

NAPA COUNTY

**TREASURY OVERSIGHT COMMITTEE
COMPLIANCE AUDIT**

**FOR THE YEAR ENDED
JUNE 30, 2023**

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH CALIFORNIA GOVERNMENT CODE SECTIONS 27130-27137

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

Report on Compliance with the California Government Code

Opinion

We have audited the County of Napa'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, 2023. 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 audit.

In our opinion, the County complied, in all material respects, with the 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, 2023.

Basis for Opinion on Compliance

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. Our responsibilities under those standards and the Government Code are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the County and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on the County's compliance with provisions contained in Sections 27130-27137 of the Government Code. Our audit does not provide a legal determination of the County's compliance with those requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or agreements applicable to the County.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the County's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in

accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Government Code will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the County's compliance with the requirements of Sections 27130-27137 of the Government Code as a whole.

In performing an audit in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, and the Government Code, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the County's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the County's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with Sections 27130-27137 of the Government Code, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement that is less severe than a material weakness in internal control over compliance, 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 the requirements of Sections 27130-27137 of the Government Code. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
February 9, 2024

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Committee Members

<u>Member</u>	<u>Organization Appointed From</u>
Tracy Schulze, Chair	Napa County Auditor-Controller
Jeannie Kerr	Representative of Schools/College Districts
Barbara Nemko	Superintendent of Schools
Belia Ramos	Board of Supervisors
Alfredo Pedroza	Representative of Special Districts
Josh Schultz	County Office of Education (alternate)
James Hudak	Member of the Public
Robert Minahen	Napa County Treasurer-Tax Collector (non-voting member)

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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 Napa County (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 (GC) Section 27131 now makes the Treasury Oversight Committee (the Committee) optional, although the legislature encourages the continuation of the 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 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 Executive 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 Section 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, the County issued a Resolution which established the Napa County Committee, membership, term of members, organization, powers, and duties.

Three meetings were held during the fiscal year. We reviewed the minutes and believe they were properly conducted in order to provide oversight.

Investment Policy Statement

GC Section 27133 requires the County Treasurer to annually prepare an investment policy statement even if there were no policy changes. The statement was 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 March 28, 2023, was on hand, and was used for purposes of this audit.

Investment Policy Review

Requirement	Policy Section	Deemed Compliant
a) Authorized securities Maximum percentage by type	7 7	Yes Yes
b) Maximum terms	7	Yes
c) Criteria for selection of brokers Prohibition of political contribution	10 10	Yes Yes
d) Limits on gifts	11	Yes
e) Reporting to Committee	16	Yes
f) Calculation of Treasurer's costs (GC Section 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 fiscal year 2022-2023 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, 2023, appear to be in compliance with the County's investment policy and state law. We believe the Committee functioned during fiscal year 2022-2023 as was intended by the oversight legislation. It is our opinion that oversight was properly provided.