JOYA C. DE FOOR, CTP
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CITY OF LOS ANGELES

CALIFORNIA

OFFICE OF THE TREASURER

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ANTONIO R. VILLARAIGOSA
MAYOR

January 9, 2008

The Honorable Laura N. Chick
Controller
200 North Main Street, Third Floor
Los Angeles, CA 90012

ATTENTION: Farid Saffar, Director of Auditing

SUBJECT: MANAGEMENT RESPONSE TO CONDITION OF ALL CITY FUNDS IN THE CITY TREASURY AS OF DECEMBER 31, 2006 AND AUDIT OF CASH AND INVESTMENT ACTIVITIES

Dear Mr. Saffar:

The Office of the Treasurer appreciates the opportunity to respond to the above referenced report. Except as noted below, management generally concurs with the audit recommendations. As more fully discussed below, it is imperative that there is a comprehensive understanding of Treasury activities, technical tools and processes in order to precisely communicate the intent of the recommendations. As we have discussed, the use of provocative words such as "always," "often," "is not always accurate," etc. when not accompanied with adequate explanation may be misleading. As a department, we strive for continuous process improvements that result in increased efficiency. Be assured that our foremost goal is the safety of the City of Los Angeles' financial assets.

Submitted are Management's responses to the audit recommendations.

MANAGEMENT RESPONSES TO:

Finding #1: <u>The beginning balance shown on the Daily Cash Flow Forecast Worksheets did not agree with the daily bank balance for four of ten days tested.</u>

Management concurs, but notes that the City was appropriately invested on 8/14/06, 8/28/06, 8/31/06, and 9/5/06. These clerical errors did not impact the investment activities for these days. It also should be noted that there were 120 reporting days during the audit period.

The Daily Cash Flow Forecast Worksheet, a model to help estimate the cash flow for the City for a period of six months, is a tool to approximate the projected liquidity needs for the Core portfolio. It is **not** a model to "calculate" a daily investment amount as may be interpreted from the wording of the Executive Summary. Investments are made to fund (provide liquidity for) dates at which cash is needed to pay the City's expenses.

Finding #2: The Treasurer has an unreconciled bank balance of $430,000.

Management has requested formal City Council approval to write-off the unreconciled difference in accordance with the Controller's recommendation. It is also not clear from the report that this unreconciled amount has been reported monthly to the Controller's Office and during each of the two prior years' audits.

As was discussed with the auditors, the $430,000 consists of prior years' unreconciled items. Without this clarification, the casual reader may conclude that the difference between the book and bank balances occurred during June 2006-December 2006 audit period. After exhaustive research during FY 2003-2004, Treasury determined that the unreconciled items occurred prior to FY 2003-FY 2004. During FY 2003-2004 and FY 2004-2005, Treasury requested the assistance of the Controller's Office in the proper accounting treatment for this unreconciled balance after it was determined that this difference could not be further reconciled.

Finding #3: The investment cost shown in the December 2006 Investment and Cash Management Report submitted to the City Council is overstated by $466,014.

Management concurs.

This difference occurred in FY 2002-2003 and not during the June 2006-December 2006 audit period. The overstatement was the result of the improper calculation of premiums and discounts on the sale of investments. Investments are reported at cost (as is indicated in the Treasurer's monthly report). Therefore, it should be clarified that there was/is no financial loss to the City.

Finding #4: The Treasurer's current policy to require departments to submit quarterly listings of authorized signers for wire transfers is time consuming to manage.

Management will consider a less onerous reporting requirement. As was discussed, Treasury, in the absence of updated listings, verified requested transactions with representatives of the respective departments. It should be noted that Treasury does not have the authority to enforce the submission of updated signatory listings and has recommended that the Controller add this as one of the criteria in its departmental Certification and Fiscal Monitoring Program (CFMP). In the interim, Treasury will report non-compliance on our website and to the appropriate general manager.

Finding #5: The Treasurer did not maintain a secondary broker/dealer registration form for one of six dealers on its approved list.

Treasurer's Office maintains that this is a technical, not substantive violation of the Investment Policy. The Broker/Dealer Questionnaire was not on file. However, the questionnaire information was contained in other documents on file in the Treasury, including the SEC Rule 15C3-1, evidence of proper registration with regulatory bodies, and validation of compliance with regulatory capital requirements.

It also should be noted that, as a subsidiary of Wachovia Bank, Wachovia Securities possesses a reputation as a strong fixed income market presence and for reasonable trade execution and quality service. No trade was executed with this dealer during the audit period through May 31, 2007.

The City received a completed Broker/Dealer Questionnaire in May 2007.

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If you have questions or require clarification, please contact Crista Binder, CTP, Assistant Treasurer or Victoria Santiago, Departmental Chief Accountant at (213) 978-1718.

Sincerely,

Joya C. De Foor

JOYA C. DE FOOR, CTP
City Treasurer

JCD:rmf

c: Robin Kramer, Chief of Staff, Office of the Mayor
Jimmy Blackman, Deputy Chief of Staff, Office of the Mayor
Gerry F. Miller, Chief Legislative Analyst
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