



**SOLANO COUNTY GRAND JURY**  
2011-12

**COUNTY TREASURER FUNCTIONAL  
REVIEW**

# COUNTY TREASURER FUNCTIONAL REVIEW

2011-12 Solano County Grand Jury

## I. SUMMARY

The Solano County Grand Jury reviewed and determined the duties, functions, and responsibilities of the Solano County Treasurer. Compliance with applicable state codes and county ordinances was also examined.

The Grand Jury concluded that the County Treasurer generally complied with the majority of applicable requirements with some notable exceptions: Deficiencies were noted in compliance with several sections of California Government Code, Solano County Board of Supervisors' Resolution and Solano County Treasurer Investment Policy as they relate to the County Treasury Oversight Committee. Non-compliance ranged from potential violations of the Ralph M. Brown Act to missing language in the Solano County Treasurer Investment Policy. In addition, the Grand Jury determined that the Solano County Treasury Oversight Committee had been unable to assemble a quorum for the last four consecutive meetings spanning approximately two years, thereby rendering the committee ineffective. Coupled with improved treasury transparency, the Grand Jury concluded that the Treasury Oversight Committee served no useful purpose. As a result, the Solano County Grand Jury recommends disestablishment of the County Treasury Oversight Committee.

## II. INTRODUCTION

The County Treasurer (the Treasurer) is an elected position requiring specialized financial training, background, and/or professional certification. The primary function of the Treasurer is to “receive and keep safely all money belonging to the county.” (California Government Code §27000.) A primary duty of the Treasurer is to manage an investment pool consisting of nearly 500 accounts for the various offices and districts within the County.<sup>1</sup> For the eight-month period prior to our investigation the investment pool averaged more than \$500,000,000 per day.<sup>2</sup> The Treasurer accomplishes his duties with a deputy and two staff persons. At the time of review one of the staff positions was vacant.<sup>3</sup>

Treasurer duties, functions, and responsibilities are outlined in California Government Code §§27000-27137. Financial requirements, including investment and deposit constraints, are contained in California Government Code §§53600-53692. Requirements for Treasury audits and reviews are provided by several sections of the previously stated codes as well as California

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<sup>1</sup> Treasury Portfolio Depositor Allocation dated June 30, 2011

<sup>2</sup> Treasury Monthly Balance Sheets dated December 31, 2010 through July 31, 2011

<sup>3</sup> Organization chart provided on August 12, 2011

Government Code §§26900-26915. Several Solano County ordinances restate various aspects of the State code.

County treasury oversight committees are authorized and regulated by California Government Code §§27130-27137. The stated purpose of oversight committees is to “promote the public interest by involving depositors in the management of their funds.” (California Government Code §27130.) Oversight committees also ensure transparency of Treasury investments and fund balances. Our research determined that County Treasury oversight committees were mandated prior to September 29, 2004 when the code was amended to allow it as an option of each county’s Board of Supervisors. (California Government Code §27131.)

Given the value and complexity of the County’s investment pool, the Solano County Grand Jury chose to conduct this investigation to identify potential organizational and operational weaknesses that could result in significant risk exposure.

### **III. METHODOLOGY**

The scope of the review focused primarily on the Treasurer functions performed by the Solano County Treasurer /Tax Collector /County Clerk Department. The review did not include probate escheatment (previously reviewed by 2010-11 Grand Jury). The methodology used by the Grand Jury included:

- Interviews and discussions with the County Treasurer and staff
- Interviews and discussions with the Auditor-Controller and staff
- Review of County of Solano website material, including, but not limited to
  - Quarterly Treasury Reviews
  - Internal audits
  - External audits
  - Board of Supervisors’ Agendas, Minutes, and Resolutions
  - County ordinances
  - Yield Reports
  - Consolidated Financial Statements
  - Position Descriptions
- Review of California Government Code
- Review of Standard and Poor’s Rating Report
- Review and Validation of the Daily Treasury Reconciliation Dated August 31, 2011
- Review of Treasury:
  - Written Processes, Procedures, and Policies
  - Oversight Committee Minutes
  - Organizational Chart

#### IV. STATEMENT OF FACTS

The Solano County Board of Supervisors established the Treasury Oversight Committee in 1997.<sup>4</sup> The original resolution was updated in 2002 and amended again in 2011.<sup>5</sup> The 2011 amendment changed the membership structure of the committee. There are two permanent seats for the County Administrator and the County Superintendent of Schools or their designees. There are also three non-permanent seats and two alternate members. At the time of review the non-permanent seats were filled by the business officer of a local school district and two members from the public at large. Members are nominated by the Treasurer and confirmed by the Board of Supervisors. A quorum (i.e., the number of members required to conduct a meeting) was established by the Board of Supervisors at three.<sup>6</sup> According to the Treasurer, the committee is supposed to meet quarterly and is not directly compensated by the County; however, only four meetings were scheduled in the last 24-month period.<sup>7</sup> Review of various documents and discussion with the County Treasurer revealed that achieving a quorum over the years had been problematic. Examination of the minutes for the four meetings held since 2009 found the problem still exists as the Oversight Committee failed to attain a quorum at any of the meetings.

#### State and Local Guidance

- **The Treasury Oversight Committee is subject to the Ralph M. Brown Act** (Brown Act).<sup>8</sup> Interviews with County officials determined none of the meetings held by the Treasury Oversight Committee in 2010 and 2011 had agendas posted as required by the Brown Act. The Brown Act is California's open meeting law. In part, the law requires published agendas for public meetings. An agenda must list all items that will be discussed or acted upon, and must be written in such a way as to allow the general public to understand the nature of the meeting and to make an informed decision to attend the meeting or not. The Brown Act further requires that agendas be posted in an area accessible to the public at least 72-continuous hours prior to the start of the meeting.
- **The County Treasurer must publish an annual investment policy, which includes specific language.**<sup>9</sup> Review of the published investment policy dated March 8, 2011

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<sup>4</sup> Solano Board of Supervisors' Resolution 97-91

<sup>5</sup> Solano County Board of Supervisors' Resolution 2002-27 and 2011-127

<sup>6</sup> Solano County Board of Supervisors' Resolution 2002-27

<sup>7</sup> January 2010, August 2010, February 2011, and August 2011

<sup>8</sup> California Government Code §27132.4 and Solano County Board of Supervisors' Resolution 2002-27. The Brown Act is codified in California Government Code §§54950-54962.

<sup>9</sup> California Government Code §27133 and Solano Board of Supervisors' Resolution 2002-027. The state requirement is for counties who choose to establish a treasury oversight committee.

found two missing elements required by statute. Specifically, California Government Code §27133(d), states:

“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”,

and §27133(e), states:

“A requirement that the county treasurer provide the county treasury oversight committee with an investment report as required by the board of supervisors.”

The required language is also reiterated in Solano County Board of Supervisors’ Resolution 2002-27.

- **The County Treasury Oversight Committee must cause an annual audit to ensure compliance with the requirements.**<sup>10</sup> The Treasury Oversight Committee did not cause an annual audit in either 2009 or 2010. Interviews with representatives from the Treasurer and Audit-Controller’s offices revealed the last audit was accomplished for the period 2008. As of September 2011, the Auditor-Controller had not been engaged to conduct an audit for 2011. In 2009, County Counsel opined that the Committee’s annual audit was not required, due to statutory amendments removing the mandate for counties to establish and operate Treasury Oversight Committees. However, Solano County Resolution 2002-27 and the Solano County Treasurer Investment Policy dated March 8, 2011 provide that the Committee shall cause an annual audit to be conducted to determine the county treasury’s compliance with this resolution. Therefore, the Committee’s failure to have audits conducted in 2009 and 2010 was inconsistent with the Board of Supervisor’s direction, as well as department policy.

### **Current Treasury Transparency**

Solano County Treasury activity is transparent to the public. Both the Treasurer and Auditor-Controller maintain financial information on their websites, including yield reports, financial statements, rating reports, and the results of both internal and external audits. In addition, the Auditor-Controller conducts quarterly treasury reviews, the results of which are published at both the Treasurer and Auditor-Controller websites.

The investment rating company Standard and Poor’s continuously rates the Solano County Treasury. As a result, every month the Treasurer provides a complete accounting of the investment pool, and all securities held therein, to the rating agency.

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<sup>10</sup> California Government Code §27134, Board of Supervisors’ Resolution 2002-027, and the Solano County Treasurer Investment Policy dated March 8, 2011.

## V. FINDINGS AND RECOMMENDATIONS

**Finding 1** – The Solano County Board of Supervisors established a Treasury Oversight Committee in 1997. In so doing, several requirements relating to compliance with the Brown Act, preparation of an investment policy, accomplishment of an annual audit, and establishment of a quorum to convene meetings were triggered. The following exceptions and/or weaknesses were noted:

- i. According to the County Treasurer, the Treasury Oversight Committee is required to meet quarterly; however, the Committee only met twice in each of the last two years: January 2010, August 2010, February 2011, and August 2011.
- ii. The Treasury Oversight Committee failed to attain a quorum at the four meetings referenced above. As a result, the Oversight Committee was unable to perform any formal business for at least two years.
- iii. None of the four meetings held by the Treasury Oversight Committee had posted agendas, as required by the Ralph M. Brown Act.
- iv. The Solano County Treasurer Investment Policy does not contain all the language required by California Government Code §27133 (d) and (e), and Board of Supervisors’ Resolution 2002-27. Both documents state that “The investment policy shall include all of the following:
  1. 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.
  2. A requirement that the County Treasurer provide the Treasury Oversight Committee with an investment report as required by the Board of Supervisors.”
- v. The Treasury Oversight Committee did not cause an annual audit in either 2009 or 2010 as required by Solano County Resolution 2002-27 and the Solano County Treasurer Investment Policy last updated March 8, 2011. The last audit, performed by the County Auditor-Controller’s Office, was for the period 2008.

**Recommendation 1a** - California Government Code §27131 stipulates that County Treasury Oversight Committees are optional. Under the code, treasury oversight committees provide a broad oversight of the treasury, with few specific responsibilities, and little or no authority. Our review determined that improved technology, engagement of an independent rating agency, and adequate audit coverage has collectively provided a comprehensive system of internal controls sufficient to protect the County’s financial assets. Coupled with the inability of the established committee to meet regularly or obtain a quorum, the County Treasury Oversight Committee provides little or no added value for Solano County. As a result, the Grand Jury strongly recommends disestablishment of the Solano County Treasury Oversight Committee.

**Recommendation 1b** – In the absence of disestablishing the County Treasury Oversight Committee as expressed in Recommendation 1a, County officials should review applicable California Government Codes and County Ordinances/Resolutions/Policies to correct deficiencies related to the Brown Act, include missing language in the investment policy, conduct an annual audit, quarterly meetings, and obtain a quorum at all meetings.

#### **COMMENTS**

The Solano County Grand Jury appreciates the courtesies and cooperation provided by the County Treasurer and his staff. Responses to our inquiries were prompt and accurate, thereby streamlining the investigation process. Management and staff in the County Treasurer Office proactively initiated corrective action as soon as issues and concerns were identified during the course of the review. The County Treasury appeared to be an effectively managed organization.

#### **REQUIRED RESPONSES**

Solano County Treasurer  
Solano County Board of Supervisors

#### **COURTESY COPIES**

Solano County Auditor-Controller  
Solano County Administrator  
Solano County Superintendent of Schools