

**SANTA FE COUNTY  
INVESTMENTS**

**INTERNAL CONTROL ASSESSMENT REPORT**

**AUGUST 5, 2020**



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CONSULTING



CliftonLarsonAllen LLP  
CLAconnect.com

August 5, 2020

Board of Commissioners and Audit Committee  
Santa Fe County  
102 Grant Ave  
Santa Fe, NM 87501

Dear Board of Commissioners and Audit Committee,

This report provides you, Santa Fe County Treasurer's Office, with the results of the Santa Fe County Investments Internal Control Assessment and a means to prioritize risk mitigation and/or remediation strategies.

The Internal Control Assessment was performed in accordance with statement on standards for consulting services established by the AICPA.

CliftonLarsonAllen (CLA) was not engaged by Santa Fe County to conduct a financial audit, for which the objective would be the expression of an opinion on the financial statements. Had we been hired to perform an audit of financial information in accordance with U.S. generally accepted auditing standards, other issues may have come to our attention that would have been reported to you. Therefore, we express no opinion on the effectiveness of Santa Fe County's controls over all or any part of its financial statements.

In addition, the procedures performed by CLA are not a substitution for management's responsibility to maintain a system of controls to mitigate risk. The Internal Control Assessment was designed to provide Santa Fe County Treasurer's Office with insight to inherent and specific risks and deficiencies throughout the organization. Our procedures alone cannot identify errors and irregularities related to the scope of this project.

We appreciate the opportunity to assist Santa Fe County in performing this assessment. Management and staff involved in the process were a pleasure to work with and very open to sharing their opinions and knowledge. This cooperation was invaluable to the outcome of this project. If you have any questions, please feel free to contact us for assistance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Albuquerque, New Mexico  
August 5, 2020

# Executive Summary

CliftonLarsonAllen LLP (CliftonLarsonAllen or CLA) performed an internal control assessment for the Santa Fe County (County) Treasurer's Office Investments to assess whether internal controls are suitably designed and operating effectively to achieve control objectives. The internal control assessment was performed as a result of the County's understanding of the importance of internal controls in their processes and holding themselves accountable. CLA performed the assessment from May 11, 2020 through June 26, 2020.

Interviews were performed with key stakeholders in the County to gain an understanding of the processes, risks, and internal controls, specifically for the areas deemed to be in-scope as defined in the engagement letter. After the interview process, CLA performed operating effectiveness testing; specifically performing walkthroughs of processes and internal controls with the key stakeholders including inquiry, observation, and inspection of documentation.

Based on the results of the procedures performed, CLA developed this report to communicate and address the following:

- Control activities
- Observations identified during the assessment
- Recommendations and best practices

The following provides an overview of areas that may require attention. Specific observations, recommendations, and management responses are detailed in the report. Areas of review not mentioned in this summary were found to be satisfactory.

## Investments

### 1. Investment Policy Statement (IPS):

During our walkthrough and review of the County's IPS, which describes the duties and responsibilities of the Treasurer and the Investment Committee, we noted a monthly Investment Report is to be prepared and issued to the investment committee monthly and quarterly. The Investment Report was not issued for the month of March 2020.

## Investment Transactions

### 2. Fair Market Value Reporting:

During our test of effectiveness, we identified multiple instances where the approved broker-dealer statements reflecting the total portfolio value inclusive of the changes to fair market values did not agree to the recordings made in the County's general ledger system. The difference was related to the failure to recognize the non-cash changes in value.

### 3. Investment Fee Recordings:

During our test of details, we noted the County records all investment fees to the investment income account. This practice does not facilitate transparency when reviewing the total investment fees paid by the County.



## Investment Transactions (Continued)

### 4. Discount and Premium Calculation and Amortization:

During our test of details, we noted several instances in which the County's calculation and general ledger recordings for amortized discounts and premiums did not agree to the underlying support.

## Procedures & Controls

### 5. Trade Execution:

During our walkthrough and examination of the County's trade execution, we noted that the County does not have a formalized procedure for communicating the Buys and Sells of the County's investments. The creation of a standardized template to inform all interested parties can facilitate the integrity of the purchases and sell requests, creating greater efficiencies and duty of care.

### 6. Reconciliation Process and Procedure:

During our walkthrough and examination of the County's monthly investment process and procedure, we noted the County does not have formalized criteria, procedure, or guidance to assist County employees with the generation and completion of monthly reporting and reconciliation of investment transactions.

## Recording Transactions

### 7. Recording Transactions:

During our interview and examination of transaction recordings, we confirmed team members responsible for recording investment transactions (purchases, sales, accrued interest, interest payments, and unrealized gain/loss) into the general ledger system AS400 are currently calculating all information manually through the use of supplemental schedules.

## Computer IT Controls

### 8. Secure File Transfer Controls:

During our interview, the County confirmed they do not utilize a secure file transfer method for internal or external communications. Email samples provided during our examination demonstrate the sharing of sensitive information, such as account numbers. The transfer of this information through non-secure methods can lead to an area of vulnerability and risk.



## Objectives and Scope

The objective was to perform an internal control assessment for the County, specifically the following:

- Perform a current internal control assessment to evaluate the design and operating effectiveness of current state processes and internal controls of Santa Fe County Investments.
- Review and identify Santa Fe County Investment Policy Statement (IPS) and internal control improvement opportunities.
- Propose future state changes that mitigate risk and better support internal controls.

The following processes and sub-processes were identified as in-scope for the internal controls assessment, as well as segregation of duties, in each area:

- Investments
  - Selection of Investments; Review of County's Investment Policy Statement along with statutory or regulatory requirements regarding the entity's investment policies and appointed custodian of assets.
- Investment Transactions
  - Walkthrough of the documentation and recognition of monthly transaction activity, to include data entry into AS400, and delivery to Treasurer's department.
  - Test of effectiveness over monthly reconciliation.
- Procedures and Controls
  - Investment Agreements (account openings) review and walkthrough of individuals authorized to act on behalf of the County's Investment Accounts in accordance with the County's IPS.
  - Identify the persons authorized to initiate investment transactions (purchases and sales).
- Access Controls
  - Verify the registration of the County's Investments in accordance with the County's Investment Policy Statement.
  - Walkthrough of who has access to set up new investment accounts in the accounting system, or deactivate closed investment accounts.
- Recording Transactions
  - Walkthrough of procedures in place to ensure that all investment transactions (purchases, sales, accrued interest, interest payments, and unrealized gain/loss) are recorded into the general ledger system and who completes in the occurrence of a leave of absence.
- Account Reconciliation
  - Review of investment account's reconciliation. Walkthrough of who performs this procedure, who reviews, and how often.
- Custody of Securities
  - Describe who has custodial responsibility for investments and how they maintain custody.



- Computer IT Controls
  - Review evidence of authorization of any transactions that are maintained only in an electronic form, walkthrough opportunities of automation. Verify controls are in place to ensure the accuracy of the transaction that triggers the automatic processing.
  
- Managed Alternative Investment Accounts
  - Review whether the County holds any alternative investments managed by a third party and controls over third parties.
  
- Internal Cash Controls
  - Walkthrough the County's segregation of duties associated with deposits, receipt of checks, withdrawals, check request, sign checks, initiation of transfers, etc.



## Conclusion

We appreciate the opportunity to assist the County's management as they continue to focus on improvements related to their internal control of the County's Investment Portfolio. Management and staff interviewed were a pleasure to work with and open to sharing their opinions and knowledge. Their cooperation was invaluable to the outcome of this project.

Overall, we thought individuals were very knowledgeable of the processes and procedures for which they are responsible and were able to provide the information needed to complete our assessment procedures in a timely and efficient manner.

The operational and administrative controls as of June 2020 did reveal control weaknesses. The items addressed and the recommendations contained in the following section can facilitate the resolution of items noted. Since the purpose of this engagement is to suggest potential areas for improvement, favourable matters are not addressed.



## Detailed Observation Listing

Based on the internal control assessment, CLA identified 8 observations. These observations were made based on interviews with key stakeholders, review of applicable policies and procedures, and effectiveness testing.

#	Best Practice Control Activity	CLA Observation	CLA Recommendation	Management's Response
<b>Investments</b>				
1	Investment Policy Statement (IPS): Investment Report	<p>During our review of the County's IPS, reporting requirements, we identified "the County Treasurer shall prepare and submit to the Investment Committee monthly, and the board, quarterly, an investment report."</p> <p>A sample Investment Report was requested for the month of March of 2020. There was no meeting held in March 2020 due to COVID-19. After further discussion with County employees we were notified no report was issued in lieu of meeting.</p>	<p>We recommend the IPS be updated to reflect the process for handling cancelled investment committee meetings. While the meeting in March of 2020 was cancelled due to COVID-19 pandemic, the preparation of monthly and quarterly Investment reports should have been completed and issued to the Investment Committee for review.</p> <p>Redefining the process for cancelled meetings and issuance of Investment Reports will provide continuity and ensure abidance with the IPS.</p>	County Treasurer concurs with the observation and will present proposed changes to the number of required meetings and process for reporting requirements in lieu of a cancelled meeting.
<b>Investment Transactions</b>				
2	Fair Market Value Reporting	<p>During our test of effectiveness we noted a difference between the approved broker-dealer statement value and the value reflected in the County's general ledger.</p> <p>Upon further review, management identified the calculation discrepancy was the result of not accounting for the changes in fair market value of the investment securities.</p>	<p>We recommend the County implement a reconciliation process to ensure the general ledger agrees to the approved broker-dealer statement, including the changes to fair market value. The new process and procedure should be completed monthly.</p> <p>In addition, we recommend the County integrate check figures to ensure the current month processing agrees to the underlying support.</p> <p>The implementation of this recommendation will assist the County with ensuring the broker-dealer statements agree to the general ledger and accurate reporting is being provided to interested parties.</p>	Concur. As of FY21 (July 2020), the investment reconciliation process will be updated to include the recording of FMV adjustments on a monthly basis. The recon spreadsheets will also be updated to include check sums to more easily tie the reconciled balances back to the statements.





#	Best Practice Control Activity	CLA Observation	CLA Recommendation	Management's Response
<b>Investment Transactions (Continued)</b>				
3	Investment Fee Recordings	<p>During our test of details, we noted the County is recording all investment advisor fees and related costs to the investment revenue account. This practice results in the understatement of revenue.</p> <p>In addition, this recording methodology does not lend to transparency when reviewing fees in the general ledger.</p>	<p>We recommend the County create a general ledger account to capture all investment related fees.</p> <p>The creation of this account will assist with the analysis and review of investment fees paid throughout the year.</p>	Concur. As of FY21 (July 2020), fees will be recorded in newly created contra-revenue accounts.
4	Discount and Premium Calculation and Amortization	During our test of details, we noted the County's underlying calculation and ultimate recording of discounts and premiums did not agree to the approved broker-dealer statement.	We recommend the County update its current calculation process to include excel formulas. The integration of automated calculation will assist with consistency, accurate calculation, and recording of the activity to the County's general ledger.	Concur. As of FY21 (July 2020), we will standardize the way discounts/premiums are calculated on the recon spreadsheets.
<b>Procedures &amp; Controls</b>				
5	Trade Execution	<p>During our walkthrough and examination of trade execution, we noted the County does not have a formalized procedure for communicating the buys and sells of the County's investments.</p> <p>In addition, there are no internal distribution groups to ensure interested parties are aware of trade activity</p>	<p>We recommend the creation of a standardized template to communicate investment requests to all interested parties. This will facilitate the purchase and sell requests creating greater efficiencies and duty of care.</p> <p>In addition, we recommend a procedure be prepared to formalize the process. For example:</p> <ol style="list-style-type: none"> <li>1. Treasurer requests trade via secure email or via a documented phone call.</li> <li>2. Confirmation is received by Broker-Dealer.</li> <li>3. Broker-Dealer sends confirmation to the County's internal team.</li> <li>4. County's internal team documents activity and captures all supporting documentation.</li> </ol>	County Treasurer concurs with the observation and will create a formalized process for investment requests including the appropriate communication streams and the procedures from requesting trades through capturing required documentation for accounting treatment.



#	Best Practice Control Activity	CLA Observation	CLA Recommendation	Management's Response
<b>Procedures &amp; Controls (Continued)</b>				
6	Reconciliation Process and Procedure	<p>During our walkthrough and examination of the County's monthly investment process and procedure, we noted the County does not have formalized criteria, procedure, or guidance to assist County employees with the generation and completion of monthly reporting and reconciliation of investment transactions.</p>	<p>We recommend the creation of a formalized reconciliation process and procedure to account for all activity in the investment portfolios. The County's IPS requires a formalized procedure in place.</p> <p>We recommend the County prioritize the formalization of the procedure and integrate a review annually to ensure continuity and accuracy of reporting.</p>	Concur. We have a draft version of a process document that is being refined as time permits.
<b>Recording Transactions</b>				
7	Recording Transactions (Electronic Input)	<p>During our interview and examination of transaction recordings we confirmed team members responsible for recording investment transactions (purchases, sales, accrued interest, interest payments, and unrealized gain/loss) into the general ledger system AS400, are currently calculating all information manually through the use of supplemental schedules.</p> <p>In addition, we noted several discrepancies between the approved broker-dealer statement and the supplemental schedules utilized by the County's employees.</p>	<p>We recommend the County consider the purchase of an ancillary investment tracking system to eliminate or reduce the reliance on supplemental schedules.</p> <p>The implementation of an ancillary investment system will assist with accurate recordings and timely reporting.</p>	Concur. The County is researching ancillary investment system.



#	Best Practice Control Activity	CLA Observation	CLA Recommendation	Management's Response
<b>Computer IT Controls</b>				
8	Secure File Transfer Controls	<p>During our interviews, the County confirmed they do not utilize a secure file transfer method for internal or external recipients.</p> <p>Email samples that were provided during our examination demonstrate the sharing of sensitive information from both internal County members and external vendors.</p> <p>This level of exposure can lead to an area of vulnerability and risk for the County.</p>	<p>We recommend sensitive information, as illustrated in the County's Handbook, be protected and sent via an encrypted manner.</p> <p>We recommend sensitive information (account number, identification numbers, etc.) be safe guarded, and all communications including this information be transmitted using a secure file transfer method or portal where the County can communicate with external parties in a secure method.</p> <p>The adoption of encrypted file sharing can help protect the County from potential cyber-attacks and will facilitate the protection of confidential information.</p>	<p>County Treasurer concurs with the observation and work with County IT on setting up a secure file transfer method to ensure sensitive and confidential data is safe guarded from cyber-attacks and potential misappropriation.</p>



## Management's Response

In some instances, mitigating controls may have been identified and discussed with management; however, the mitigating controls are typically detective controls versus preventative controls. In addition, mitigating controls do not always contain supporting evidence to verify the effectiveness of the control; therefore, could not be relied on. Management has included responses to communicate their processes and mitigating controls for each observation.

## Management's Risk Assessment

A cost benefit analysis of internal controls is appropriate within every organization. While the objective of the Internal Control Assessment was to communicate best practices and recommendations with internal controls in order to enhance the Organization's internal control environment, management and governance should assess risk tolerance in their determination of the implementation of control enhancements.



