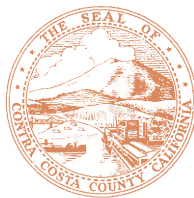


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May 16, 2017

TO: Donald Bouchet, Chairperson, Treasury Oversight Committee

FROM: Robert R. Campbell, Auditor-Controller
By: Joanne Bohren, CPA, Chief Auditor 

SUBJECT: Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134

EXECUTIVE SUMMARY

We have examined the accounts, records, and procedures of the County Treasurer (Treasurer) and the records and procedures of the Treasury Oversight Committee (Committee) for the period of January 1, 2016, through December 31, 2016.

We conducted the necessary audit tests and procedures to determine if, within our scope, the following conditions existed:

- There was compliance with Government Code Sections 27131 through 27132.4 that govern the establishment, membership, and meetings of the Committee.
- There was compliance with Government Code Section 27133 that governs the establishment, review, and monitoring of investment policy.
- The quality of the Treasurer's investment portfolio complied with applicable laws and administrative requirements governing investments, including Government Code Sections 53601 through 53607 and 53646 governing authorized investments and the County's Investment Policy.
- Internal controls were adequate to ensure the safeguarding of the financial assets under the Treasurer's control.
- The Treasurer has contracted with financial entities for investment services and safekeeping, and restricted investing transactions to brokers and issuers allowed by the County's Investment Policy.
- The Treasurer's Quarterly Investment Reports were accurate.

Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134

Based on the results of our audit tests and procedures, we concluded that, in all material respects, those conditions existed; however, in the area of investment of local agency funds, a procedure needs to be strengthened.

Invest local agency funds in securities that are in accordance with Government Code Section 53601.

The following section includes the full text of the recommendation to assist management address the issue. The last section includes the status of the prior recommendations for the County Treasurer and the Treasury Oversight Committee.

We appreciate the cooperation and assistance of the Treasurer staff during the course of our examination.

In accordance with established policy, we request your written response to the recommendation in this report within 30 days. In addition, we have implemented a follow-up process for the finding identified in the report. The follow-up examination is approximately six months after the release of the report.

If you have any questions please contact Sandi Bewley, Auditor III, at 925-335-8636, or Ian Irao, Auditor I, at 925-335-8638.

Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as Required by Government Code Section 27134

RECOMMENDATION

Recommendation: Invest local agency funds in securities that are in accordance with Government Code Section 53601.

Condition: The Treasurer was not in compliance with Government Code Section 53601. The purchase of one commercial paper (1) investment exceeded the maximum 270 day purchase to maturity limit by four days (274 days).

Criteria: Government Code section 53601 states, “This section shall apply to a local agency that is a city, a district, or other local agency that does not pool money in deposits or investments with other local agencies, other than local agencies that have the same governing body... Eligible commercial paper shall have a maximum maturity of 270 days or less.” Exceptions that allow commercial paper investments to exceed the maximum maturity limit are not specified in the Government Code.

Effect: A lack of adherence to the maturity limit stated in Government Code section 53601 can lead to an increased risk in credit quality changes for the investment. Changes in credit quality could increase the possibility of the investment defaulting.

Cause: The Treasurer, upon receiving investment instructions from the local agency, was presented with limited options in which to invest the funds. An investment that fulfilled these instructions was available but the Treasurer did not realize that the investment exceeded the 270 day maximum maturity limit before purchasing it. Additionally, the second authorizer of the investment did not review the number of days from the purchase date to the maturity date before approving the investment.

Suggested Action: The Treasurer should review Government Code section 53601 and only invest funds in securities that are in accordance with the Government Code. Additionally, the second authorizer should verify that securities are compliant with the Government Code before approving the purchase of an investment.

Management Update: The Treasurer was notified of this exception in July 2016. The Treasurer acknowledged the error and agreed to prevent similar action in the future.

Examination of the Activities of the County Treasurer and the Treasury Oversight Committee as
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STATUS OF PRIOR AUDIT RECOMMENDATION

There were no audit recommendations from the prior audit.

cc: Russell V. Watts, Treasurer-Tax Collector