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County Executive



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### **EXECUTIVE OFFICE**

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### **NEWS RELEASE**

#### **Investments Safer, Fees Reduced – NCCo Responds to Investment Audit; *Auditor Contradicts His Own Public Statements***

The Gordon Administration has released its reply to the County Auditor's investment audit related to the \$92 million transfer of reserves to UBS Financial, the world's largest wealth manager with \$2 trillion under management. ([Link to Audit](#))

Today ends a year-long misinformation campaign perpetuated by County Auditor Bob Wasserbach, who conducted his audit on the front pages of the newspaper and without regard for the statutory audit process. "I've never seen an internal Auditor make public comments about an audit he hadn't even begun, much less complete," said County Executive Tom Gordon.

Now that the audit is complete, the Administration feels obligated to call attention to the following facts, which are no longer in dispute:

- The transfer moved the County reserves from a small, boutique Philadelphia investment advisory firm, with 11 full-time employees, to UBS (Not the "Bank of Switzerland"), the largest wealth manager
- Prior to the transfer, the County held a \$16 million position in two high yield (Junk Bond) mutual funds
- The Junk Bonds were in violation of the County's investment policy, as expressed in its Comprehensive Annual Financial Statements (2010, 2011, & 2012) and Official Statements (2010, 2012).
- The move to UBS greatly reduced the risk of County investments and are now invested consistent with our Annual Financial Statements
- No Council vote was required to transfer the money
- There is no evidence that there has ever been a bid, or formal RFP, prior to transferring investment accounts
- County Council was notified of the transfer and were given a presentation at a finance committee meeting

- The County taxpayers saved hundreds of thousands of dollars in annual fees

The Administration has maintained that the audit of the UBS transfer, and the manner in which it was conducted, were motivated by politics rather than strengthening internal controls. The chart below compares the 2010 transfer of money to the 2012 transfer, both of which occurred on this County Auditors watch.

Throughout this process, the County Auditor has made several reckless and inaccurate statements which we feel obligated to correct. In a March 24, 2015 News Journal article, for example, the County Auditor claimed that “These two mutual funds that invested in junk bonds [prior to UBS] were extremely low risk.” Junk bonds, by their very definition, are high risk and speculative. Even the prospectus issued by the very mutual fund that the Auditor claims to be “extremely safe” include cautionary language such as “The Fund invests in fixed-income instruments which...involve **great risk**.”

In an August 13th 2014 News Journal Article, the County Auditor asserted a distinction between investing in junk bonds directly or indirectly. "Investing directly in junk bonds is very different than investing in mutual funds," Wasserbach said. What he neglected to mention, of course, is that as it relates to credit risk exposure and/or adherence to an investment policy, investing in mutual funds that invest in junk bonds is no different than investing in junk bonds directly.

On page 16 of his audit, the County Auditor now contradicts his previous, erroneous statement by arguing that “one can’t circumvent the policy by doing indirectly [through mutual funds] what is not allowed to do directly,” which has been the position of the Administration.

<u>2010 Transfer</u>	<u>2012 Transfer</u>
No County Executive Approval	Written County Executive Approval
No Council Notification	Council Notified
No RFP	No RFP
Portfolio Risk <b>Increased</b>	Portfolio Risk <b>Decreased</b>
Invested <b>Contrary</b> to Financial Statements	Invested <b>Consistent</b> with Financial Statements
<b>Higher</b> Investment Fees	<b>Lower</b> Investment Fees
County Auditor conducted no audit and made <b>no public comment</b>	County Auditor comments in approximately <b>10 newspaper articles</b> , leaked documents, and met with journalists, <b>prior to</b> conducting an audit
Occurred under the County Executive and Council President, who appointed the County Auditor	Occurred under a new Administration

After much ado about nothing, the false allegations and innuendo do not end with the conclusion of the Audit. There is no lie or abuse of power that Auditor Wasserbach, Councilman

Smiley, and Councilwoman Kilpatrick are willing to engage in as a result of their loss of unwarranted favoritism that they demand from the Executive Office of New Castle County.

In late 2012, after returning to serve as County Executive of New Castle County, Thomas P. Gordon assembled a financial management focused leadership team. David Grimaldi, with Wall Street and management experience was appointed to the position of Chief Administrative Officer, with the responsibility of running the day to day operations of New Castle County government. Michael Coupe, with over thirty (30) years of experience in the New Castle County Finance Department was appointed to the position of Chief Financial Officer.

Executive Gordon, CAO Grimaldi, CFO Coupe, and others took the time to audit aspects of New Castle County's financial affairs that had been neglected by the Auditor Robert Wasserbach for approximately eight (8) years. They learned that millions of dollars were unnecessarily at risk and immediately took corrective action in accordance with the law, past practice, and in the public interest. More specifically, they acted in accordance with the Delaware Code wherein the Office of Finance is authorized to perform several important enumerated functions – including the responsibility to: “(9) Invest funds deemed by the Chief Financial Officer available for temporary investment in such obligations or in such manner as the County Executive may authorize.” 9 Del.C. § 1371

In an effort to make what is good bad, a series of coordinated attacks perpetuated by the auditor and two members of county council whose agenda the Auditor seeks to promote have created unwarranted public confusion.

1. The Auditor was coordinating and advocating for and with the financial institution that was replaced.
2. One council member sponsored a Resolution designed to manipulate the New Castle County Financial Advisory Council (NCCFAC) into participating in investment policy related issues, a matter beyond their legal jurisdiction. NCCFAC recently voted end their participation on the issue of investment policy. NCCFAC is now back in a position to work with the County Executive and County Council on current and projected economic conditions and trends as well as General and Sewer Fund revenue and expenditure estimates without being in the middle of political debates and being constantly lobbied and presented information by the Auditor.
3. One council member has introduced two (2) separate Ordinances designed to interfere with lawful authority delegated to the County Executive by the Delaware General Assembly.
4. The Auditor recklessly made false public statements and wasted public money and resources in his personal attempt to find fault through the abuse of the Audit Process.
5. The Auditor's false public statements in the media could have resulted in taxpayers of New Castle County having to pay higher interest rates to borrow money in the future if it were not for the skilled leadership of the Gordon Administration financial leadership team.