges to protect consumers, guarantee contractor performance, and ensure payment of state taxes; and
- General safekeeping accounts.

B. Valuation of Securities Held by the State Treasurer's Office

The State Treasurer's Office does not report securities at either book or market value in the Statement of Security Accountability. Securities are valued in the Statement of Security Accountability as follows:

Securities Deposited in the Vault of the State Treasurer's Office

- Bonds, commercial paper, certificates of deposit, and surety bonds are valued at par value or face value;
- Stock certificates are valued at \$1 per share;
- Government National Mortgage Association certificates, Federal National Mortgage Association certificates, and Federal Home Loan Mortgage Corporation certificates are valued at original face value;
- Real estate mortgage notes held as investments of individual state accounts are valued at \$1 per note;
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their outstanding principal balance; and
- Building certificates are valued at their outstanding principal balance.

Securities Deposited With Banks or Trust Companies

- Bonds, commercial paper, certificates of deposit, surety bonds, Federal National Mortgage Association partnership certificates, and Federal Home Loan Mortgage Corporation partnership certificates are valued at par or face value;
- Government National Mortgage Association certificates are valued at their original face value;
- Federal National Mortgage Association certificates (except partnership certificates), and Federal Home Loan Mortgage Corporation certificates (except partnership certificates) are valued at current value;
- Stock certificates are valued at \$1 per share; and
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their outstanding principal balance.

2. Pooled Money Investment Account Securities

The Pooled Money Investment Account securities at June 30, 1987, were valued at \$18,992,937,369 according to the methods described in Note 1B; they were reported at book value of \$17,591,686,671 in

an affidavit filed by the Office of the Auditor General on March 11, 1988. The difference results from different methods of valuation.

Cash on hand, demand deposits in banks, cash deposited with fiscal agents, nonnegotiable certificates of deposit with banks and savings and loan associations, and amounts due from banks, all totaling \$753,909,409, are not included in the Statement of Security Accountability. The Office of the Auditor General counted these amounts as required by Sections 13297 and 13298 of the California Government Code. These amounts are reported as "money and credit" in the affidavit filed by the Office of the Auditor General on March 11, 1988, as required by Section 13299 of the California Government Code.

3. Pooled Money Investment Account Agreements to Repurchase Securities

The State Treasurer's Office transferred Pooled Money Investment Account securities with a total par value of \$125,000,000 to other parties under agreements to reacquire the securities at predetermined dates and prices. During the terms of the agreements, other parties hold the securities, but the State Treasurer's Office retains all risks of ownership.

4. Other Personal Property

In addition to depositing securities, state agencies deposit personal property in the vault of the State Treasurer's Office. The following schedule lists entities having personal property in the vault as of June 30, 1987:

<u>Entity</u>	<u>Number of Items</u>
Agency Trust Checks Emergency Stock	19,300
California Pollution Control Financing Authority	3
Department of Housing and Community Development	51
Department of Motor Vehicles	1,270
Department of Personnel Administration	1
State Controller's Office	267
State Treasurer's Office	<u>98</u>
Total	<u><u>20,990</u></u>

Each item or sealed package of personal property is counted individually. Personal property is excluded from the Statement of Security Accountability because personal property items are not securities.

5. Securities of the Public Employees' Retirement System and the State Teachers' Retirement System

The University of California, the Public Employees' Retirement System, and the State Teachers' Retirement System deposit securities with custodians other than the State Treasurer's Office. We did not examine the securities of the University of California or the retirement systems that were deposited with custodians other than the State Treasurer's Office. Those securities were examined by other auditors who furnished their reports to us. At June 30, 1987, the securities of the University of California and of the retirement systems were valued as follows (in thousands):

<u>Entity</u>	<u>Value</u>
University of California (All Funds)	\$12,924,965
Public Employees' Retirement System	35,172,795
Legislators' Retirement System	51,558
Judges' Retirement System	1,417
State Teachers' Retirement System	<u>20,323,426</u>
Total	<u>\$68,474,161</u>

The securities of the University of California and of the retirement systems listed above were valued in accordance with generally accepted accounting principles. The specific valuation methods are available from the audited financial statements of the University of California and of the individual retirement systems. Included in the securities of the retirement systems listed above are securities deposited with the State Treasurer's Office and reported in the investments of individual state accounts on page 3, in accordance with the valuation methods described in Note 1B.

OFFICE OF THE TREASURER
SACRAMENTO



June 22, 1988

Thomas W. Hayes
Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Hayes:

We have reviewed your draft report entitled "State of California, Statement of Security Accountability of the State Treasurer's Office, June 30, 1987" and fully agree with contents therein.

Sincerely,

ELIZABETH M. WHITNEY
ACTING STATE TREASURER

A handwritten signature in cursive script that reads "Manuel M. Mateo".

Manuel M. Mateo, Chief
Trust Services Division

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps