

Report on the

**Security for Alabama Funds
Enhancement (SAFE) Program
Office of the State Treasurer
State of Alabama
Montgomery, Alabama**

October 1, 2019 through September 30, 2020

Filed: February 19, 2021



**Department of
Examiners of Public Accounts**

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Rachel Laurie Riddle, Chief Examiner



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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An examination was conducted on the Security for Alabama Funds Enhancement (SAFE) Program, Office of the State Treasurer, Montgomery, Alabama, for the period October 1, 2019 through September 30, 2020, by Examiners Natalya Grantham and Katie Little. I, Natalya Grantham, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the examination.

Respectfully submitted,

A handwritten signature in blue ink that reads 'Natalya Grantham'.

Natalya Grantham
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Security for Alabama Funds Enhancement (SAFE) Program
Office of the State Treasurer
October 1, 2019 through September 30, 2020**

Act Number 2000-748, Acts of Alabama, effective January 1, 2001, created the Security for Alabama Funds Enhancement Program (the “SAFE Program”). This act was codified as Title 41, Chapter 14A of the *Code of Alabama 1975*, as amended, and established a unified collateral pool and program for deposits of public funds in the state by public officials. The *Code of Alabama 1975*, Section 41-14A-4, provides for the SAFE Program to be administered by the State Treasurer and the facilities and resources of the State Treasurer’s Office to be used and employed in the administration of the SAFE Program, including the record keeping and the management of funds and accounts. Personnel performing the record keeping and the management of funds and accounts of the SAFE Program are employees of the State Treasurer’s Office. The SAFE Program does not own any nonconsumable personal property.

This report presents the results of an examination of the SAFE Program and a review of compliance by the SAFE Program with applicable laws and regulations of the State of Alabama. This examination was conducted in accordance with the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12. Our examination was performed for the purpose of determining whether the public officers, and agents, of the SAFE Program properly and lawfully accounted for all money and other public assets or resources received, disbursed, or in the custody of the SAFE Program. Our examination included determining compliance by the SAFE Program with state laws and regulations that pertain to financial transactions; safeguarding of state-owned assets and resources; information dissemination, processing, and retention; and official actions, rulemaking procedures, and meetings. As a part of our examination, we also reviewed internal control policies and procedures relating to the areas listed above. Our examination did not encompass managerial and operational matters, such as whether the SAFE Program accomplished its mission or its regulatory, enforcement, investigative, or other oversight activities in an efficient, fair, timely, or legal manner.

Tests performed during the examination did not disclose any significant instances of noncompliance with applicable laws and regulations.

EXIT CONFERENCE

John McMillan, State Treasurer; Daria Story, Assistant State Treasurer; and Pam Stevenson, SAFE Director, were invited to an exit conference held via teleconference on February 5, 2021. Individuals in attendance were Daria Story, and Pam Stevenson, along with Natalya Grantham and Brad Grier from the Department of Examiners of Public Accounts.



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COMMENTS

**Security for Alabama Funds Enhancement (SAFE) Program
Office of the State Treasurer
October 1, 2019 through September 30, 2020**

Act Number 2000-748, Acts of Alabama, effective January 1, 2001, created the Security for Alabama Funds Enhancement Program (the “SAFE Program”). This act was codified as Title 41, Chapter 14A of the *Code of Alabama 1975*, as amended, and established a unified collateral pool and program for deposits of public funds in the state by public officials. The *Code of Alabama 1975*, Section 41-14A-4, provides that the SAFE Program be administered by the State Treasurer and the facilities and resources of the State Treasurer’s Office be used and employed in the administration of the SAFE Program, including the record keeping and the management of funds and accounts. Personnel performing the record keeping and the management of funds and accounts of the SAFE Program are employees of the State Treasurer’s Office. The SAFE Program does not own any nonconsumable personal property.

The *Code of Alabama 1975*, Section 41-14A-6, establishes the Board of Directors of the SAFE Program. The Board is charged with the responsibility and authority to assess and manage the sufficiency of the collateral pool and the SAFE Program to provide adequate protection from losses to public depositors. The Board consists of eight members. The State Treasurer is a permanent, standing, voting member of the Board and serves as its chair. The Superintendent of Banks is a permanent, standing, non-voting member of the Board. The remaining six members shall each possess knowledge, skill, and experience in one or more of the following areas:

- Financial analysis
- Trend analysis
- Accounting
- Banking
- Risk management
- Investment management

Of these six, there will be four members that are representatives of an active qualified public depository, which is not in the process of withdrawing from the SAFE Program and is in compliance with all applicable rules, regulations and reporting requirements of the SAFE Program. Of these four members, one will be selected and approved by the State Treasurer, and three will be selected and approved by the State Treasurer from nominations submitted to the State Treasurer by the Alabama Bankers Association. One member will be a representative of a municipality within the state and will be selected and approved by the State Treasurer from nominations submitted to the State Treasurer by the League of Municipalities of Alabama. One member will be a representative of a county within the state and will be selected and approved by the State Treasurer from nominations submitted to the State Treasurer by the Association of County Commissions of Alabama.

The terms of the members of the Board of Directors, other than the State Treasurer and the Superintendent of Banks, shall be four years, except that, with respect to the initial appointments, as determined by the State Treasurer, one member will serve one year, one member will serve two years, two members will serve three years, and two members will serve four years. Any person appointed to fill a vacancy on the Board may serve only for the remainder of the unexpired term. Any member is eligible for reappointment and shall serve until a successor is selected.

Two-thirds of the voting members shall constitute a quorum. The Board of Directors may not take official action in the absence of a quorum. The Board is required to meet at least quarterly. The minutes of the board meetings were reviewed and appeared to reflect all actions taken by the Board.

The *Code of Alabama 1975*, Section 41-14A-3(a), establishes that on and after January 1, 2001, all public deposits of all covered public entities and covered public officials shall be governed by the policies and procedures set by the SAFE Program. This section also provides that all public depositors shall, notwithstanding any other laws to the contrary, place their public deposits with one or more qualified public depositories (QPDs), and that the financial institutions shall file the reports required by this section, or by rule, regulation, or order of the Board of Directors of the SAFE Program. Act Number 2009-471, Acts of Alabama, effective August 1, 2009, amended the *Code of Alabama 1975*, Section 41-14A-3, and provides an exception to requiring all public depositors to place their public deposits with one or more QPDs. This exception does not apply to funds or moneys of the state that are deposited or invested by the State Treasurer.

In order to facilitate the administration of the SAFE Program, Act Number 2000-748, Acts of Alabama, provided for the creation of three funds, all of which shall be held and administered by the State Treasurer. The *Code of Alabama 1975*, Section 41-14A-10, provides that the SAFE Loss Payment Fund (Special Revenue Fund 1044), is used for the deposit of the proceeds from the sale of securities pledged as collateral or from any assessment pursuant to the *Code of Alabama 1975*, Section 41-14A-9. The amounts on deposit in this fund shall be disbursed as necessary in accordance with the provisions of the SAFE Program in order to pay losses to public depositors. Any amounts in this fund estimated not to be needed for immediate cash requirements shall be invested in any securities or other investments selected by the State Treasurer that are permitted under the *Code of Alabama 1975*, Section 41-14-30. All interest and other earnings from the investments of assets of the fund shall accrue to the fund. There was no activity in this fund during the period under examination.

The SAFE Program Administration Fund (Special Revenue Fund 1045), was created by Act Number 2000-748, Acts of Alabama, to be used by the State Treasurer to pay the costs and expenses of establishing and implementing the SAFE Program, to pay the ordinary costs and expenses of administering the SAFE Program, and to pay the members of the SAFE Board of Directors the per diem and travel rates as permitted by the *Code of Alabama 1975*, Section 41-14A-6(g). Act Number 2013-092, Acts of Alabama, effective October 1, 2013, created in the state treasury a special fund to be known as the State Treasury Operations Fund (Special Revenue Fund 1632). The State Treasury Operations Fund is to be used exclusively for the operations of the Office of the State Treasurer. All costs and expenses of administering the Office of the State Treasurer shall be paid from the State Treasury Operations Fund, including the administration of the Unclaimed Property Program and the SAFE Program, and to pay the SAFE Board of Directors the per diem and travel rates. This fund may receive general fund appropriations, amounts from the Unclaimed Property Reserve Fund, and any other receipts. All unobligated amounts remaining in the State Treasury Operations Fund at the end of any fiscal year shall remain in this fund and be available for use for the operations of the Office of the State Treasurer. Fund 1045 is no longer used and SAFE financial activity previously recorded in Fund 1045 is now recorded in Fund 1632.

The SAFE Program Enforcement Fund (Special Revenue Fund 1046), created by Act Number 2000-748, Acts of Alabama, is used for the deposit of all administrative penalties collected under the provisions of the SAFE Program. The amounts in this fund shall be used to pay the costs and expenses of enforcing the requirements and provisions of the SAFE Program, including the costs of foreclosing on pledged collateral, of making and collecting assessments from QPDs, and of enforcing the obligations of QPDs under contingent liability agreements. Any amounts in this fund estimated not to be needed for immediate cash requirements shall be invested in any securities or other investments selected by the State Treasurer that are permitted under the *Code of Alabama 1975*, Section 41-14-30. All interest and other earnings from the investments of assets of the fund shall accrue to the fund. There was no activity in this fund during the period under examination.

As of September 30, 2020, there were 136 QPDs participating in the SAFE Program. These QPDs held a total of \$15.160 billion in public deposits with applicable Federal Deposit Insurance Corporation (FDIC) coverage of \$932 million resulting in net public deposits of \$14.227 billion. Total public deposits held in all QPDs, along with a listing of all QPDs, is maintained on the State Treasurer's website at www.treasury.alabama.gov. Additionally, no bank failures occurred during our examination period.

Board Members and Official
October 1, 2019 through September 30, 2020

Board Members		Term Expires
Hon. John McMillan (1)	Chairman	2023
Hon. Mike Hill (2)	Ex-Officio	Indefinite
Hon. Mark Snead	Member	2023
Hon. John Riley	Member	2022
Hon. Michael Morgan	Member	2021
Hon. Rod Morgan	Member	2021
Hon. John Ramage	Member	2020
Hon. Penny Smith	Member	2020
Hon. Alison Edge	Member	2024
Hon. Keith McCullough	Member	2024

Official

Hon. John McMillan, State Treasurer	Office of State Treasurer State Capitol 600 Dexter Avenue, S-106 Montgomery, AL 36104 (334) 242-7500 www.treasury.alabama.gov
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(1) Ex-Officio
(2) Non-Voting Member