NAPA COUNTY

TREASURY OVERSIGHT COMMITTEE
COMPLIANCE AUDIT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2017

BROWN ARMSTRONG

CERTIFIED PUBLIC ACCOUNTANTS

NAPA COUNTY
TREASURY OVERSIGHT COMMITTEE
COMPLIANCE AUDIT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

BAKERSFIELD OFFICE
(MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
10 RIVER PARK PLACE
EAST SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

LAGUNA HILLS OFFICE
23272 MILL CREEK DRIVE
SUITE 255
LAGUNA HILLS, CA 92653
TEL 949.652.5422

STOCKTON OFFICE
5250 CLAREMONT
AVENUE
SUITE 150
STOCKTON, CA 95207
TEL 209.451.4833

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

INDEPENDENT ACCOUNTANT'S REPORT

The Honorable Board of Supervisors
of Napa County
Napa County, California

Report on Compliance with the California Government Code

We have audited Napa County's (the County) compliance with the Treasury Oversight Committee (the Committee) provisions contained in Sections 27130-27137 of the California Government Code (Government Code) that could have a direct and material effect on the County for the year ended June 30, 2017. Compliance with the requirements referred to above is the responsibility of the County's management. 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 as these procedures are included as part of the audit of the County's basic financial statements for the year ended June 30, 2017.

Management's Responsibility

The County's management is responsible for compliance with the requirements of laws, regulations, contracts, and grants.

Accountant's Responsibility

Our responsibility is to express an opinion on compliance with the Commission provisions contained in Sections 27130-27137 of the Government Code. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Government Code. 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 has occurred. 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 on compliance with the Committee provisions contained in Sections 27130-27137 of the Government Code. However, our audit does not provide a legal determination of the County's compliance with those requirements.

Opinion

In our opinion the County complied, in all material respects, with the Committee provisions contained in Sections 27130-27137 of the Government Code referred to above that could have a direct and material effect on the County for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weakness may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on requirements of the Commission provisions contained in Sections 27130-27137 of the Government Code. Accordingly, this report is not suitable for any other purpose.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the County's compliance with the requirements specified in Sections 27130-27137 of the Government Code. The accompanying supplemental information, as listed in the table of contents, is presented for additional analysis and is not specifically required per Sections 27130-27137 of the Government Code. Such information is the responsibility of management. Such information has not been subjected to the compliance auditing procedures applied in the compliance with the Committee for the year ended June 30, 2017, therefore, we do not express an opinion or any other form of assurance on it.

Restriction on Use

This report is intended only for the information of the Treasury's management, Treasury Oversight Committee, the Board of Supervisors, and others within the entity, and is not intended to be and should not be used by anyone other than these parties.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
November 29, 2017

NAPA COUNTY
TREASURY OVERSIGHT COMMITTEE
COMPLIANCE AUDIT
FOR THE YEAR ENDED JUNE 30, 2017

Committee Members

Member	Organization Appointed From
Tracy Schulze, Chair	Napa County Auditor-Controller
Alfredo Pedroza	Representative of Special Districts
Jeannie Kerr	Representative of School Districts
Barbara Nemko	Superintendent of Schools
Brad Wagenknecht	Board of Supervisors

NAPA COUNTY
TREASURY OVERSIGHT COMMITTEE
FOR THE YEAR ENDED JUNE 30, 2017

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 (GC) 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. GC 27134 required an annual audit to determine compliance with the provisions. This audit serves to comply with that requirement.

Committee Formation and Operation

In 1996, Napa County (the County) issued a Resolution which established the Napa County Treasury Oversight Committee (the Committee), membership, term of members, organization, powers, and duties.

Meetings were held during the fiscal year on August 10, 2016 and February 8, 2017. At the February 2017 meeting, the Committee renewed the existing investment policy. We reviewed the minutes and believe they were properly conducted in order to provide oversight.

Investment Policy Statement

Government Code Section 27133 requires the County Treasurer to annually prepare an investment policy statement even if there were no policy changes. The statement is reviewed by the Committee and submitted to the Board of Supervisors for approval. We noted that this was properly done and a policy updated as of April 1, 2017, was on hand and was used for purposes of this audit. It was submitted to the County's Board of Supervisors for approval.

Investment Policy Review

	Requirement	Policy Section	Deemed Compliant
a)	Authorized securities	7	Yes
	Maximum percentage by type	7	Yes
b)	Maximum terms	7	Yes
c)	Criteria for selection of brokers	10	Yes
	Prohibition of political contribution	10	Yes
d)	Limits on gifts	11	Yes
e)	Reporting to Committee	16	Yes
f)	Calculation of Treasurer's costs (GC 27013)	14	Yes
g)	Voluntary depositors	5	Yes
h)	Requests for withdrawal	12	Yes

As shown above, we believe the policy adopted contained all the provisions specified in the oversight legislation.

Compliance with Policy

We reviewed the County's actual practices during 2016-2017 to determine compliance with the investment policy. We verified the maximum percentages by category of investment. All categories of investment were within the maximum allowed percentage at year-end. We also verified that maximums for single issuers and maximum term limits specified in the policy were not exceeded. There were no exceptions noted.

Reporting

We reviewed the monthly 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. In addition, we believe the graphs and additional information beyond what is required assists the user's understanding of the investments in the Treasury.

Interest Apportionments

The interest earned on the pooled investments is apportioned each quarter. These apportionments are made based on the average daily balances of each fund for the quarter. We reviewed the methodology used to determine the Treasurer's costs that were charged against the interest before the balance was apportioned. We believe the apportionment process is properly functioning to equitably distribute the investment earnings to the fund participants.

Conclusion

The investments at June 30, 2017, appear to be in compliance with the County's investment policy and state law. We believe the Treasury Oversight Committee functioned during 2016-2017 as was intended by the oversight legislation. It is our opinion that oversight was properly provided.