

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS**  
**BOARD ACTION SUMMARY**

DEPT: Treasurer / Tax Collector

BOARD AGENDA: 5.B.1  
AGENDA DATE: June 26, 2018

**SUBJECT:**

Acceptance of the Stanislaus County Treasury Pool and Tobacco Endowment  
Investment Fund Audits for Year Ending June 30, 2017

**BOARD ACTION AS FOLLOWS:**


**RESOLUTION NO. 2018-0311**

On motion of Supervisor Chiesa \_\_\_\_\_, Seconded by Supervisor Olsen \_\_\_\_\_  
and approved by the following vote,  
Ayes: Supervisors: Olsen, Chiesa, Monteith, and Vice-Chairman Withrow \_\_\_\_\_  
Noes: Supervisors: None \_\_\_\_\_  
Excused or Absent: Supervisors: Chairman DeMartini \_\_\_\_\_  
Abstaining: Supervisor: None \_\_\_\_\_

- 1)  Approved as recommended
- 2)  Denied
- 3)  Approved as amended
- 4)  Other:

**MOTION:**

ATTEST:

  
\_\_\_\_\_  
ELIZABETH A. KING, Clerk of the Board of Supervisors

File No.

**THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS  
AGENDA ITEM**

DEPT: Treasurer / Tax Collector

BOARD AGENDA:5.B.1  
AGENDA DATE: June 26, 2018

CONSENT:

CEO CONCURRENCE: YES

4/5 Vote Required: No

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**SUBJECT:**

Acceptance of the Stanislaus County Treasury Pool and Tobacco Endowment Investment Fund Audits for Year Ending June 30, 2017

**STAFF RECOMMENDATION:**

Accept the following annual audits for the Fiscal Year Ended June 30, 2017, prepared by Brown Armstrong, Certified Public Accountants:

1. Stanislaus County Treasury Pool.
2. Stanislaus County Tobacco Endowment Investment Fund.

**DISCUSSION:**

In 1995, State Law mandated each county and city to establish a Treasury Oversight Committee. The purpose of the Committee is to review and monitor the Treasury Pool Investment Policy and reporting. The Committee must meet certain requirements and conditions placed on Committee members under this legislation. In 1996, the Board of Supervisors passed a resolution to establish the Stanislaus County Treasury Oversight Committee, its membership, member terms, organizational structure, powers, and duties.

Pursuant to the change in California Government Code Section 27131 in 2004, the establishment of a County Treasury Oversight Committee is now optional, and no longer mandatory. However, it is recommended that Stanislaus County maintain its Treasury Oversight Committee functionality as an added layer of oversight and transparency to the compliance of investment policies and government code.

An annual audit of the Treasury Pool verifying compliance with State Law and the Investment Policy is required. Brown Armstrong, Certified Public Accountants, have prepared the audit for the year ending June 30, 2017.

The Treasury Pool audit was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and included examining evidence of compliance. The independent auditors found that "management's assertion that the County of Stanislaus complied with the aforementioned requirements for the year ended June 30, 2017, is fairly stated, in all material respects."

In November 1998, the Attorneys General of 46 states (including California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, The United States Virgin

Islands, American Samoa and the Territory of the Northern Marianas (collectively, the “Settling States”) and the four largest United States tobacco manufacturers (OPM’s) entered into a master settlement agreement in resolution of cigarette-smoking related litigation. The master settlement agreement released the OPM’s from past, present and future smoking-related claims in exchange for, among other things, certain payments to be made to the settling states.

On August 5, 1998, the counsel for the State of California and various cities and counties therein (“participating jurisdictions”) entered into a memorandum of understanding (MOU). Pursuant to the MOU, participating jurisdictions were entitled to receive a portion of the payments made to the State of California in accordance with the master settlement agreement. Some jurisdictions, in an effort to manage/mitigate the risks associated with the receipt of the Tobacco Settlement Revenues (TSRs) opted to securitize this revenue stream.

On June 6, 2000, the Board of Supervisors authorized the Chief Executive Officer and the Debt Advisory Committee to proceed with the securitization of the County’s share of the TSRs by issuing Tobacco Settlement Asset-Backed Bonds. In March 2002, the County sold their interest in the TSRs, received \$52,403,206 and subsequently placed the funds in an endowment. The balance in this fund at June 30, 2017 was \$60,095,986.

In January 2002, the Board of Supervisors delegated responsibility for the investment of the TSRs to the County Treasurer/Tax Collector (TTC) in accordance with Stanislaus County’s Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry’s Master Settlement Agreement.

Since the offering of the 2002 Tobacco Bonds, interest rates fell and investor demand for tobacco settlement asset-backed bonds greatly improved giving the County the opportunity to either refund or restructure the 2002 bonds or issue additional bonds. In January 2006, the Board of Supervisors authorized the Chief Executive Officer and the Debt Advisory Committee to proceed with determining the optimal bond structure for the County.

On March 29, 2006, Stanislaus County issued additional bonds to further securitize the Tobacco Settlement Revenues. Of that amount, \$40,971,290 was placed in an endowment identified as the County of Stanislaus Tobacco Endowment Series 2006 Fund. These funds have been used for several capital projects such as the Animal Services Facility, Coroner’s Facility and the Jail Expansion Project. The balance in this fund at June 30, 2017 was \$28,511,056. These funds also fall under Stanislaus County’s Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry’s Master Settlement Agreement, and are invested within the parameters of that policy.

The Tobacco Endowment Investment Fund audit was prepared by Brown Armstrong, Certified Public Accountants. The independent auditors found the County TTC to be materially compliant with the Investment Policy and Government code regarding the Securitization of the Tobacco Industry’s Master Settlement Agreement.

The Treasury Oversight Committee reviewed the audit report at their meeting on January 25, 2018.

**POLICY ISSUE:**

In accordance with Government Codes 27131 and 27132, the Board of Supervisors established the Treasury Oversight Committee to review and monitor the Treasury Pool Investment Policy and regular reporting thereof. Pursuant to Government Code 27134, the Committee shall cause an annual audit to determine compliance with State Law and Policy itself.

In accordance with the Stanislaus County Tobacco Investment Policy, an annual audit shall be conducted to insure that investment transactions are in compliance with State Law and Policy. The Policy states the audit findings shall be forwarded to the Board of Supervisors for review and acceptance.

**FISCAL IMPACT:**

Total Endowment funds audited as of June 30 2017, at market value, were \$88,607,042. The cost of the audit report is \$4,500. Costs associated with this audit were funded in the Treasurer-Tax Collector's 2017-2018 Adopted Final Budget appropriations. No budget adjustments are required in conjunction with this item.

**BOARD OF SUPERVISORS' PRIORITY:**

The recommended actions are consistent with the Board's priority of *Delivering Efficient Public Services and Community Infrastructure* by providing transparency and conformity to policy through the evaluation of independent auditors.

**STAFFING IMPACT:**

There is no staffing impact associated with acceptance of the Tobacco Endowment Fund audit report. Existing Treasurer-Tax Collector staff assisted in preparing necessary documents for the audit.

**CONTACT PERSON:**

Dolores Sarenana, Chief Deputy Treasurer

Telephone: (209) 525-4466

**ATTACHMENT(S):**

1. Independent Auditor's Report Year Ending June 30, 2017
2. Endowment Investment Fund Compliance Audit Report Year Ending June 30, 2017

**BROWN  
ARMSTRONG**

CERTIFIED  
PUBLIC  
ACCOUNTANTS

# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

To the Stanislaus County  
Treasury Oversight Committee  
Stanislaus County, California

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We have examined management's assertion, included in the engagement letter dated June 19, 2017, that the County of Stanislaus complied with the provisions of the California Government Code and the County of Stanislaus' Investment Policy during the year ending June 30, 2017. As discussed in that representation letter, management is responsible for the County of Stanislaus' compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the County of Stanislaus' compliance based on our examination.

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 supporting the County of Stanislaus' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, 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.

In our opinion, management's assertion that the County of Stanislaus complied with the aforementioned requirements for the year ended June 30, 2017, is fairly stated, in all material respects.

This report is intended solely for the information of the County of Stanislaus Treasury Oversight Committee, the County Board of Supervisors, management, and applicable legislative bodies. However, this report is a matter of public record and its distribution is not limited.

**BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION**

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
September 21, 2017

**COUNTY OF STANISLAUS, CALIFORNIA**

**TREASURER-TAX COLLECTOR  
ENDOWMENT INVESTMENT FUND  
COMPLIANCE AUDIT REPORT**

**JUNE 30, 2017**

COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
ENDOWMENT INVESTMENT FUND  
COMPLIANCE AUDIT REPORT  
JUNE 30, 2017

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# BROWN ARMSTRONG

*Certified Public Accountants*

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

County of Stanislaus  
Treasury Oversight Committee  
Stanislaus County, California

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We have examined management's assertion, included in its engagement letter dated June 16, 2017, that the County of Stanislaus Treasurer-Tax Collector (the County TTC) complied with the provisions of the California Government Code and the County TTC's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement during the year ended June 30, 2017. As discussed in that representation letter, management is responsible for the County TTC's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the County TTC'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 management's assertion about compliance with the specified requirements is fairly stated, in all material respects. An examination involves performing procedures to obtain evidence about whether management's assertion is fairly stated, in all material respects. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertion, 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 the County TTC's compliance with the specified requirements.

In our opinion, management's assertion that the County TTC complied with the aforementioned requirements for the year ended June 30, 2017, and is fairly stated, in all material respects.

We have also performed the procedures described in Procedures and Findings section, which were agreed to by County TTC (the specified party), on the internal control procedures of County TTC as of June 30, 2017. County TTC's management is responsible for County TTC's internal control procedures. The sufficiency of these procedures is solely the responsibility of County TTC. Consequently, we make no representation regarding the sufficiency of the procedures referred to below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results of those procedures are listed in the Procedures and Findings section.



This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an audit or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the internal control procedures of County TTC as of June 30, 2017. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of Stanislaus County Treasury Oversight Committee, the County Board of Supervisors, management, and applicable legislative bodies and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
September 21, 2017

**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
ENDOWMENT INVESTMENT FUND  
PROCEDURES AND FINDINGS  
JUNE 30, 2017**

Background and General

In November 1998, the attorney general of 46 states (including California), the District of Columbia, the Commonwealth of Puerto Rico, Guam, the United States Virgin Islands, American Samoa, and the Territory of the Northern Marianas (collectively, the "Settling States") and the four largest United States tobacco manufacturers (OPM's) entered into a Master Settlement Agreement in resolution of cigarette-smoking related litigation. The Tobacco Industry's Master Settlement Agreement releases the OPM's from past, present, and future smoking-related claims in exchange for, among other things, certain payments to be made to the Settling States.

On August 5, 1998, the counsel for the State of California and various cities and counties therein ("participating jurisdictions") entered into a memorandum of understanding (MOU). Pursuant to the MOU, participating jurisdictions are entitled to receive a portion of the payments made to the State of California in accordance with the Tobacco Industry's Master Settlement Agreement. Some jurisdictions, in an effort to manage/mitigate the risks associated with the receipt of such revenues, opted to securitize this revenue stream.

Stanislaus County (the County) opted to securitize the revenue stream and sold its interest in the Tobacco Settlement revenues in March 2002, and created an endowment in order to generate additional discretionary revenue for the County. By securitizing this revenue stream, the County received over \$50 million and subsequently placed the funds in an endowment. In January 2002, the County Board of Supervisors delegated responsibility for the investment of said funds to the County Treasurer-Tax Collector (the County TTC) in accordance with the Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement.

Since the offering of the 2002 Tobacco Bonds, interest rates fell and investor demand for tobacco settlement asset-backed bonds greatly improved giving the County the opportunity to either refund or restructure the 2002 bonds or issue additional bonds. On March 29, 2006, the County issued \$42,153,611 in bonds to further securitize the Tobacco Settlement Revenues. Of that amount, \$40,971,291 was placed in an endowment – the County Tobacco Endowment Series 2006 Fund. However, while these funds are invested separately, they fall under the County's Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement, and are invested within the parameters of that policy.

Compliance Audit Requirement

The Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement requires an annual audit to ensure that investment transactions are in compliance with State Law and Policy. Per the Investment Policy, the annual audit is to be forwarded to the Board of Supervisors for review and acceptance. This engagement serves to comply with that requirement.

Investment Policy Statement

Per the Investment Policy, the Investment Policy shall be reviewed on an annual basis. Any changes must be prepared by the County TTC and then reviewed and approved by the County Board of Supervisors. The Investment Policy was reviewed and approved by the County TTC. There was a slight revision of the Investment Policy during fiscal year 2011-2012, which became effective on May 3, 2012. The Investment Authority and Standards of Care section was updated to show that the delegation of investment authority to the County TTC is an annual delegation given by the County Board of Supervisors each year and can be revoked at anytime.

**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
ENDOWMENT INVESTMENT FUND  
PROCEDURES AND FINDINGS (Continued)  
JUNE 30, 2017**

Investment Authority and Standards of Care

We reviewed the requirements specified under the provisions of the Investment Policy for Broker/Dealer qualifications. No exceptions were noted.

Investment Policy Review

We reviewed and compared the authorized investment requirements specified in Government Code Section 53601 with the provisions of the Investment Policy and believe the policy addressed the requirements specified. No exceptions were noted.

Compliance to Policy

We reviewed the County's authorized investments and actual practices during fiscal year 2016-2017 to determine compliance with State Law and Policy. As part of determining compliance we performed the following: compared actual investments to those authorized, determined that maximum percentages by investment type as well as maximums for single issuers and term limits were not exceeded. No exceptions were noted.

Annual Distribution

We reviewed the County's actual practices during fiscal year 2016-2017 to determine compliance with the Investment Policy. We noted no exceptions to the annual distribution practices during fiscal year 2016-2017.

Reporting

We reviewed the detail listing of security transactions grouped by investment type and the summary of the total portfolio to verify they contained all information specified in the Investment Policy. The reports were in compliance with the policy requirements and the annual report was reviewed and accepted by the Board of Supervisors on August 22, 2017.

Summary

As of June 30, 2017, the Endowment Investment Fund Series 2002 and 2006, at par, totaled \$55,143,240.46 and \$26,427,640.94, respectively, while the market value was \$60,095,986.56 and \$28,511,055.64, respectively. Market value was 108.98% and 107.88%, respectively, of par. Investments appeared prudent and were of the type common to investments of other counties. Safekeeping agents were used for custody of investments.

In July 2014, the U.S. Securities and Exchange Commission (SEC) amended the rules governing the U.S. money market mutual fund industry. In addition, in October 14, 2016, the SEC approved further rule amendments. Generally, the new rules place tighter restrictions on portfolio holdings while enhancing liquidity and quality requirements. The most fundamental change is the requirement for money market funds to move from a fixed \$1 share price to a floating net asset value (NAV), which introduces the risk of principal where it had never existed. The amendments primarily target prime and tax-free money market funds. Under the amended rules, institutional investors may no longer invest in these types of accounts.

**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
ENDOWMENT INVESTMENT FUND  
PROCEDURES AND FINDINGS (Continued)  
JUNE 30, 2017**

Summary (Continued)

The money market amended rules went into effect on October 14, 2016. Both the 2002 Tobacco Endowment and the 2006 Tobacco Endowment each contained an Invesco Tax-Free Money Market account and a USAA Tax-Exempt mutual fund. Due to these new regulations, the tobacco endowment funds that were invested in these accounts were withdrawn and the accounts closed.

At this time, the County Investment Policy for the Investment of the Proceeds from the Securitization of the Tobacco Industry's Master Settlement Agreement does not identify an alternative short-term liquid instrument that may be used as an authorized investment. Due to the unavailability of an authorized alternative investment, funds that were withdrawn from the closed accounts were brought into the main County Treasury bank account and are being held in an Auditor Controller trust account titled "Cash with Fiscal Agent". In addition, interest income that is paid on behalf of both Tobacco Endowments' municipal bond holdings is also being received into the same trust account. As of June 30, 2017, the Endowment Investment Fund Series 2002 and 2006 in the bank account totaled \$3,898,240.46 and \$1,482,640.94, respectively, of the total market value.

We believe County TTC is materially compliant with the Investment Policy and Government Code regarding the Securitization of the Tobacco Industry's Master Settlement Agreement other than the item noted under Compliance to Policy section.

**COUNTY OF STANISLAUS, CALIFORNIA  
TREASURER-TAX COLLECTOR  
ENDOWMENT INVESTMENT FUND  
STATUS OF PRIOR YEAR FINDINGS  
JUNE 30, 2017**

**Finding 1 – Local Agency Investments**

Condition

Purchase of California local agency bonds in excess of the 5% of the total portfolio par value at the time of purchase in one municipality or agency. Investment was made into Orange County Sanitation District of \$4,000,000 (Two separate transaction of \$2,000,000 each, CUSIP # 68428TCL9 and 68428TCM7) on March 30, 2016, which exceeded the 5% threshold stipulated by the County's investment policy for the investment of the proceeds from the securitization of the tobacco industry's master settlement agreement.

Recommendation

Perform a calculation for the 5% threshold prior to investment into California local agency bonds, notes or other indebtedness.

Management Response

Chief Deputy Treasurer, agreed with the finding. They unintentionally went over the 5% limit. The investments were held for slightly less than four months and were sold on July 25, 2016 and July 28, 2016, respectively.

Current Year Status

The municipal bonds that exceeded the 5% threshold were held a short time and sold as noted above. Before any purchases are made, concentration reports are run and care is taken to avoid exceeding threshold limits.