

COUNTY OF MODOC
ALTURAS, CALIFORNIA

TREASURY OVERSIGHT COMMITTEE
COMPLIANCE EXAMINATION

JUNE 30, 2021

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INDEPENDENT ACCOUNTANTS' REPORT

Honorable Members of the Board of Supervisors
County of Modoc
Alturas, California

We have examined the County of Modoc's compliance with the investment compliance requirements contained in Article 6, Sections 27131-27137 of the California Government Code and the County Investment Policy during the period July 1, 2020 to June 30, 2021. The County Treasury's management is responsible for compliance with the specified requirements. Our responsibility is to express an opinion on the County of Modoc's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the County of Modoc complied in all material respects, with the specified requirements referenced above. An examination involves performing procedures to obtain evidence about whether County of Modoc complied with the specified requirements. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material noncompliance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Our examination does not provide a legal determination on compliance with specified requirements.

In our opinion, except for the noncompliance referenced on page 5 (Finding 2017-1) of this report, the County of Modoc complied, in all material respects, with the aforementioned investment compliance requirements during the period July 1, 2020 through June 30, 2021.

This report is intended solely for the information and use of the Board of Supervisors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
February 17, 2022

County of Modoc
COMMITTEE MEMBERSHIP

June 30, 2021

COMMITTEE MEMBERS:

Member:

Elizabeth N. Guzman
Leslie Corder
Stephanie Wellemeyer
Kathie Rhoads
Marie Neer

Organization of Representation:

Business Manager, Modoc JUSD
Director of Fiscal Services, MCOE
County Auditor/Clerk
County Board of Supervisors
Public Member

County of Modoc
Treasury Oversight Committee
COMPLIANCE EXAMINATION
For the Year Ended June 30, 2021

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 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 § 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 with the Treasury Oversight Committee. 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 or Board of Supervisors.

Compliance Audit Requirement

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. Government Code § 27134 requires an annual examination to determine compliance with the provisions. This examination serves to comply with that requirement.

Committee Formation and Operation

The Committee held a meeting on November 18, 2020 to discuss the 2021 County Investment Policy, where the Treasurer recommended changes to the policy for 2021. We reviewed the minutes, and believe the meeting was properly conducted in order to provide oversight. The most current policy was approved by the Board of Supervisors on January 26, 2021.

Investment Policy Statement

Government Code § 27133 requires the Board of Supervisors to annually give the County Treasurer Investment Authority. The County Treasurer will annually prepare an investment policy statement that is reviewed and monitored by the Treasury Oversight Committee. The most current policy was approved by the Board of Supervisors on January 26, 2021.

County of Modoc
 Treasury Oversight Committee
COMPLIANCE EXAMINATION
 For the Year Ended June 30, 2021

Investment Policy Review

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

<u>Requirement</u>	<u>Policy Section</u>	<u>Deemed Compliant</u>
a) Authorized securities	5-9	yes
b) Maximum percentage by type	5-9	yes
c) Maximum terms	5-9	yes
d) Criteria for selection of brokers	4-5	yes
e) Prohibition of political contribution	3	yes
f) Limits on gifts	3	yes
g) Reporting to Oversight Committee	12	yes
h) Calculation of Treasurer's costs (GC § 27013)	11	yes
i) Voluntary depositors	12	yes
j) Requests for withdrawal	11	yes

As shown above, we believe the policy adequately addressed the provisions specified in the oversight legislation.

Compliance to Policy

We reviewed the County of Modoc's practices during 2020-2021 to determine compliance to the investment policy. We verified that the maximum percentages by category of investment were not exceeded during the year. We also verified that maximums for single issuers and maximum term limits specified in the policy were not exceeded.

Reporting

We reviewed the quarterly reports which were submitted to the Board of Supervisors and to the Committee to verify that they contained the information specified in the law. They appeared to be complete with all the required information and included the cash needs disclosure, compliance to policy and the source of the market value information.

General Observations and Conclusion

The Treasury pool appears to be diversified. Since the portfolio is short term in nature, the market values and the cost are nearly the same. Investments in the portfolio appear to have been prudent and were of the type common to investment pools of other counties. Safekeeping agents were used for custody of investments. Quarterly reports on the treasury pool are complete and provide the necessary information to properly review the portfolio. The results of our examination disclosed instances of noncompliance that are reported as Finding 2017-1 on page 5 of this report.

County of Modoc
Treasury Oversight Committee
COMPLIANCE EXAMINATION
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2021

Finding 2017-1

The County of Modoc had a deficit of approximately \$9.3 million in the County Hospital fund at June 30, 2017 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 2015-16 the County repaid \$550,000. The County was unable to meet this obligation for 2016-17 and has budgeted to only service the interest on the accrued debt for 2017-18, 2018-19, 2019-20 and 20-21.

Status

The County General Fund paid \$84,796 in interest only to the County Hospital Fund during the 2020-21 fiscal year. The County General Fund has paid only \$95,066 during the 2020-21 fiscal year in principal and did not pay the full 2020-21 principal payment.