

COUNTY OF NEVADA, CALIFORNIA

**TREASURY OVERSIGHT
COMPLIANCE AUDIT**

**FOR THE YEAR
ENDED JUNE 30, 2016**

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COUNTY OF NEVADA
Treasury Oversight Compliance Audit
For the Year Ended June 30, 2016

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INDEPENDENT ACCOUNTANT'S REPORT

Members of the Board of Supervisors
County of Nevada
Nevada City, California

We have examined the County of Nevada's compliance with the Treasury Oversight Committee provisions contained in Sections 27131-27137 of the California Government Code and the County Investment Policy for the year ended June 30, 2016. 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 Nevada is in compliance, in all material respects, with the articles of Section 27131-27137 of the Government Code and the County Investment Policy for the year ended June 30, 2016. We have included on the following pages our discussion and observations regarding the oversight compliance based on our examination.

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Roseville, California
December 22, 2016

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Board of Supervisors

Nate Beason District I – Board of Supervisors

Ed Scofield District II – Board of Supervisors

Dan Miller District III – Board of Supervisors

Hank Weston..... District IV – Board of Supervisors

Richard Anderson District V – Board of Supervisors

Elected Official

Tina M. Vernon..... Treasurer

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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.

2. Committee Formation and Operation

In December 1996 the Committee was established and continued in operation until January 8, 2008. The California Legislature enacted certain legislation which made the Treasury Oversight Committee optional and the County elected to discontinue operation of the Committee. Therefore, compliance with Government Code Sections 27131, 27132 and 27137 which apply to formation, organization and operation of the Oversight Committee, was not applicable.

3. Compliance with Government Code 27133

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 fiscal year ended June 30, 2016 and was approved by the Board of Supervisors at their May 26, 2015 meeting.

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

<u>Requirement</u>	<u>Compliant</u>
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

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3. Compliance with Government Code 27133 (continued)

Requirement	Compliant
e. A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.	Not Applicable
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

4. Compliance with Government Code 27134

We examined 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

5. Compliance with Government Code 27135

We examined 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

6. Compliance with Government Code 27136

We examined 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

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6. Compliance with Government Code 27136 (continued)

Requirement	Compliant
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

7. Compliance with County Investment Policy

The County's investment policy requires that all investment activities shall be operated in conformance with federal, state and other legal requirements, including but not limited to California Government Code Section 53600, et seq., and Section 27000, et seq.

We examined the County's compliance with the County investment policy as follows:

Reporting – We examined the Treasurer's Quarterly reports which were submitted to the Board of Supervisors to verify that they contained the information specified in the County investment policy. Quarterly reports appeared to be complete with all the required information.

Safekeeping – We examined the Safekeeping arrangements of the Treasurer and verified compliance with information specified in the County investment policy. Safekeeping arrangements appear to be in compliance with the County investment policy.

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

As of June 30, 2016, the County had the following investments, all of which had a maturity of 5 years or less:

Investment Type	Interest Rates	Maturities		Book Value	Fair Value	Weighted Average Maturity (Years)
		0-1 Year	1-5 Years			
Pooled Investments						
Government Agencies	.375 - 2.875%	\$ 12,009,732	\$ 43,051,287	\$ 55,061,019	\$ 55,754,380	2.42
Medium Term Notes	.875 - 6.000%	7,031,643	24,177,638	31,209,281	31,548,600	2.44
Commercial Paper	.810 - .970%	7,969,557	-	7,969,557	7,974,074	0.43
Municipal Bonds	1.310 - 5.728%	-	20,051,560	20,051,560	20,390,010	2.94
Negotiable CD's	.600 - 2.350%	2,450,000	13,500,000	15,950,000	16,180,019	2.75
Money Market	.130%	87,746	-	87,746	87,746	
CAMP	n/a	47,289	-	47,289	47,289	
LAIF	Variable	40,008,968	-	40,008,968	40,008,968	
Total Pool Investments		<u>69,604,935</u>	<u>100,780,485</u>	<u>170,385,420</u>	<u>171,991,086</u>	1.83
Investments Held by Fiscal Agents						
IXIS	5.91%	861,000	-	861,000	861,000	
Money Market	-	11,245	-	11,245	11,245	
Total Investments Held by Fiscal Agents		<u>872,245</u>	<u>-</u>	<u>872,245</u>	<u>872,245</u>	
Total Investments		<u>\$ 70,477,180</u>	<u>\$ 100,780,485</u>	<u>\$ 171,257,665</u>	<u>\$ 172,863,331</u>	

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7. Compliance with County Investment Policy (continued)

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 yearend for each investment type.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Moody's Rating	% of Portfolio
Federal Farm Credit Bank	N/A	AAA	Aaa	1.179%
Federal Home Loan Bank	N/A	AA+	Aaa	5.993%
Federal Home Loan Mortgage	N/A	AA+	Aaa	9.899%
Federal Home Loan Mortgage	N/A	A1+	Aaa	1.159%
Federal National Mortgage Association	N/A	AA+	Aaa	8.728%
Federal National Mortgage Association	N/A	AA	Aaa	1.742%
Federal National Mortgage Association	N/A	A1+	Aaa	3.554%
Medium Term Notes	A	AAA	Aaa	1.748%
Medium Term Notes	A	AA+	Aa1	1.175%
Medium Term Notes	A	AA+	A1	1.193%
Medium Term Notes	A	AA	Aa2	1.176%
Medium Term Notes	A	AA-	Aa2	1.179%
Medium Term Notes	A	AA-	Aa3	2.346%
Medium Term Notes	A	A+	A1	1.768%
Medium Term Notes	A	A+	A2	1.756%
Medium Term Notes	A	A	A1	1.165%
Medium Term Notes	A	A	A2	3.560%
Medium Term Notes	A	N/A	Aaa	0.589%
Medium Term Notes	A	N/A	A1	0.596%
Commercial Paper	A	AA-	Aa2	1.151%
Commercial Paper	A	AA-	Aa3	2.307%
Commercial Paper	A	A+	Aa3	1.156%
Municipal Bonds	N/A	AAA	Aa1	0.594%
Municipal Bonds	N/A	AAA	Aa2	0.563%
Municipal Bonds	N/A	AA+	Aaa	0.161%
Municipal Bonds	N/A	AA+	Aa3	1.217%
Municipal Bonds	N/A	AA+	A1	0.595%
Municipal Bonds	N/A	AA+	N/A	1.568%
Municipal Bonds	N/A	AA	Aa2	0.604%
Municipal Bonds	N/A	AA	A2	0.579%
Municipal Bonds	N/A	AA	N/A	0.311%
Municipal Bonds	N/A	AA-	Aa3	2.986%
Municipal Bonds	N/A	AA-	A2	0.230%
Municipal Bonds	N/A	AA-	N/A	1.196%
Municipal Bonds	N/A	A+	Aa3	0.593%
Municipal Bonds	N/A	N/A	N/A	0.598%
Negotiable CDs	N/A	A+	A2	0.584%
Negotiable CDs	N/A	N/A	N/A	8.776%
Money Market	N/A	Unrated	Unrated	0.057%
CAMP	N/A	Unrated	Unrated	0.027%
LAIF	N/A	Unrated	Unrated	23.145%
IXIS	N/A	Unrated	Unrated	0.498%
Total				<u>100.00%</u>

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7. Compliance with County Investment Policy (continued)

Investments in any one issuer (other than U.S. Treasury Securities, mutual funds, and external investment pools) at June 30, 2016, that represent 5 percent or more of total County investments are as follows:

<u>Investment Type</u>	<u>Amount Invested</u>	<u>Percentage of Investments</u>
Federal Home Loan Mortgage Corporation	\$ 19,115,130	11.114%
Federal Home Loan Mortgage	10,359,960	6.024%
Federal National Mortgage Association	24,241,050	14.094%

Interest Apportionment and Administrative Fee - We examined the interest apportionment to verify compliance with the County investment policy which states that all direct and indirect investment costs incurred by the Treasurer will be apportioned equally on the average daily balance method quarterly to all participants with funds in the Investment Pool. Interest earnings shall be apportioned on the same basis and also distributed quarterly. Interest apportionments appear to be in compliance with the County investment policy.

The following is a summary of the interest apportioned for the year ended June 30, 2016:

	<u>2015/2016</u>			<u>2014/2015</u>	
	<u>Interest Apportioned</u>	<u>Treasurer Admin Fee</u>	<u>Auditor Fees</u>	<u>Interest Earnings</u>	<u>Interest Earnings</u>
September 30	\$ 360,390	\$ 47,354	\$ 16,776	\$ 424,520	\$ 315,827
December 31	299,960	49,179	16,967	366,106	253,895
March 31	452,265	40,561	16,535	509,361	384,968
June 30	<u>326,243</u>	<u>47,652</u>	<u>21,468</u>	<u>395,363</u>	<u>277,736</u>
Total	<u>\$ 1,438,858</u>	<u>\$ 184,746</u>	<u>\$ 71,746</u>	<u>\$ 1,695,350</u>	<u>\$ 1,232,426</u>