



CITY OF SACRAMENTO
CALIFORNIA

OFFICE OF THE
CITY MANAGER

January 8, 1981

CITY HALL
915 I STREET - 95814
(916) 449-5704

City Council and
Budget and Finance Committee
Sacramento, California

APPROVED
BY THE CITY COUNCIL

JAN 13 1981

OFFICE OF THE
CITY CLERK

Honorable Members in Session:

SUBJECT: Treasurer's Request for Additional Staffing

SUMMARY

The attached report is being placed on the agenda by the City Treasurer as an urgency item. The Director of Finance and the City Manager's staff have not had a chance to thoroughly evaluate this proposal in detail.

BACKGROUND

Based on staff's cursory review of the problems identified by the City Treasurer it is apparent that the situation is serious. It may be that internal organizational changes in the Treasurer's office are required as opposed to merely adding two additional accounting positions. It should also be noted that the suggested Accountant III classification does not exist at the present time and is rather a proposal of the Ralph Andersen Study.

RECOMMENDATION

In order to provide a measure of immediate relief to the City Treasurer it is recommended that:

- 1) A limited-term Senior Accountant position be approved with funding to June 30, 1981;
- 2) Staff conduct a management review of the City Treasurer's office in order to recommend a change in staffing patterns as part of the 1981-82 budget deliberation;

- 3) Approval be given to acquiring the Telerate Investment Information System;
- 4) Approve the proposed increase in the Investment Recovery Fee and instruct staff to prepare and submit the authorizing resolution;
- 5) Proposed Charter changes be referred to the City Council Committee considering amendments to the Charter at the next election.

Respectfully submitted,



Jack R. Crist
Director of Finance

Recommendation Approved:



Walter J. Slipes
City Manager

January 6, 1981

Sacramento City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: Urgent Request for Two (2) Treasury Staff Additions and Telerate Investment Information System

SUMMARY

A proposed new "full options" management program and the added administrative and clerical workload associated with managing the City's Retirement System and City investment funds, as well as internal control weaknesses cited in Treasury as a result of the substantial overall workload in Treasury, require immediate personnel actions. An Accountant III position as well as an Account Clerk II position, in addition to a Telerate investment information system, are required to implement the proposed new "full options" management program, continue in-house investment management of the Sacramento City Employees Retirement System (SCERS) by the City Treasurer's Office and resolve the internal control weaknesses in Treasury as defined in the recent Price Waterhouse Management Letter.

Very briefly, the estimated costs of this request are approximately \$49,000 per year for the continued City Treasury performance of these duties. However, should these duties be transferred to an outside investment manager, as well as a Master Fund Trustee, the estimated annual charges to the Retirement System will be in excess of \$185,000 annually, not considering any additional costs for superior investment results.

It is my judgment that approximately \$36,000 of the proposed cost increase is directly attributable to the City Retirement System investment management and \$13,000 is attributable to other City investment funds managed by the City Treasury. It is possible to recover the \$13,000 in salary costs attributable to other City investment funds managed by the City Treasurer through the investment cost recovery fee which is assessed to all short-term investment funds managed by the City Treasurer.

Further, it is my judgment that the \$36,000 in added costs directly attributable to the City's Retirement System are properly and "cost effectively" a reasonable charge to the City's Retirement System by the City for investment management fees and administrative and clerical workload associated with investment management. Additionally, an estimated \$50,000 per year in salary costs alone of the City Treasurer's staff are presently attributable to investment management and other administrative and clerical duties so associated. However, the

Sacramento City Charter, Section 393, expressly prohibits the levying of any usual, normal, or reasonable costs for administrative or clerical costs from investment management by the City Treasury to be levied to the Retirement System, although such costs are permissible by an outside fund manager. (See Attachment A)

I have additionally been asked to compare my staffing patterns to other Treasurers for like cities and counties throughout the State. I must report that there are no other Treasuries in city or county government in California like the City of Sacramento. Most cities and counties do not have their own retirement system. Further, those few that have retirement systems, such as Los Angeles, San Diego, San Francisco, San Jose, and Sacramento County, have outside fund managers and trustees and do not conduct "option" management programs.

For comparative purposes, however, the one City that looks like the City of Sacramento in both amounts of monies managed and revenues is the City of San Jose. San Jose has approximately \$150 million in retirement system monies managed by outside managers and approximately \$150 million in City funds managed in-house by the Treasurer.

San Jose has purchased both a "Pension Max" and "Money Max" investment accounting and reporting system for approximately \$160,000 and incurs approximately \$60,000 in annual time sharing costs and other rental charges. In addition, they have a Telerate System for approximately \$7,200 per year and their outside investment management fees for their retirement system approximate \$155,000 annually. The Treasurer of San Jose has advised me that the number of people on his staff that perform the investment operation, as well as the other duties in trust and financing that are performed here at the City of Sacramento, total eleven (11). I have a schematic organization chart, if necessary.

As Council knows, my entire staff consists of six positions and we have a Money Max Investment Accounting and Reporting System. Further, my entire budget approximates \$245,000, of which \$115,000 is presently being recovered to the General Fund through the investment cost recovery fee assessed to short-term investment funds managed by the City Treasury, which was approved by Council effective July 1, 1980.

The present authorized Treasury staff and budget is adequate to manage the short-term investment funds of the City as well as perform other Treasury duties. Two additional positions and a Telerate investment information system are required to continue in-house investment management of the City Retirement System and prudent conduct of the City Treasurer's Office. These are urgent matters as the City Retirement System is experiencing an opportunity loss of approximately \$1,230 per day as a result of the City Treasurer being unable to implement the full-options investment management program with existing staff.

Attached are detailed reports describing the needs and duties of the requested additions. (Attachment B) I request immediate action as I view my only other alternative to arrange for an outside investment management counselor as well as a trustee to perform the investment management duties of the SCERS as well as the administrative and clerical workload so associated.

FINANCIAL RETIREMENT SYSTEM INVESTMENTS

The proposed full options management program was approved by the AI & FM board in late November 1980, subject to development of administrative and clerical procedures by the City Treasury. The program is estimated to produce \$1 million in annual income, approximately \$450,000 per year more than is presently being earned on the monies earmarked for the program. It is estimated that the City Treasury can perform the administrative and clerical workload associated with the program for approximately \$8,000 per year with needed staff as opposed to \$34,000 per year by an outside Master Fund Trustee.

The administrative and clerical workload associated with in-house management of SCERS has grown geometrically in both volume and sophistication since 1963, the last time an administrative and/or clerical staff support position was made to Treasury. Specifically, since June 30, 1978 alone, administrative and clerical workload associated with Treasury investment operations has grown approximately 89%, resulting in excess of 12,600 transactions annually, which impact the reporting and investment earnings as well as the reconciliation process. It is estimated that the City Treasury can continue in-house investment management only with necessary administrative and clerical staffing, which, as recommended, would result in additional costs of approximately \$19,300 for continued Treasury performance of these duties. Outside investment management fees and Master Fund Trustee charges are estimated at in excess of \$150,000 annually to perform these same services.

The City Treasurer spends in excess of one hour per day on the phone to ascertain security prices and investment information necessary to make investment decisions. Further, City Treasury staff spend substantial time periodically on the phone ascertaining market values of investment securities. A Telerate investment information system provides market values of all investment securities and is "on-line" to Wall Street, wire services and the Federal Reserve System to permit instant access of all necessary information. The Telerate system is a Cathode Ray Terminal with a direct, dedicated phone line. The system leases for approximately \$9,000 per year and conservatively should increase investment income \$50,000 per year for the Retirement System.

CITY OF SACRAMENTO SHORT-TERM INVESTMENT FUNDS

The Price Waterhouse Management Study has recommended the addition of an Accountant III position to the Treasurer's staff to formalize and strengthen internal controls over cash and investments. However, I have judged that only one-half of this position's time, or an estimated \$11,300 annually in

staffing costs is required as a result of City investments and Treasury related City work. The remaining one-half of this position's time and cost is directly attributable to the City Retirement System investments which has previously been described. The \$11,300 attributable to the City short-term investments can be recovered by increasing the investment cost recovery fee on short-term investments from .0016% to .0018%. Therefore, this portion of the cost will have no impact on the General Fund.

CONCLUSION - FINANCIAL

The estimated cost for staffing and the Telerate investment information system are approximately \$36,000 per year for the Retirement System. The Telerate System conservatively should produce additional investment income of \$50,000 annually which offsets the cost. Should the staffing and information system request not be authorized, the Retirement System will incur cash charges of at least \$185,000 annually for outside investment management and performance of the resultant administrative and clerical workload.

The estimated cost for staffing for the City's short-term investment fund needs is \$11,300 annually, which can be recovered by increasing the investment cost recovery fee from .0016% to .0018%.

RECOMMENDATIONS

- Authorize an Accountant III and Account Clerk II position as well as the leasing of a Telerate Investment Information System for the City Treasurer's Office.
- Authorize an increase in the investment cost recovery fee assessed to all short-term investment funds to .0018% from .0016% to recover one-half of the Accountant III salary, who will be involved in reporting and accounting for short-term investment results.
- Pursue an amendment to the Sacramento City Charter to permit the Treasurer's Office to recover reasonable investment management fees and clerical and administrative costs when the City Treasurer's Office performs this service.
- Forward this request to Sacramento City Council for review and approval.

Respectfully submitted,



THOMAS P. FRIERY
City Treasurer

TPF:rp
Attachments (2)

Recommendation Approved:

WALTER J. SLIPE
City Manager

Copy to J. Christ 12/24/80



CITY OF SACRAMENTO ATTACHMENT A

JAMES P. JACKSON
CITY ATTORNEY
THEODORE H. KOBAY, JR.
ASSISTANT CITY ATTORNEY
LELIAND J. SAVAGE
DAVID BENJAMIN
SAM JACKSON
WILLIAM P. CARNAZZO
SABINA ANN GILBERT
STEPHEN B. NOCITA
DEPUTY CITY ATTORNEYS

DEPARTMENT OF LAW
812 TENTH ST. SACRAMENTO, CALIF. 95814
SUITE 201 TELEPHONE (916) 449-5346

December 12, 1980

MEMORANDUM

To: THOMAS FRIERY, City Treasurer
From: JAMES P. JACKSON
WILLIAM P. CARNAZZO, Deputy City Attorney
RE: ADMINISTRATION EXPENSES OF RETIREMENT SYSTEM

RECEIVED
DEC 24 1980
CITY
TREASURER

QUESTION PRESENTED

You have asked whether secretarial and related expenses of your office may be recouped as against the assets of the Retirement System, when such expenses were insured as a result of administering the assets of the system.

SUMMARY ANSWER

No.

ANALYSIS

Charter Section 393 provides as follows:

Sec. 393. Costs.

All usual, normal and reasonable costs of administering the retirement system, including actuarial fees and costs, shall be borne by the City. When an agreement is entered into by the board with professional financial advisors, such as investment counsel, trust companies, or trust department of banks in regard to the management and investment of the funds in the system, any fee stipulated in such agreement to be paid to such financial advisors shall not be considered a cost of administration but shall be considered as a charge against the assets of the retirement system to be apportioned among the fund or funds of the retirement system as determined by the board. In addition, any other ordinary costs incurred in regard to the management and investment of the funds in the system, including, but not limited to, brokers' fees, attorneys' fees, insurance, taxes, and property management fees, shall not be considered a cost of administration but shall be considered as a charge against the assets of the retirement system to be apportioned among the fund or funds of the retirement system as determined by the board.

Attachment A

This section establishes several categories of expenses. They are:

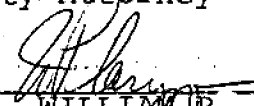
- (1) Usual, normal and reasonable costs of administering the retirement system, including actuarial fees and costs. These costs are to be paid entirely by the City;
- (2) Professional investment counsel expense. These are stated not to be "administration" expenses, and are thus payable not by the City, but from the system's funds;
- (3) Ordinary costs incurred in regard to the management and investment of the funds in the system, including but not limited to attorney and broker fees, insurance, taxes and property management fees. These are also to be paid from fund assets, and not by the City.

We are of the opinion that City staff expenses fall within the first category and thus may not be charged against the assets of the system. The second and third categories clearly refer to expenses incurred in hiring persons or firms external to the City. For example, although the third category mentions attorney fees, it would not be reasonable to conclude that the City Attorney's Office could charge the system for staff expense in advising the Board with respect to the legal aspects of particular investments. Similarly, the Treasurer's support staff costs with respect to investment of the funds must be absorbed by the City.

CONCLUSION

The assets of the system may not be used to pay for City staff costs incurred in administering and investing system funds.

JAMES P. JACKSON
City Attorney

By 
WILLIAM P. CARNAZZO
Deputy City Attorney

cc: Dunbar Heins, Retirement Systems Manager



CITY OF SACRAMENTO ATTACHMENT B

OFFICE OF THE TREASURER

800 - 10TH STREET
SUITE 1

SACRAMENTO, CA 95814
TELEPHONE (916) 449-5318

THOMAS P. FRIERY
TREASURER

DONALD E. SPERLING
ASST. TREASURER

December 22, 1980

TO: Jack Crist, Director of Finance
FROM: Thomas P. Friery, City Treasurer
SUBJECT: TREASURY RESPONSE TO PRICE WATERHOUSE MANAGEMENT LETTER

SUMMARY

The internal control weaknesses cited in the Price Waterhouse Management Study (See Attachment A) are directly the result of increased sophistication and transaction volume associated with the investment program of the City of Sacramento, particularly those involved with the City Retirement System's investment portfolio. The weaknesses are extremely serious in nature and, without resolution, could result in lost interest income, insufficient data to judge performance or make investment decisions and/or failure to timely and accurately reflect the City's financial condition.

I support all recommendations cited in the report, including the addition of an Accountant to the Treasurer's staff to serve as a close interface with the Finance Department because of the significant impact the Treasurer's Office has upon the City's financial statements. However, it is also necessary to make an addition of an Account Clerk II position to the Treasurer's staff to perform the substantial clerical workload associated with managing the investment portfolio and implementing the recommended internal control procedures.

An alternative available to resolve the serious internal control weaknesses cited in the report that would not add staff to the City Treasurer's Office would be to transfer all investment responsibility and accountability for Retirement System assets to the private sector. However, it is conservatively estimated that the cost of this alternative to the Retirement System would be in excess of \$185,000 annually as opposed to \$36,000 by the City Treasurer's staff performing those activities (see Attachment B). However, no estimate has been made for the potential of reduced or increased investment income that may incur to the Retirement System as a result of outside investment management, although the City Treasurer's staff has demonstrated superior investment performance results over the past two years as compared to all other investment managers of public funds.

Although the City Treasurer does not recommend implementation of the alternative of transferring investment management responsibilities outside, nonetheless, it is the only solution to the internal control weaknesses cited. It should be considered that the last administrative and/or clerical staff addition occurred in the Treasury in July 1963. Further, the Treasury assumed investment responsibility for Retirement System assets in July 1964 with total accountability of \$20 million and no investment authority for common stocks, options, mortgage-backed securities and bond swapping trading. In the intervening years, Treasurer's investment accountability has grown to approximately \$200 million and the increased sophistication in investment authority has translated into substantial administrative and clerical workload demands.

The following are responses to Recommendation 3 of the Price Waterhouse Management Report, assuming staff additions will be made to Treasury to implement the proposed recommendations:

3A - Reconciliation of Cash and Investments - Format Reporting

Point 1 - The volume of transactions affecting the reconciliation process has increased 89% from FY 1978 to 1980, resulting in 12,580 annual reconciliation items alone. The major portion of this increase results from options, GNMA and other mortgage-backed investments associated with the Retirement System and City fund investment portfolios as well as the investment management of the SHRA by the City Treasurer's Office. The volume, as well as the unpredictable nature of all aspects of investment activity, have simply inundated the Senior Accountant who has responsibilities for not only bank account reconciliation, but also all investment reports, operation of Moneymax investment system, Treasurer's full accountability report(s), Treasurer's budget preparation and monitoring, providing independent investment performance consultant of Retirement System with investment data, reviewing accuracy of time sharing charges involved with Treasury computer system, and option management charges of Loomis-Sayles for the Retirement System, as well as developing cash flow data to assist in investment management responsibilities.

Point 2 - A change in the Treasurer's accountability format is necessitated as a result of changing from a cash to an accrual method of investment reporting in October 1979. This change greatly added to the sophistication of investment reporting and resulted in a more accurate reflection of investment earnings as well as the City's current financial position.

However, there is neither staff available to design a format or monitor the changes for accuracy. Both administrative and clerical staff are needed to implement this change.

3B - The average daily accountability of the City Treasurer's Office which is effectively the accountability of the City of Sacramento approximates \$200 million per day. Practically, the accountability consists of investment, although as much as \$500,000 from time to time is in checking accounts.

In total, the investments in Treasury approximate \$200 million which are comprised of approximately 650 separate investment issues for 117 separate funds. The 117 separate funds consist of four separate investment pools and two unique investment funds: the Ann Land-Bertha Henschel Memorial Fund and Sacramento City Employees Retirement System.

Two of the four investment pools were created in October 1979 and the remaining pools were created in July 1980, with the management of the SHRA investment funds. The investment pools were created as a result of the 1979 Management Review which cited need for such an arrangement as a result of the seemingly arbitrary manner in which interest income was being allocated to City funds.

Although a Moneymax system was instrumental in establishing a pool concept, nonetheless changing from a cash to accrual accounting system, plus the major increase in investment transaction volume, primarily Retirement System investments, as well as expanded workload in other areas of Treasury responsibility, such as financing activity and trust operations, does not permit timely transfer of the City's financial picture.

The addition of an Accountant will permit timely completion and preparation of accountability reports to City Finance as well as the Retirement System.

3C

- The Treasury implemented a new special assessment bond program that resulted in the printing of blank bonds. Such procedure substantially reduced bond printing costs and the time it normally took to send unique issues out for printing. However, such procedure resulted in the printing of approximately 1500 bond interest and principal coupons. Since these bonds can be authenticated for issuance with minor clerical changes, such bonds will be transferred from the Treasurer's vault to the safekeeping vault at Wells Fargo Main Office, Capitol Mall Branch.

We have estimated the printing costs as a result of this procedure to be \$1,500 per issue as opposed to \$5,000 when printing individual issues. Therefore, assuming six special assessment issues per year, this procedure results in \$21,000 in annual savings.

- The Treasury has maintained approximately \$60,000 in payroll savings bonds for issuance to City employees that sign up for such bonds. However, it is anticipated that this responsibility will be transferred to the banking system effective January 1981. Therefore, these bonds will no longer be maintained in the Treasurer's vault.
- The Treasurer maintains slightly in excess of \$1 million market value of negotiable and registered investments of the Ann Land-Bertha Henschel Memorial Funds in the Treasurer's vault. Such procedure was followed to assist in investment management and eliminate the necessity for two (2) Treasury employees to travel to Wells Fargo Main when investment transactions were consummated.

However, these securities will be transferred to the Treasurer's vault at Wells Fargo Main Office. Further, it will now be necessary for two (2) Treasury employees to travel to Wells Fargo Main when investment transactions are consummated.

- During the months of January and July of each year and for an additional month at each time period, approximately \$5 million in special assessment bond and interest coupons are presented to the City Treasurer for payment.

As a result of insufficient staff, such bonds and coupons are placed in the Treasurer's vault until they can be verified, authenticated, and paid, at which time they are cancelled.

Because of the substantial volume in such a brief period, several days elapse prior to cancellation of the bonds. Such period introduces a substantial financial liability to the City.

The addition of an Accountant will permit timely authentication, verification and cancellation of the bonds and coupons, reducing financial exposure.

- Implementation of all the above procedures will reduce the substantial amount of negotiable securities maintained in the Treasurer's vault and thereby eliminate the need for a dual tumbler vault with two accesses.

However, such procedure will increase staff time required to travel to the Treasurer's vault at Wells Fargo Main Office and the time required to cancel special assessment bonds and coupons.

3D - A surprise semi-annual audit of the substantial amount of negotiable securities maintained by the City Treasury would be prudent. However, the Director of Finance advises no staff are available to perform such audit.

I would recommend that the scope of the annual outside auditors contract be modified to include a surprise audit of Treasury-maintained securities in addition to the annual audit.

3E - All present Treasury staff are inundated with all current workload of Treasury. No one is available to independently review the Moneymax input data although we have discovered a number of input errors at a later date which requires correcting entries.

The addition of an Accountant to review the output to ascertain all work was entered correctly will assist in reducing time required to reconcile.

3F - The City Treasurer's Office in October 1979 changed from a cost to an accrual investment reporting system. However, all investments are recorded at original cost as they pertain to investment accountability of the Treasurer's Office. Therefore, the Treasurer's Office must develop an accountability on a cash basis for reporting purposes and an accrual basis for internal reporting. The accounting

sophistication involved with accrual accounting has resulted in more accurate financial reporting. However, such procedure results in dual accountability which impacts time availability to prepare such reports.

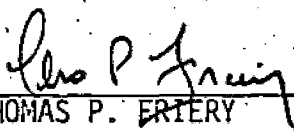
The addition of an Accountant to design and monitor investment reporting methods will result in accurate gain and loss reporting on investment securities.

3G - This recommendation pertains to the Finance Department, not the Treasury.

RECOMMENDATIONS

To improve the City Treasury internal control weaknesses cited in the Price Waterhouse Management Study:

- Immediately request emergency authorization to add an Account Clerk and an Accountant position to the Treasurer's staff to:
 - Timely prepare reconciliation of cash and investments.
 - Reduce the financial exposure presently maintained in the Treasurer's vault by transfer to vault the City maintains at Wells Fargo Bank.
 - Reduce clerical input errors made to the Moneymax investment system, and
 - Develop a more realistic measure of investment gain and loss reporting.
- Modify the City's contract with the outside auditor to perform a surprise semi-annual audit of securities in addition to the annual audit.



THOMAS P. ERIERY
City Treasurer

TPF:rp
Attachments (2)

cc: Bill Redmond

DRAFT

~~The implementation of these procedures not only will aid in the detection of inadvertent errors committed during file updates and changes, but also will guard against improper changes to the system data base.~~

Management response:

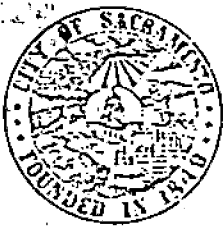
✓ Recommendation 3:

Consideration should be given to formalizing and strengthening internal controls over cash and investments.

We recognize that the Treasurer's Office has been in a state of transition during 1980 as the Moneymax computerized investment record keeping system has become fully operational; however, we noted a number of areas in which procedures could be strengthened to further safeguard assets:

- A. Reconciliations of cash and investments held by the Treasurer to the Finance Department records should be performed on a timely basis to insure that accounting records related to cash and investments are properly stated. Also, the reconciliation format should be changed to highlight potential adjustment items.
- B. Because of the significant impact the Treasurer's Office has upon the City's financial statements, a close interface is necessary between the Treasurer's Office and the Accounting Division. The preparation and transfer of financial information would be greatly facilitated by the addition of an accountant to the Treasurer's Office who is attuned to financial reporting requirements of the Finance Department.
- C. Securities maintained in the Treasurer's Office should be locked in the safe with a dual tumbler lock accessible only by two individuals concurrently using separate keys.
- D. Because the Treasurer's functions are similar to a banking function, controls common to independent banks would appear appropriate. One such control is periodic securities counts performed with relative frequency by someone independent of the Treasurer's Office.
- E. Regular review of the security transactions data input into the Moneymax system should be performed by someone other than the individual performing the input function.

attachment B



OFFICE OF THE TREASURER

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TELEPHONE (916) 449-5318THOMAS P. FRIERY
TREASURERDONALD E. SPERLING
ASST. TREASURER

December 12, 1980

Administration, Investment and Fiscal Management Board
Sacramento, California

Honorable Members in Session:

SUBJECT: Full Options Management Program - Continued City Treasury Administrative, Clerical, and Investment Management DutiesSUMMARY

Based on the additional internal administrative and clerical workload created on Treasury Department staff by the proposed "full options" management program, it is not possible to prudently implement such a program at this time. Further, as a result of the substantial administrative and clerical workload associated with the present covered call option program, this program should be immediately terminated pending selection of an outside Master Fund Trustee. Finally, as a result of administrative and clerical requirements for the necessary activity reports, analyses, and internal control procedures and investment aids associated with managing the City Retirement System's investment portfolio, the Board should consider the desirability of continued in-house management of Retirement System assets by the City Treasurer.

Alternatives available to the Board to remedy these situations appear to be:

- 1) Discontinue "options" as an investment vehicle of the Retirement System, or
- 2) Transfer full accountability and responsibility for "options" to Loomis-Sayles and an outside independent Master Fund Trustee, and/or
- 3) Transfer all investment management and related reporting and internal control procedures to an outside fund manager and an independent Master Fund Trustee, or
- 4) Support the addition and funding of an Account Clerk II and an Accountant III positions (see Attachments A & B) to the

Treasurer's staff to perform the required administrative and clerical workload and reporting associated with the "options" program and in-house management of the investment portfolio. Further, authorize acquisition of a Telerate Financial Information System to reduce the substantial time spent on the telephone by the City Treasury to ascertain the status of investment market conditions and activities. It is estimated that 100% of the time of the Account Clerk II, 50% of the time of the Accountant III, and 100% of the costs of a Telerate Financial Information System will be required to perform the administrative and clerical duties associated with continued in-house management of Retirement System assets.

FINANCIAL

It is estimated that in any of the first three alternatives offered to resolve the administrative and clerical problems described in this paper that investment income of the Retirement System could be reduced substantially. Further, in any event, outside investment management and clerical costs associated with prudent investment management will be substantially greater than those associated with the Treasurer's office performing these duties in-house with the necessary administrative and clerical help. Specifically:

- Failure to implement the "full options" management program and termination of the covered "call options" management program would result in the loss of an estimated \$1.150 million annually.
- The costs for the City Treasury to perform the administrative and clerical duties of the options management program are estimated at \$7,900 per year versus \$34,000 by an outside Master Fund Trustee.
- Continued in-house investment management by the City Treasury of Retirement System fixed income assets requires the additional funding of approximately \$28,300 for the administrative and clerical workload associated with investment management which would include the leasing of a Telerate Financial Information System, which would increase investment income an estimated \$50,000 annually.
- Outside investment management fees and Master Fund Trustee charges to perform the administrative and clerical workload associated with the fixed income portfolio are estimated at \$150,000 annually.

Full Options and Covered Call Options Management

For your information, the Options Manager has estimated that the "covered call" options program will produce \$150,000 and the proposed "full options" management program will produce \$1,000,000 in additional annual income to the Retirement System. Therefore, termination and/or failure to implement programs could reduce investment income \$1,150,000 per year.

Discussions with a major institutional investor revealed that an outside Master Fund Trustee (Chase Manhattan Bank) charges an annual fee of \$5,000 for their account, plus a \$30 transaction charge for each sell and buy contract execution in their covered call program. This institutional investor estimated that 100 transactions are consummated annually, resulting in charges of \$8,000 annually. (\$3,000 activity, \$5,000 annual maintenance).

In the City of Sacramento's covered call program, we are averaging 300 transactions annually. Further, based upon discussions with Loomis-Sayles, it is estimated that an additional 500 transactions including stock purchases, dividends, stock turnover, etc. will be consummated annually as a result of the proposed "full options management" program. Therefore, outside Master Fund Trustee charges would approximate \$34,000 annually (800 transactions x \$30, plus 2 annual account maintenance charges at \$5,000).

Since the first quarter of 1979, when our covered call program started to mature, the Assistant City Treasurer has devoted approximately 25% of his time to the clerical work associated with the "covered call" management program. This phenomena has resulted in an extremely poor use of Don's time and has created substantial administrative burdens on the City Treasury. Additionally, even if I could permit Don to continue this activity, the cost would be substantial to the City overall because the majority of work is extremely clerical in nature.

We conservatively estimate that the options management program alone would require 50% of the time of an Account Clerk II position that currently has a salary range of \$1,091 to \$1,328 per month. Using the high salary range, \$1,328 per month for estimating purposes, results in an annual cost of \$7,968 for the City Treasury performing this work as opposed to \$34,000 by and outside Master Fund Trustee.

Continued In-House Fixed Income Investment Management

A substantial administrative and clerical workload is a by-product of any investment program. Specifically, not considering the technical and professional discipline involved with investment selection, security delivery instructions, arranging for settlement, accounting for the investment, recording the initial acquisition and subsequent reporting involved with holding the investment, ascertaining accountability for and receipting for investment income, calculation of discount/premium, reporting of activity, performance, fund condition and fund reconciliation require initial and subsequent administrative and clerical staff support. Further, different investment vehicles result in greater administrative and/or clerical staff requirements. As examples:

- Bond investments generally pay interest twice annually, with principal payable at maturity.
- Stocks, however, pay dividends quarterly and require knowledge and subsequent checking to track "record date" and ex-dividend date.

- GNMA's and other mortgage investments, on the other hand, generally pay principal and interest monthly and require analysis of the pool encompassing such investments.
- The covered call options program requires initially receipting a sales contract and the monies associated with the sale. Upon receipt, the monies must be separately invested and the income earned must be isolated from other investment income and credited to the option program. Further, on close-out, termination, etc., the purchase contract must be recorded, stock sold, monies transferred or whatever other disposition required. Finally, it is necessary to confirm market values of outstanding options, confirm the management fee and the authenticity of the options report.
- The full options management program will require all the administrative and clerical steps as described above with the addition of actually recording purchase and sale of stocks (approximately 35 issues which are estimated to be turned over twice a year), recording quarterly dividend income, tracking "ex-dividend" and record dates, establishing a separate common stock portfolio independent of the common stocks presently in the portfolio, and creating the necessary accountability and reporting mechanisms involved with this type of investment vehicle.

As the Board knows, the present covered call stock program started late in 1978 and progressed over a period of several months until we have reached our current activity levels. Furthermore, the City Treasurer has increased mortgage investments (GNMA's, mortgage pools, etc.) from slightly less than 1% of portfolio assets to in excess of 15% of fund assets since February 1979 because of their extremely favorable rate of return vis-a-vis corporate bonds. Furthermore, this action, as well as the increased corporate bond trading and swapping activity substantially contributed to the extremely favorable investment results of the City's fixed income portfolio for both Fiscal Years 1979 and 1980.

In October 1980, the Treasury Department assumed responsibility for calculation of accrued investment income as well as amortization of discount and premium on bonds. A computer system acquired by the Treasury generates the mathematical calculations required to ascertain this data; however, although the calculations are machine generated, a far more sophisticated administrative report for accountability purposes is required. Effectively, Treasury accountability of assets has changed from a cash to an accrual accounting method and present Treasury staff are unable to create and prepare a timely and meaningful accountability report. Staff cannot timely advise the City Treasurer or Loomis-Sayles as to cash reserves available for permanent investment other than on a monthly basis.

The City of Sacramento audit report for the year ending June 30, 1980, brought these internal control and reporting weaknesses to light. This

report recommends that an Accountant III position be added to the City Treasury staff. However, I estimate that 50% of the time of this position will be directly related to accounting and reporting associated with in-house investment management of the City's Retirement System assets. The remaining 50% of this position's time will be devoted to other investment portfolios managed by the City Treasurer.

In addition to the Accountant III position as described above for administrative and internal control purposes, at least 50% of the time of an Account Clerk II position is also required to perform the clerical duties associated with the increased investment activity associated with the increased investment volume of the Retirement System.

Without the addition of the administrative and clerical staff support described above, it is not prudent for the City Treasurer to continue in-house investment fixed income management of the Retirement System assets. There simply is not enough time in the workday to perform the required administrative and clerical work associated with investment management. It will just be a matter of time before the backlog and insufficient help result in errors, etc., that will negatively impact the Retirement System's assets.

I conservatively estimate that 50% of an Accountant III position would result in an annual cost of \$11,300 and 50% of the time of an Account Clerk II would result in an annual cost of \$7,968. Therefore, the total costs associated with these staff additions is \$19,268.

Should the investment management function be transferred to the outside, investment management fees alone would approximate \$100,000. Further, outside Master Fund Trustee charges would be in excess of \$50,000, resulting in a cash outlay of at least \$150,000 annually.

Telerate Financial Information System

The City Treasurer spends an average of one hour per day on the telephone calling various brokers and security dealers to ascertain both market conditions, activity and price verification data in the management of the portfolio. Further, staff of the Treasury must call brokers to confirm security prices or market values for reporting purposes, etc.

The Telerate Financial Information System is a cathode date terminal which is "on line" with Wall Street. It is possible to instantly access securities markets, be apprised of economic condition and immediate financial news to aid in portfolio management.

I have used this system in the past for portfolio management purposes and feel that the instant access and monitoring of Wall Street provides more time to the investment manager to concentrate and implement investment strategies. This time translates into increased investment income opportunities.

The Telerate System is acquired via a lease arrangement and requires a dedicated telephone line. The annual cost for such a system is approximately \$9,000. Such a fee would provide current markets in corporate bonds, common stocks, futures markets, money market instruments and provide access to Federal Reserve Open Market activity as well as all financial news when it hits AP and UPI wires.

I feel the Telerate system will provide the City Treasury with financial information that will conservatively increase investment income \$50,000 annually.

BACKGROUND

The last administrative or clerical support position that was added to the City Treasury occurred July 1, 1963, with the hiring of a Clerk-Typist. At that time, Retirement System assets approximated \$20 million and fixed income investments were the only authorized investment vehicles. Subsequent to this date:

- The former City Treasurer on at least three occasions requested increased administrative or clerical staff support through the budget process. However, such requests were denied.
- Common stocks were authorized for investment in 1971.
- Covered call option program was implemented in 1978.
- GNMA and other mortgage pool investments were acquired in volume in 1979.
- The current City Treasurer requested administrative and clerical staff support positions in both 1979 and 1980, but was denied because of tight budget conditions associated with Proposition 13.
- The current City Treasurer substantially increased fixed income investment activity in the Retirement System which greatly enhanced investment performance in 1979 and 1980.
- In July 1979, the City Treasurer requested and City Council approved the addition of a Professional and Technical position to Treasury staff. The title of this position is Associate Investment Officer with primary responsibility for managing the City's short-term investment portfolio as well as training in a back-up capacity to the Retirement System's corporate bond portfolio.

However, such position, while contributing to favorable investment results, substantially increased administrative and clerical workload associated with investment management.

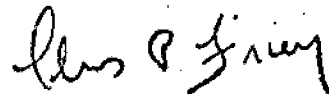
- In July 1980, the City Treasury assumed investment management responsibility for the investment assets of the SHRA. Although investment management results have been favorable, substantial administrative and clerical duties associated with this program have been incurred by the City Treasury.
- In November 1980, the Management Audit Letter of the City of Sacramento pointed out internal control weaknesses in the City Treasury and recommended the addition of an accountant position.
- In December 1980, Retirement System assets approximate \$110 million, a five-fold increase since July 1963. Further, total investment assets managed by the City Treasurer approximate \$180 million, nearly a six-fold increase since July 1963.

RECOMMENDATION

The Administrative Investment and Fiscal Management Board support the addition and funding of:

- An Account Clerk II and Accountant III positions to the Treasury staff to perform the administrative and clerical workload associated with the options management programs and continued in-house management of fixed income investments by the City Treasurer, and
- A Telerate Financial Information System to enhance investment income of the Retirement System.

Respectfully submitted,



THOMAS P. FRIERY
City Treasurer

TPF:rp
Attachments

ACCOUNT CLERK I
ACCOUNT CLERK II

DEFINITION

Perform responsible accounting clerical work involving the maintenance of financial or statistical records for the City's centralized accounting system.

DISTINGUISHING CHARACTERISTICS

Account Clerk I - This is the entrance level for clerical accounting employees. Employees in this class normally work under close and continuous supervision performing a group of closely related duties according to established procedures. While a variety of tasks may be assigned, each usually fits a familiar pattern and changes in procedure or exceptions to rules are explained in detail as they arise. Under this training concept, positions assigned to the class of Account Clerk II which become vacant may reasonably be filled at the Account Clerk I level.

Account Clerk II - Positions in this class are flexibly staffed and are normally filled by advancement from the lower grade of Account Clerk I, or when filled from the outside, require prior clerical accounting experience. Appointment to the higher class requires that the employee be performing the full range of duties for the class and meet the qualification standards for the class. An Account Clerk II works under general supervision and, within a framework of established procedures, is expected to perform a variety of accounting duties with only occasional instruction or assistance.

SUPERVISION RECEIVED AND EXERCISED

Account Clerk I

Immediate supervision is provided by professional accounting or Accounting Technician positions.

Account Clerk II

General supervision is provided by professional accounting or Accounting Technician positions.

EXAMPLES OF DUTIES - Depending upon assignment, duties may include, but are not limited to, the following:

Participate in the preparation of payroll, accounts payable and accounts receivable as well as control and account verification of a centralized accounting system.

Maintain various ledgers, registers and journals according to establish account classifications.

May audit invoices against Purchase orders; research discrepancies; app for payment and post to the proper account, keeping a running balance of cumbrances to the funds in each of the accounts.

Account Clerk I
Account Clerk II (Continued)

EXAMPLES OF DUTIES

May audit various claims for payment including those for travel and Pacific Telephone and SMUD invoices; prepare for check writing and input to data processing.

Perform accounting clerical work involved in the administration of the 1915 Public Improvement Assessments and the 1911 Bond Act Programs.

Initiate accounting transfers.

Reconcile general ledger accounts with various registers.

Perform various routine clerical duties such as typing and filing.

May audit Personnel Action Requests and submit to update the City's employee masterfile; prepare payroll from time cards submitted.

Respond to requests for information from outside agencies regarding employees' status and wages.

Research and answer employee and department questions regarding employee salaries and fringe benefits, the status of accounts and payments, the proper coding of transactions and other matters.

Prepare a variety of financial statements and costs and statistical reports.

Interpret computer reports.

Perform related duties as assigned.

QUALIFICATIONS

Account Clerk I

Knowledge of:

Modern office practices and procedures.

Ability to:

Operate a typewriter, calculator and other common office machines.

Keep financial and statistical records.

Perform varied clerical work.

Understand and carry out oral and written instructions.

Account Clerk I
Account Clerk II (Continued)

Experience and Education

Any combination equivalent to experience and education that could likely provide the required knowledge and abilities would be qualifying. A typical way to obtain the knowledge and abilities would be one year of clerical experience including some financial and statistical record keeping.

Account Clerk II

In addition to the qualifications of Account Clerk I:

Knowledge of:

Principles and practices of financial record keeping.

Municipal accounting system requirements and procedures.

Ability to:

Work independently in the absence of supervision.

Experience and Education

Any combination equivalent to experience and education that could likely provide the required knowledge and abilities would be qualifying. A typical way to obtain the knowledge and abilities would be one year of experience performing duties comparable to those of an Account Clerk I in the City of Sacramento.

ACCOUNTANT III

DEFINITION

To perform a variety of advanced level professional work, recording and reporting of financial transactions and budgetary control for the most complex funds; to review accounts payable, payroll and other fiscal records; and to develop and implement complex accounting system modifications.

DISTINGUISHING CHARACTERISTICS

Positions in this class work under direction and exercise independent judgment in the performance of a variety of complex and difficult professional accounting work with only occasional instruction or assistance. Incumbents are expected to assume accounting responsibility for the most complex funds such as utility funds and internal service funds. In addition, incumbents are expected to develop and implement complex accounting system modifications usually involving the functional supervision of subordinate professional accounting personnel.

SUPERVISION RECEIVED AND EXERCISED

Direction is provided by the Chief Accountant.

Responsibilities may include direct or indirect supervision of professional, technical, and clerical personnel.

EXAMPLES OF DUTIES - Depending upon assignment, duties may include, but are not limited to, the following:

Develop and implement complex accounting system modifications.

Supervise and participate in the posting, balancing and reconciliation of the general ledger and subsidiary accounts for the most complex funds.

Control budget for various City departments and projects determining if funds are available and expenditures properly classified; research and analyze transactions to resolve budget problems; provide analysis of available funds at management request.

Prepare work papers, financial statements and various reports for Federal, State and other outside agencies as well as for internal accounting.

Prepare fund balance projections and review with operating departments.

Audit outside agencies such as the Capital Area Development Authority.

Monitor and report on the status of State and Federal grants.

Assist departmental personnel with budget activity, proper expenditure coding, document preparation and other accounting related activities.

Accountant III (Continued)

EXAMPLES OF DUTIES

Assist in annual budget preparation.

Supervise and train assigned staff.

Perform related duties as assigned.

QUALIFICATIONS

Knowledge of:

Accounting principles and practices.

Principles of financial administration, including budgeting and reporting.

Principles of governmental accounting as applied to complex utility and internal service fund accounting.

Modern office practices procedures, methods and equipment.

Principles of supervision, training, and performance evaluation.

Ability to:

Examine and verify financial documents and reports.

Prepare a variety of complex financial statements, reports, and analyses.

Develop and implement complex accounting system modifications.

Supervise, train and evaluate professional, clerical and technical personnel.

Experience and Education

Any combination equivalent to experience and education that could likely provide the required knowledge and abilities would be qualifying. A typical way to obtain the knowledge and abilities would be two years experience in governmental accounting comparable to that of Accountant II in the City of Sacramento.