

**COUNTY OF COLUSA  
TREASURY OVERSIGHT COMMITTEE,  
CALIFORNIA**

**COMPLIANCE AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2011**

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**COUNTY OF COLUSA**  
**Treasury Oversight Committee**  
**Compliance Audit**  
**For the Year Ended June 30, 2011**

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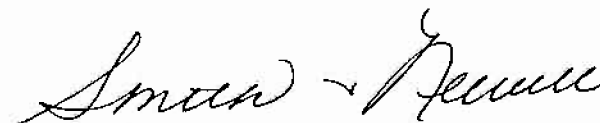
**INDEPENDENT ACCOUNTANT'S REPORT**

Members of the Treasury Oversight Committee  
County of Colusa  
Colusa, California

We have examined the County of Colusa's compliance with the Treasury Oversight Committee provisions contained in Sections 27130-27137 of the California Government Code and the County Investment Policy for the year ended June 30, 2011. The County Treasury's management is responsible for the compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination. We did not audit, verify or confirm the existence of the investments as this was not within the scope of this engagement and is normally included as part of the County's annual financial audit. Rather, the sole purpose of this audit was to determine compliance with the requirements specified in the Government Code Sections and the County Investment Policy.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and accordingly, included examining, on a test basis, evidence about Treasury management's compliance and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on compliance with specified requirements.

In our opinion, the County of Colusa is in compliance, in all material respects, with the articles of Section 27130-27137 of the Government Code and the County Investment Policy for the year ended June 30, 2011. We have included on the following pages our discussion and observations regarding the oversight compliance based on our examination.



Smith & Newell, CPA's  
Yuba City, California  
March 29, 2012

**COUNTY OF COLUSA**  
**Treasury Oversight Committee**  
**Compliance Audit**  
**For the Year Ended June 30, 2011**

**Committee Members**

Denise Carter. . . . . Representing Board of Supervisors  
Bonjie Immos. . . . . Representative of Superintendent of Schools  
Gerald Polk. . . . . Auditor's Office Representative  
Darla Marazzo. . . . . Treasurer's Office Representative  
Barbara Sachs. . . . . Representative of Special District

**Elected Official**

Daniel Charter. . . . . Treasurer

**COUNTY OF COLUSA**  
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**1. Background and General**

In 1995, the California legislature passed provisions requiring each county and city to establish an oversight Committee of from 3 to 11 members representing various organizations (The pool or 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. If the County elects to continue the Treasury Oversight Committee, Government Code Section 27134 still requires an annual audit to determine compliance.

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 Administrative Office, Auditor-Controller, or Board or Supervisors.

**2. Compliance Audit**

The oversight legislation included many specific requirements such as the required content of the Treasurer’s Investment Policy. Government Code Section (GC) 27134 requires an annual audit to determine compliance with the provisions. This audit serves to comply with that provision.

**3. Committee Formation and Operation**

In 1996 the Committee was established by Resolution No. 96-10. For the year ended June 30, 2011, the Committee operated with six members. Two committee meetings were held. Minutes of the meetings were properly maintained.

We reviewed the requirements specified in Government Code 27132 through 27132.4 which describe the required organization and operation of the Oversight Committee. We noted the following:

Requirement	Compliant
Oversight Committee Membership Requirements	
The county treasury oversight committee, pursuant to Section 27131, shall consist of members appointed from the following:	
(1) The county treasurer	Yes
(2) The county auditor, auditor-controller, or finance director, as the case may be.	Yes
(3) A representative appointed by the county board of supervisors.	Yes
(4) The county superintendent of schools or his or her designee.	Yes

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**For the Year Ended June 30, 2011**

**3. Committee Formation and Operation (Continued)**

Requirement	Compliant
(5) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county.	Yes
(6) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit in the county treasury.	Yes
(7) Up to five other members of the public.	
1. A majority of the other public members shall have expertise in, or an academic background in, public finance.	Yes
2. The other public members shall be economically diverse and bipartisan in political registration.	Yes
<b>Oversight Committee Member Employment</b>	
A member may not be employed by an entity that has (a) contributed to the campaign of a candidate for the office of local treasurer, or (b) contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.	Yes
<b>Fund Raising by Oversight Committee Member for County Officials</b>	
A member may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.	Yes
<b>Oversight Committee Member Employment in a Financial Service Industry</b>	
A member may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms, with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.	Yes
<b>Open Oversight Committee Meetings</b>	
Committee meetings shall be open to the public and subject to the Ralph M. Brown Act. (Chapter 9 (commencing with Section 54950) of Part 1 of Division 2 of Title 5)	Yes

**4. Investment Policy Statement**

Government Code Section (GC) 27133 requires the County Treasurer to annually prepare an investment policy statement. The policy for this examination was effective for the calendar year ended December 31, 2011 and was approved by the Board of Supervisors at their December 7, 2010 meeting.



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**4. Investment Policy Statement (Continued)**

We reviewed the requirements specified in Government Code 27133, items a-h, which describe the required contents of the investment policy. We noted the following:

Requirement	Compliant
a. A list of securities or other instruments in which the county treasury may invest, according to law, including the maximum allowable percentage by type of security.	Yes
b. The maximum term of any security purchased by the county treasury.	Yes
c. The criteria for selecting security brokers and dealers from, to, or through whom the county treasury may purchase or sell securities or other instruments. The criteria shall prohibit the selection of any broker, brokerage, dealer, or securities firm that has, within any consecutive 48-month period following January 1, 1996, made a political contribution in an amount exceeding the limitations contained in Rule G-37 of the Municipal Securities Rulemaking Board, to the local treasurer, any member of the governing board of the local agency, or any candidate for those offices.	Yes
d. Limits on the receipt of honoraria, gifts, and gratuities from advisors, brokers, dealers, bankers, or other persons with whom the county treasury conducts business by any member of the county treasury oversight committee. These limits may be in addition to the limits set by a committee member's own agency, by state law, or by the Fair Political Practices Commission.	Yes
e. A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.	Yes
f. The manner of calculating and apportioning the costs, authorized by Section 27013, of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.	Yes
g. The terms and conditions under which local agencies and other entities that are not required to deposit their funds in the county treasury may deposit funds for investment purposes.	Yes
h. Criteria for considering requests to withdraw funds from the county treasury, pursuant to Section 27136. The criteria shall include an assessment of the effect of a proposed withdrawal on the stability and predictability of the investments in the county treasury.	Yes

**5. Periodic Audits By Committee**

We reviewed the requirements specified in Government Code 27134. We noted the following:

Requirement	Compliant
The County treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article. The audit may include issues relating to the structure of the investment portfolio and risk.	Yes

**COUNTY OF COLUSA**  
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**Compliance Audit**  
**For the Year Ended June 30, 2011**

**6. Cost of Compliance**

We reviewed the requirements specified in Government Code 27135. We noted the following:

Requirement	Compliant
The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.	Yes - Except actual cost limited by Board of Supervisors

**7. Withdrawal of Funds from County Pool**

We reviewed the requirements specified in Government Code 27136. We noted the following:

Requirement	Compliant
a. Notwithstanding any other provision of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.	Yes
b. The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.	Yes

**8. Day to Day Operations**

We reviewed the requirements specified in Government Code 27137. We noted the following:

Requirement	Compliant
Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.	Yes

**9. Reporting**

We reviewed the Treasurer's Quarterly reports which were submitted to the Board of Supervisors to verify that they contained the information specified in Government Code Section 53646 and the County investment policy. They appeared to be complete with all the required information.

**10. Safekeeping**

We reviewed the Safekeeping arrangements of the Treasurer and verified compliance with information specified in Government Code Section 53601 and the County investment policy.

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**For the Year Ended June 30, 2011**

**11. Investments**

We reviewed the investments to verify that the maximum percentages by category of investment did not materially exceed the allowable percentages specified in Government Code Section 53601. We also reviewed the investments to verify that maximums for single issuers and maximum term limits specified in the policy were not exceeded at year end. Investments appear to be in compliance with Government Code Section 53601 and the County investment policy.

As of June 30, 2011, the County had the following investments, all of which had a maturity of 5 years or less:

	Interest Rates	Maturities			Fair Value	Weighted Average Maturity (Years)
		0-1 year	1-5 years	Over 5 years		
<b>Pooled Investments</b>						
Government Agencies	5.75-6.2%	\$ -	\$ 1,140,210	\$26,102,030	\$ 27,242,240	7.03
LAIF	Variable	<u>18,655,793</u>	<u>-</u>	<u>-</u>	<u>18,655,793</u>	<u>-</u>
Total Pooled Investments		<u>18,655,793</u>	<u>1,140,210</u>	<u>26,102,030</u>	<u>45,898,033</u>	<u>4.17</u>
Total Investments		<u>\$ 42,347,948</u>	<u>\$ 1,140,210</u>	<u>\$26,102,030</u>	<u>\$ 45,898,033</u>	<u>4.17</u>

Presented below is the minimum rating required by (where applicable) the California Government Code or the County's investment policy, and the actual rating as of year end for each investment type.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Moody's Rating	% of Portfolio
CA State GO Bonds	N/A	AAA	Aaa	59.35%
LAIF	N/A	Unrated	Unrated	<u>40.65%</u>
Total				<u>100%</u>

Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) at June 30, 2011, that represent 5 percent or more of total County investments are as follows:

Investment Type	Amount Invested	Percentage of Investments
CA Sate Go Bonds	\$ 27,248,240	59.35%

**12. Interest Apportionment and Administrative Charge**

We reviewed the interest apportionment to verify compliance with Government Code 53684(b) and the County investment policy which states that all costs related to investing, maintaining and accounting for the investment purchased for the Investment Pool shall be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool, including those held in specific investments. Interest earnings shall be apportioned on the same basis and also distributed quarterly. Interest apportionments appear to be in compliance with Government Code Section 53684(b) and the County investment policy.

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**For the Year Ended June 30, 2011**

**12. Interest Apportionment and Administrative Charge (Continued)**

The following is a summary of the interest apportioned for the year ended June 30, 2011:

	2010/2011		2009/2010	
	Interest Apportioned	Treasurer Admin Fee	Interest Earnings	Interest Earnings
September 30	\$ 19,136	\$ 25,000	\$ 44,136	\$ 161,657
December 31	38,748	25,000	63,748	650,365
March 31	419,742	25,000	444,742	428,985
June 30	344,569	25,000	369,569	956,474
Total	\$ 822,195	\$ 100,000	\$ 922,195	\$ 2,197,481

**13. Conclusion**

The Treasury pool appears to be diversified. Since the portfolio is short term in nature, the market value and the cost are nearly the same and no the County adjusted its portfolio to fair value. (Fair value is 99.09% of cost). Safekeeping agents were used for custody of investments. Quarterly reports on the treasury pool were complete and provided the necessary information to properly review the portfolio.

We believe the County is in compliance, in all material respects, with the articles of Section 27130-27137 of the Government Code and the County investment policy for the year ended June 30, 2011.

**COUNTY OF COLUSA**  
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**Schedule of Findings and Recommendations**  
**For the Year Ended June 30, 2011**

**11-01 Finding**

We noted that the administrative charge deducted from the interest income was a rate set by the Board of Supervisors in accordance with the revised investment policy rather than the actual costs as required by Government Code 53684(b).

**Recommendation**

We recommend that the investment policy as revised be reviewed to ensure that it is in compliance with Government Code 53684(b) in regards to the actual cost of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.

**Corrective Action Plan**

The administrative cost is determined by the Board of Supervisors during the budget process. The cost is allocated to all entities based on the average daily balance as required by Government Code 53684(b). The County Treasurer is of the opinion that the actual administration costs are substantially higher than those that are currently being charged. He is reluctant to charge more to public entities, especially since the interest rate is so low. Government Code 53684(b) says "Prior to distributing that interest or increment, the county treasurer may deduct the actual costs incurred by the county in administering this section in proportion to the average daily balance of the amounts deposited by the local agency and to the total average daily balance of deposits in the investment pool." Therefore, we believe that we can charge public entities less than it cost to provide the various administration services. The County will re-evaluate the amount currently being charged in the future.

**COUNTY OF COLUSA**  
**Treasury Oversight Committee**  
**Status of Prior Year Recommendations**  
**For the Year Ended June 30, 2011**

<u><b>Audit Reference</b></u>	<u><b>Status of Prior Year Audit Recommendation</b></u>
<b>10-01</b>	<p><b>Recommendation</b></p> <p>We recommend that the investment policy as revised be reviewed to ensure that it is in compliance with Government Code 53684(b) in regards to the actual cost of investing, depositing, banking, auditing, reporting, or otherwise handling or managing funds.</p> <p><b>Status</b></p> <p>Not Implemented</p>
<b>10-02</b>	<p><b>Recommendation</b></p> <p>We recommend that the quarterly investment reports be submitted to the Board of Supervisors and Treasury Oversight Committee within 30 days following the end of the quarter in compliance with Government Code 54646(b)(1).</p> <p><b>Status</b></p> <p>Implemented</p>