

COUNTY OF MODOC

TREASURY OVERSIGHT COMMITTEE  
COMPLIANCE AUDIT

FOR THE YEAR ENDED JUNE 30, 2016

**COUNTY OF MODOC**

Treasury Oversight Committee  
Compliance Audit  
For the Year Ended June 30, 2016

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## INDEPENDENT AUDITORS REPORT ON STATE COMPLIANCE

Members of the Treasury Oversight Committee  
County of Modoc  
Alturas, California

### Report on State Compliance

We have examined the County of Modoc's compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 of the California Government Code for the fiscal year ending June 30, 2016.

### Management's Responsibility for State Compliance

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on the County's compliance as identified in California Government Code Sections 27130-27137. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the County. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the County's compliance with those requirements.

### Opinion on State Compliance


In our opinion, except for the noncompliance referenced on page 4 of our report, the County of Modoc is in compliance, in all material respects, with the articles of Sections 27130-27137 of the Government Code for the fiscal year ending June 30, 2016.

### Other Matters

We have included on the following pages our discussion and observations regarding the oversight provided.

The information presented on page 5 and page 6 is for informational purposes only. We did not audit the information and express no opinion on it.

Sincerely,

  
SingletonAuman, PC  
Susanville, CA

October 24, 2016

### Susanville:

1740 Main Street, Suite A, Susanville, CA 96130  
530.257.1040 Fax: 530.257.8876

sa@sa-cpas.com  
www.sa-cpas.com

### Chester:

PO Box 795, Chester, CA 96020  
530.258.2272 Fax: 530.258.2282

**COUNTY OF MODOC**

Treasury Oversight Committee  
Compliance Audit  
For the Year Ended June 30, 2016

**COMMITTEE MEMBERS**

**Member**

Elizabeth N. Guzman

Leslie Corder

Stephanie Wellemeyer

Kathie Alves

Marie Neer

**Organization Appointed From**

Business Manager Modoc JUSD

Director of Fiscal Services, MCOE

County Auditor/Clerk

County Board of Supervisors

Alturas Cemetery District

## **Background and General**

In 1995, the California legislature passed provisions requiring each county and city to establish an oversight committee of 3 to 11 members representing various organizations. The pool of organizations was also specified in the legislation. The purpose of this committee was to oversee the policies that guide the investment of public funds. The committee was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting.

Certain statutory changes were enacted by the California legislature effective January 1, 2005. Government Code section 27131 now makes the Treasury Oversight Committee optional, although the Legislature encourages the continuation of the Oversight Committee.

Other statutory changes also include the removal of the mandatory filing of the County's annual investment policy and the County's quarterly investment report. Instead, the County's annual investment policy should be submitted to the County Board of Supervisors and the quarterly investment reports should be submitted to the County's administrative office, auditor-controller and Board of Supervisors.

## **Compliance Audit**

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. If the County elects to have a Treasury Oversight Committee, Government Code Section (GC) 27134 requires an annual audit to determine compliance with the provisions. This audit serves to comply with that requirement.

## **Committee Formation and Operation**

The committee appeared to be properly composed of members of the groups described in the Government Code, as described in GC 27132(a-g) (see page 2 for a complete list of members).

## **Investment Policy Statement**

Government Code section 27136 requires the County Treasurer to annually prepare an investment policy statement that is reviewed and monitored by the Treasury Oversight Committee. Based on our review of the committee minutes it appears that the committee met this requirement.

## **Investment Policy Review**

We reviewed the requirements specified in GC 27136, items a-h. We believe the 2016 policy addressed all the required provisions as follows:

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<u>Requirement</u>	<u>Policy Page</u>	<u>Deemed Compliant</u>
a) Authorized securities maximum percentage by type	6	Yes
b) Maximum terms	6	Yes
c) Criteria for selection of brokers	3	Yes
d) Limits on gifts	5	Yes
e) Reporting to oversight committee	3	Yes
f) Calculation of treasurer's costs (GC 27013)	4	Yes
g) Voluntary depositors	4	Yes
h) Requests for withdrawal	4	Yes

We believe the policy adequately addressed the guidelines intended by the oversight legislation.

**Compliance with Policy**

We reviewed the County's practices during 2015-2016 to determine compliance with the investment policy. We noted that all investments held at year-end were those authorized by government code and by County policy. The diversification percentages and maximum maturities were also reviewed as of year-end and found to be within the guidelines of the policy.

**Finding 1**

The County of Modoc had a deficit of approximately \$9.2 Million in the County Hospital fund at June 30, 2016 in the pooled cash accounts managed by the County Treasurer. This deficit exceeds the unrestricted balances available to the county to cover this deficit. Based on these facts, the County has taken resources from the investment pool to cover the deficit balances. The County is out of compliance with Government Code section 27136, which requires the county to assess the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury, in its consideration of a request to withdraw funds.

The County has reached an agreement whereby it is repaying the deficit from the general fund by budgeting for a payment of a maximum of \$800,000 (\$550,000 plus \$250,000 contingency fund) per year. Interest is being repaid at the Modoc County pooled fund interest rate. For 2015-2016 the county repaid \$550,000.

**Quarterly Reporting**

Government Code Section 53646 specifies the content of the quarterly investment reports. We noted that the minutes indicated that reports were presented at each meeting of the Treasury Oversight Committee.

**Cost and Fair Value**

The following illustrates the unaudited carrying value (cost) and market value of the investments as of June 30, 2016:

	<u>Carrying Value</u>	<u>Market Value</u>	<u>Maturity</u>
<b>ALL FUNDS</b>			
CalTrust			
Medium Term Fund	\$ 4,140,059	\$ 4,140,059	Open
Plumas Bank			
Checking Account	1,400,000	1,400,000	Open
Cla\$\$ Account	1,999,334	1,999,334	Open
Fidelity Money Market	236,049	236,049	
Federal Agency Coupons	2,400,359	2,421,034	
Certificate of Deposit	2,400,514	2,453,290	Aug 2016 to May 2021
Corporate Paper	299,391	299,553	Sep 2016
US Treasury Notes	1,786,318	1,800,447	Oct 2017 to Oct 2019
Corporate Bonds	7,563,672	7,619,014	Jul 2016 to March 2021
Local Agency Investment Fund	<u>4,579,293</u>	<u>4,579,293</u>	Open
<b>Total</b>	<u>\$ 26,804,989</u>	<u>\$ 26,948,073</u>	

As shown, the market values were 100.53% of book (carrying values were \$143,084 less than fair value).

**Interest Apportionment**

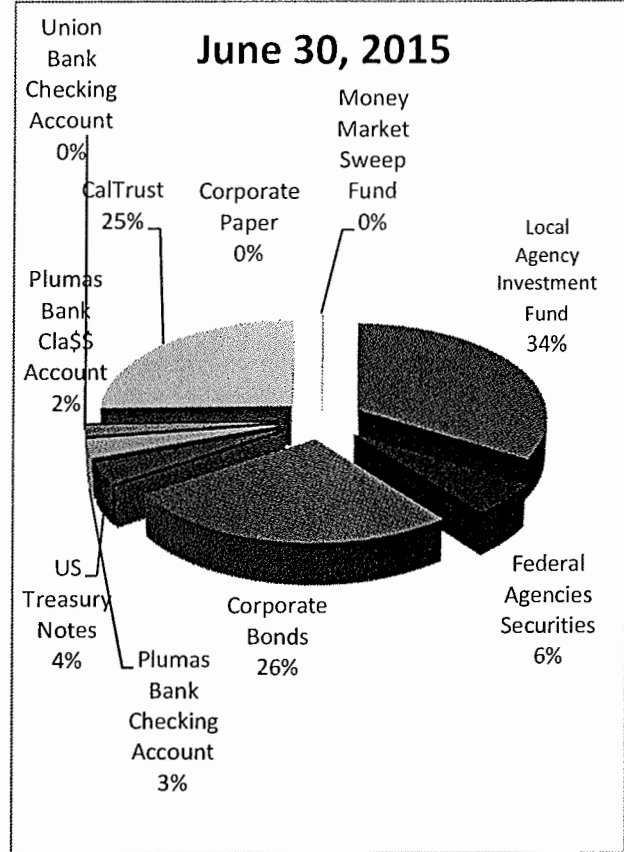
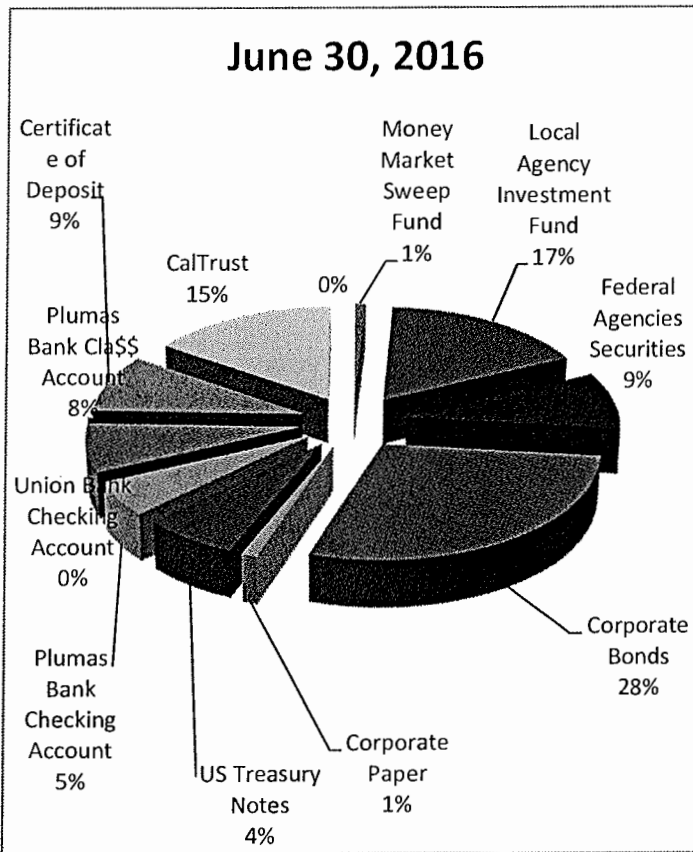
The interest earned on the pooled investments is apportioned by the Treasurer's office each quarter. These apportionments are made based on the average daily balances of each fund for the quarter. We believe the apportionment process is properly functioning to equitably distribute the investment earnings to the fund participants.

**Conclusion**

The investments at June 30, 2016 appear to be in compliance with the County's investment policy and State law. We believe the Treasury Oversight Committee functioned during 2015-2016 as was intended by the oversight legislation, and it is our opinion that oversight was properly provided.

County of Modoc  
Treasury Oversight Committee  
For the year ended June 30, 2016

**Cash and Investments by Type**



Cash and Investments at Amortized Cost:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	\$	%	\$	%
Money Market Sweep Fund	\$ 236,049	0.88%	\$ 27,313	0.10%
Local Agency Investment Fund	4,579,293	17.08%	8,754,109	33.52%
Federal Agencies Securities	2,400,359	8.95%	1,489,716	5.70%
Corporate Bonds	7,563,672	28.22%	6,900,193	26.42%
Corporate Paper	299,391	1.12%	-	0.00%
US Treasury Notes	1,786,318	6.66%	991,020	3.79%
Plumas Bank Checking Account	1,400,000	5.22%	823,192	3.15%
Plumas Bank Cla\$\$ Account	1,999,334	7.46%	484,872	1.86%
Union Bank Checking Account	-	0.00%	42,011	0.16%
Certificate of Deposit	2,400,514	8.96%	-	0.00%
CalTrust	4,140,059	15.45%	6,606,353	25.29%
<b>Total</b>	<b>\$ 26,804,989</b>	<b>100.00%</b>	<b>\$ 26,118,779</b>	<b>100.00%</b>