



COUNTY OF SANTA CRUZ

AUDITOR-CONTROLLER'S OFFICE

701 OCEAN STREET, ROOM 100

SANTA CRUZ, CA 95060

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GARY A. KNUTSON, AUDITOR-CONTROLLER

Chief Deputy Auditor-Controllers

Pam Silbaugh, Accounting

Suzanne Young, Audit and Systems

Kathleen Hammons, Budget and Tax

AGENDA: February 27, 2001

February 15, 2001

BOARD OF SUPERVISORS

County of Santa Cruz

701 Ocean Street

Santa Cruz, CA 95060

SUBJECT: **TREASURER QUARTERLY CASH COUNT**

Dear Members of the Board:

Attached is the statement of the count of money in the treasury at December 18, 2000. In accordance with Government Code Section 26920 et seq. this office counts the treasury cash quarterly. This cash count does not constitute an audit and does not include a review of internal controls in the Treasurer's Office. In addition to counting cash on hand, our quarterly procedures include:

- Verifying that cash balances reconcile to the accounting records,
- Periodic confirmations of balances and investments with depositories and the safekeeping agent, and
- Testing all investments for compliance with the Government Code Section 53600 and with the County's Investment Policy.

We found the Treasurer's records of cash and investments were in agreement with the accounting records in the Auditor-Controller's Office. Investments were in compliance with the investment restrictions set forth in the Government Code and the County's Investment Policy.

SUBSEQUENT EVENT - POTENTIAL LOSS ON COMMERCIAL PAPER

On December 8, 2000 commercial paper issued by PG & E Corporation and having a face value of \$10 million was purchased for the County's Treasury Pool. This amount represents approximately 2% of the Treasury Pool's portfolio. At the time of purchase the paper was rated A1/P1, the highest quality commercial paper ratings. The purchase was in compliance with the County's investment policy. Subsequently, Standard and Poor's downgraded its rating from A to C, and Moody's downgraded its rating to NP as a result of news reports of the corporation's possible bankruptcy.

The \$10 million principal and interest payment was due to the Treasury Pool at the paper's maturity date, February 8, 2001. Payments on the commercial paper were not made, and PG & E Corporation is in default. At this point in time, we can make no estimate of the potential loss to the County.

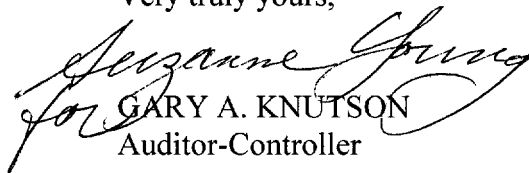
Recommendation

We recommend that:

- The Treasurer and your Board consider revising the Investment Policy to specify consultation with not only the broker, but our paid financial advisor before purchasing commercial paper and report back to your Board on or before March 27, 2001, and
- The Treasurer continue to monitor the financial position of the PG & E Corporation and the status of the defaulted commercial paper and continue to keep your Board apprized in the Treasurer's monthly reports.

IT IS THEREFORE RECOMMENDED THAT YOUR BOARD ACCEPT AND FILE THIS REPORT.

Very truly yours,


GARY A. KNUTSON
Auditor-Controller

GK:SY:es
Attachment

cc: Treasurer-Tax Collector
County Administrative Officer
County Counsel
Auditor-Controller

Office of the Auditor-Controller
County of Santa Cruz
State of California

STATEMENT OF COUNT OF MONEY IN TREASURY

TO WHOM IT MAY CONCERN:

I Gary A. Knutson, Auditor-Controller of the County of Santa Cruz, State of California, hereby certify that on the 19th day of December 2000, at 8:00 a.m., I counted the money in the Treasury of said County of Santa Cruz pursuant to the provisions of Section 26920 et seq of the Government Code of the State of California. I hereby make the following statement:

The money and receipts for bank deposits and investments in the Treasury on December 18, 2000 as shown by the books in my office should have been

\$ 568,016,920.26

The amounts of money and receipts for bank deposits and investments in the Treasury actually were

\$ 568,016,920.26

The amounts and kinds of money and the amounts of receipts for bank deposits and investments which were actually in the Treasury are described in the following schedule:

Currency and coin on hand
Checks on hand

\$ 31,658.55
1,985,966.83

\$ 2,017,625.38
(319,682.43)

Transactions after close of business

Checks, currency, and coin on hand at close of business

1,697,942.95

Cash in banks

8,652,715.41

Pooled investments

Commercial Paper

144,875,141.62

Medium Term Notes

128,226,905.00

Negotiable CDs

96,960,053.79

Repurchase agreements

8,575,000.00

Federal Agency Issues

135,860,144.39

Guaranteed Investment Contracts

0.00

Bankers Acceptances

0.00

other investments

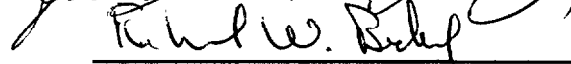
43,169,017.10

GRAND TOTAL

\$ 568,016,920.26

I Gary A. Knutson, having been duly sworn, depose and say that the foregoing is a true statement of the count of money in the Treasury of the County of Santa Cruz taken by me or under my direction on December 19, 2000.

Sworn and subscribed to before me
this 25th day of JANUARY, 2001


GARY A. KNUTSON, AUDITOR-CONTROLLER

RICHARD W. BEDAL, COUNTY CLERK

cc: County Clerk
Treasurer