

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1989



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STATE OF CALIFORNIA
Office of the Auditor General

Kurt R. Sjoberg
Acting Auditor General

660 J STREET, SUITE 300
SACRAMENTO, CA 95814

June 1, 1990

F-903

Honorable Elihu M. Harris, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 2148
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 Securities Accountability as of June 30, 1989.

The statement of securities accountability presents the securities owned by or pledged to the State directly or under investment agreements and securities held for safekeeping. The State Treasurer's Office is responsible for the safekeeping of all securities held in the treasury or other depositories except for securities owned by or pledged to the University of California, or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. For the statement of securities accountability, the State Treasurer's Office assigns dollar amounts to each security for ease of accountability rather than for purposes of valuing securities to cost or market. The dollar amounts assigned represent the par or face value, the original face value, the original principal value, the current outstanding principal balance, or a nominal value of \$1 per certificate or note. Therefore, the dollar amounts presented in the Statement of Securities Accountability should not be used to determine the value of investments of, or pledged to, the State. We found that the statement presents fairly the securities accountability of the State Treasurer's Office of June 30, 1989.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Kurt R. Sjoberg".

KURT R. SJOBERG
Acting Auditor General

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JUNE 1990

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statement of securities accountability as of June 30, 1989. This statement of securities accountability is the responsibility of the State Treasurer's Office. Our responsibility is to express an opinion on the statement of securities accountability based on our audit.

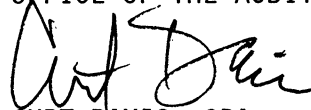
We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the accompanying statement of securities accountability is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code as discussed in Note 1 and is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the statement of securities accountability referred to above presents fairly, in all material respects, the securities accountability of the State Treasurer's Office as of June 30, 1989, prepared in conformity with the basis of accounting described in Note 1.

This report is intended solely for the purpose of providing information required by Section 13299.1 of the California Government Code and should not be used for any other purpose.

OFFICE OF THE AUDITOR GENERAL



CURT DAVIS, CPA
Deputy Auditor General

Date: March 30, 1990

Staff: Sally L. Filliman, CPA, Audit Manager
James E. Rostron, CPA
Reed M. McDermott, CPA

STATE OF CALIFORNIA
STATEMENT OF SECURITIES ACCOUNTABILITY
OF THE STATE TREASURER'S OFFICE
JUNE 30, 1989

| <u>Account Title</u> | <u>Securities and Investment Agreements in the Vault of the State Treasurer's Office</u> | <u>Securities on Deposit With Banks and Trust Companies</u> | <u>Securities in Transit</u> | <u>Total</u> |
|---|--|---|----------------------------------|-----------------------|
| <u>Pooled Money Investment Account</u> | | | | |
| Securities (Note 2) | \$ 412,370,046 | \$14,394,916,621 | | \$14,807,286,667 |
| Agreements To Repurchase Securities (Note 3) | | | \$900,000,000 | 900,000,000 |
| Total Pooled Money Investment Account | <u>412,370,046</u> | <u>14,394,916,621</u> | <u>900,000,000</u> | <u>15,707,286,667</u> |
| <u>Individual State Investment Accounts</u> | | | | |
| Antioch and Carquinez Strait Bridge Toll Revenue Fund | | 3,175,000 | | 3,175,000 |
| California Housing Finance Agency | 178,509,390 | 117,809,236 | | 296,318,626 |
| California National Guard | | 2,276,000 | | 2,276,000 |
| California Pollution Control Financing Authority | | 36,131,100 | | 36,131,100 |
| Central Valley Water Project Construction Fund | | 349,408,900 | | 349,408,900 |
| Central Valley Water Project Revenue Fund | | 44,425,700 | | 44,425,700 |
| Water Resources, Department of | | 175,986,200 | | 175,986,200 |
| First-Time Home Buyers Fund | 733,690 | | | 733,690 |
| Legislators' Retirement System | 9 | | | 9 |
| Los Angeles State Office Building Authority | 112,851,779 | | | 112,851,779 |
| Public Employees' Retirement System | 7,293 | | | 7,293 |
| Special Deposit Fund - Alice Burch Trust Fund | 2,000 | 18,000 | | 20,000 |
| State Compensation Insurance Fund | 324,878,991 | 3,388,528,068 | 1,712,000 | 3,715,119,059 |
| State Controller's Office | | 335,000 | | 335,000 |
| State Lottery Fund | | 1,534,222,000 | | 1,534,222,000 |
| State Public Works Board | 99,774,964 | 57,448,767 | | 157,223,731 |
| Teacher Tax-Sheltered Annuity Fund | | 250,000 | | 250,000 |
| Toll Bridge Construction Fund | 3,634,907 | 53,460,800 | | 57,095,707 |
| Veterans' Debenture Revenue Fund | 640,545,959 | 282,773,000 | | 923,318,959 |
| Veterans' Farm and Home Building Fund of 1943 | <u>108,896,816</u> | | | <u>108,896,816</u> |
| Total Individual State Investment Accounts | <u>1,469,835,798</u> | <u>6,046,247,771</u> | <u>1,712,000</u> | <u>7,517,795,569</u> |
| <u>Collateral To Secure Deposits in Banks and Savings and Loans</u> | | | | |
| Agency bank deposits | 4,325,000 | 146,462,322 | | 150,787,322 |
| State Treasurer's Office bond proceeds | | 725,234,624 | | 725,234,624 |
| State Treasurer's Office demand deposits | 62,362,250 | 384,885,286 | | 447,247,536 |
| State Treasurer's Office time deposits | <u>70,638,483</u> | <u>2,036,835,668</u> | | <u>2,107,474,151</u> |
| Total Collateral To Secure Deposits in Banks and Savings and Loans | <u>137,325,733</u> | <u>3,293,417,900</u> | | <u>3,430,743,633</u> |
| <u>Pledges Received by State Agencies</u> | | | | |
| State Banking Department | 8,580,000 | 40,912,696 | | 49,492,696 |
| Consumer Affairs, Department of | 14,593,140 | 25,000 | | 14,618,140 |
| Corporations, Department of | 3,255,805 | | | 3,255,805 |
| Deposit Officer Pending | | 625,000 | | 625,000 |

| <u>Account Title</u> | Securities and Investment Agreements in the Vault of the State Treasurer's Office | Securities on Deposit With Banks and Trust Companies | Securities in Transit | <u>Total</u> |
|---|---|---|--------------------------|-------------------------|
| <u>Pledges Received by State Agencies</u> | | | | |
| (Continued) | | | | |
| Employment Development Department | 67,565,998 | 520,750 | | 68,086,748 |
| Board of Equalization | 141,000 | | | 141,000 |
| Franchise Tax Board | 222 | | | 222 |
| Health Services, Department of | 1,000,000 | | | 1,000,000 |
| Industrial Relations, Department of | 89,702,266 | 103,875,000 | | 193,577,266 |
| Insurance, Department of | 2,500,680,512 | | | 2,500,680,512 |
| Real Estate, Department of | 2,200,000 | | | 2,200,000 |
| State Lands Commission | 11,655,039 | 52,000 | | 11,707,039 |
| Transportation, Department of | 19,110,400 | 16,300,000 | | 35,410,400 |
| Trustees of California State University | 1,750,139 | | | 1,750,139 |
| Water Resources Control Board | 838,142 | | | 838,142 |
| Water Resources, Department of | 2,055,000 | | | 2,055,000 |
| | <u>2,723,127,663</u> | <u>162,310,446</u> | | <u>2,885,438,109</u> |
| Total Pledges Received by State Agencies | | | | |
| <u>General Safekeeping</u> | | | | |
| Alan Gene Whitaker Reimbursement Fund | 1 | | | 1 |
| Corrections, Department of | | 1,071 | | 1,071 |
| Developmental Services, Department of | 6,725 | 1,425,000 | | 1,431,725 |
| Education, Department of | 8,906 | 68,000 | | 76,906 |
| Housing and Community Development, Department of | 4,034 | | | 4,034 |
| Quimby Island Reclamation District | 156 | | | 156 |
| Rehabilitation, Department of | 10,231 | | | 10,231 |
| Secretary of State | 10,000 | | | 10,000 |
| State Controller's Office | 13,208,590 | | | 13,208,590 |
| State Treasurer's Office | | | | |
| Bearer bonds exchanged for registered bonds | 1,166,630,000 | | | 1,166,630,000 |
| Trust accounts | 98,452,166 | | | 98,452,166 |
| Trustees of California State University | 3,500 | | | 3,500 |
| | <u>1,278,334,309</u> | <u>1,494,071</u> | | <u>1,279,828,380</u> |
| Total General Safekeeping | | | | |
| Grand Total | <u>\$6,020,993,549</u> | <u>\$23,898,386,809</u> | <u>\$901,712,000</u> | <u>\$30,821,092,358</u> |

The accompanying notes are an integral part of this statement.

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

1. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying statement of securities accountability was prepared for the purpose of providing information required by Section 13299.1 of the California Government Code and presents the securities owned by or pledged to the State directly or under investment agreements and securities held for safekeeping. The State Treasurer's Office (STO) is responsible to account for all securities held in the treasury or other depositories, except for securities owned by or pledged to the University of California or for securities in other depositories owned by or pledged to the Public Employees' Retirement System, the State Teachers' Retirement System, the Legislators' Retirement System, or the Judges' Retirement System. The securities for which the STO is accountable are categorized as follows:

- Pooled Money Investment Account (PMIA) securities consist of deposits or investments with financial institutions purchased with available money from the State's General Fund, the Surplus Money Investment Fund, the Local Agency Investment Fund, and the Fish and Game Preservation Fund. The California Government Code, Section 16480.1, authorizes the State's Pooled Money Investment Board to designate the amount of available money to make such deposits or investments. In addition, Section 16480.2 expresses the intent that such deposits or investments realize the maximum return consistent with safe and prudent treasury management;
- Individual state investment accounts consist of investments with financial institutions purchased with available money by state agencies that do not invest through the PMIA;
- Collateral to secure deposits in banks and savings and loan associations consists of securities pledged by these institutions to protect the money that the State has on deposit with the institutions;

- Pledges received by state agencies consist of securities pledged to the State by certain businesses to protect consumers, to guarantee contractor performance, and to ensure payment of state taxes; and
- General safekeeping amounts consist of securities held in the vault of the STO, held by other depositories, or held on behalf of state agencies.

B. Valuation of Securities

In the accompanying statement of securities accountability, the STO does not report securities at either book value or market value in accordance with generally accepted accounting principles. Instead, the STO values securities as follows:

Securities and Investment Agreements 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; and
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances.

Securities on Deposit With Banks and Trust Companies:

- Bonds, commercial paper, certificates of deposit, surety bonds, Federal National Mortgage Association certificates (except participation certificates), and Federal Home Loan Mortgage Corporation certificates (except participation certificates) are valued at par value or face value;
- Federal National Mortgage Association participation certificates and Federal Home Loan Mortgage Corporation participation certificates are valued at their current outstanding principal balances;

- Government National Mortgage Association physical certificates are valued at original face value;
- Government National Mortgage Association book entry certificates are valued at their current outstanding principal balances;
- Real estate mortgage notes held as pledges to secure bank and savings and loan deposits are valued at their original principal balances; and
- Real estate mortgage notes held as pledges to secure bank and savings and loan court and private trusts are valued at their current outstanding principal balances.

2. Pooled Money Investment Account - Securities

The STO reported a total value of \$14,807,286,667 for the securities in the PMIA at June 30, 1989. The STO reported a total value of \$13,955,158,146 for these same securities in its statement of cash accountability for June 30, 1989. The difference between the two values results because the STO valued the PMIA securities in the statement of securities accountability according to the methods described in Note 1.B. but valued the same securities at book value for the statement of cash accountability.

As required by Sections 13297 through 13299 of the California Government Code, the Office of the Auditor General counted the amounts that the STO reported in its statement of cash accountability for June 30, 1989, and reported the amounts as "money and credit" in its affidavit filed on March 23, 1990.

3. Pooled Money Investment Account - Agreements To Repurchase Securities

The STO transferred PMIA securities at a par value of \$900,000,000 to other parties under agreements to reacquire the securities in the future at predetermined dates and prices. During the time that a repurchase agreement is in force, the State retains all risks of ownership.

4. Personal Property

In addition to depositing securities, state agencies deposit personal property in the vault of the STO. The following lists entities having personal property in the vault as of June 30, 1989:

| <u>Entity</u> | <u>Number of Items</u> |
|---|----------------------------|
| Emergency Stock - Trust Agency Checks | 29,995 |
| Motor Vehicles, Department of | 2,049 |
| Personnel Administration, Department of | 1 |
| State Controller's Office | 148 |
| State Treasurer's Office | <u>52</u> |
| Total | <u><u>32,245</u></u> |

Each item or sealed package of personal property is counted individually. However, because personal property items are not securities, they are excluded from the statement of securities accountability.

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