

**YOLO COUNTY FINANCIAL OVERSIGHT COMMITTEE**

**MINUTES OF MEETING FEBRUARY 12, 2019**

County Administration Building, County Admin Room  
625 Court Street  
Woodland, CA 95695

Members present: Duane Chamberlain (Chair - Supervisor), Gary Sandy (Supervisor), Crissy Huey (Education), Richard Horan (Public), and Kristin Sicke (Special District).

Members excused: Paul Navazio (Cities), Eric Will (Public)

Others present: Mary Khoshmashrab (Internal Audit Manager), Patrick Blacklock (CAO), Chad Rinde (CFO), Edward Burnham (Treasury Manager), Allison Kaune (PFM), Sarah Meacham (PFM), David Schowalter (VTD), Josh Iverson (Accounting Manager), Veronica Moreno (YCOE), and David Estrada (Internal Audit).

Recorded by David Estrada

- 1) Chair Chamberlain called the meeting to order at 3:03 PM. Four voting members were present; Duane, Crissy, Richard, and Kristin; a quorum was formed.
- 2) The agenda was reviewed and approved; agenda adopted (Sicke/Huey).
- 3) Introductions were given by members and others in attendance. Supervisor, Gary Sandy was introduced and welcomed. Paul Navazio (Cities) and Eric Will were noted as absent.
- 4) There were no follow-up items open from prior meeting.
- 5) Public comments: There were no public comments.
- 6) Approval of the 11/06/18 meeting minutes was accepted and approved (Sicke/Huey).
- 7) Mary Khoshmashrab provided update on the Internal Audit division. (a) Countywide Risk Assessment (b) Sheriff's office risk assessment (c) 2<sup>nd</sup> Quarter 18-19 Treasury Cash County (d) Audit Status: Landfill and Purchase Card; Mary Khoshmashrab announced her upcoming resignation for early April, 2019 to the Financial Oversight Committee.
- 8) David Schowalter, Independent Auditor (VTD) verbally reported updates on (a) the CAFR and recognized the timeliness of its completion and submission for GFOA award (b) Discussed GASB 75 which was implemented in the CAFR related to other post-employment benefits. (c) VTD provided audit opinion related to CAFR on December 21, 2018 and CAFR was presented to the Yolo County Board of Supervisors on January 15<sup>th</sup>, 2019 (Item 45).

- 9) Review Treasury and Cash Investments for Quarter Ending December 31, 2018 (PFM)- Allison Kaune and Sarah Meacham provided an economic update and overview of the investment portfolio performance for the Fourth Quarter of 2018.
- 10) Patrick Blacklock spoke of Yolo County's strategic plan and invited the FOC members to provide feedback related to the strategic plan.
- 11) Members confirmed the next meeting date for May 21, 2019 at 3PM in the Atrium Training Room, 625 Court Street, Woodland CA, Administrative Building, Basement.
- 12) Meeting Adjourned at 4:05 PM.

**YOLO COUNTY FINANCIAL OVERSIGHT AND AUDIT SUBCOMMITTEE**

**UPDATE - DIVISION OF INTERNAL AUDIT ACTIVITY**

To: Members of the Financial Oversight Committee and Audit Subcommittee

From: Kim Eldredge, Senior Auditor, CGAP

Re: Update- Division of Internal Audit Activity Quarterly Report

Members of the Financial Oversight and Audit Subcommittee, the following updates are provided for this Quarter:

- (a) **Provide update on the County risk assessment –**  
 HHSA Risk Assessment Report was completed on March 19, 2019 by Mary Khoshmashrab, former Yolo County Audit Manager. The department management was provided a draft copy of the report and the invite to provide a department response by May 1, 2019. The Division of Internal Audit received the department’s response on June 6, 2019. Overall HHSA is in full agreement of the report and will use the assessment to determine where training is needed, succession planning required, grant sub-recipient monitoring and other identified areas that might require attention.

The risk assessment program will be reviewed with county management and the audit committee for improvements to the risk assessment process and approach.

- (b) **Provide status update of current in-progress and completed engagements –**

- | <u>In-progress:</u>                           | <u>Completed:</u>                             |
|---|---|
| - Landfill Cash – June                        | - Risk Assessment – HHSA                      |
| - Treasury Wire Transfers/ACH Payments – June | - Sept and Dec Quarterly Treasury Cash Counts |
| - Placer County Peer Review – June            | - P-Card Audit Report                         |
| - Treasury Cash Count QE 3/31/19 - June       | - County Management Request- P-Card           |
| - P-Card continuous auditing – FY19/20        | Individual Statement                          |
| - Claim continuous auditing – FY19/20         |   |

- (c) **Provide update of any proposed changes to the annual audit plan and audit resources**  
 The FOC and Audit Subcommittee approved the Division’s Annual Audit Plan in August of 2018. The plan has changed due to the addition of a new auditor and the vacancy of the audit manager. Attached is a copy of the internal audit activity project progress as of 5/31/2019.

<u>Annual Audit Plan</u>	<u>Hours:</u>
Approved Budgeted Hours	6,240
Add: New Auditor	960
Remove: Vacant Audit Manager	(442)
Total Adjusted Budgeted Hours	6,758

If at any time you would like more information on the plan, or would like to discuss audit activity, please contact me at [kim.eldredge@yolocounty.org](mailto:kim.eldredge@yolocounty.org) and we can arrange a one-on-one meeting.

Yolo County  
Division of Internal Audit  
Internal Audit Activity - Fiscal Year 2018-2019  
As of May 31, 2019

Project Num	Project Name	Project Type	Dept Name	Hours Budget	Hours Adjust	Total Hours Budget	Actual Hours	Remaining Hours	Percentage of Completion	Project Status	Project Summary
2018-11	Probation Juvenile Detention Facility Review	Agreed Upon Procedures	Probation	-	3	3	3	-	100%	Complete	Majority of testwork performed in prior fiscal year
2019-31	Treasury Cash Count - Quarterly	Agreed Upon Procedures	Dept of Financial Services	-	24	24	20	5	81%	In-progress	In-progress; QE 3/31/19 Anticipated completion by June 30, 2019; QE 6/30/19 planned for July 1, 2019
2019-33	Treasury Cash Count - QE 6/30/2018	Agreed Upon Procedures	Dept of Financial Services	-	22	22	22	-	100%	Complete	
2019-09	Cannabis Audits	Compliance	Community Service	200	(108)	92	92	-	100%	Complete	Majority of testwork performed in prior fiscal year
2019-10	Purchase Card-Countywide	Compliance	Countywide	100	257	357	354	3	99%	Complete	Final Report includes (9) County Management Letters with Total of 137 Exceptions
2019-11	Contracts & Grants Review-Countywide	Compliance	Countywide	150	(150)	-	-	-	0%	Carry Forward	FY 2019-2020
2019-12	Capital Improvement Management-Countywide	Compliance	Countywide	150	(150)	-	-	-	0%	Carry Forward	FY 2019-2020
2019-13	HR/MQ & Payroll Review-Countywide	Compliance	Countywide	200	(200)	-	-	-	0%	Carry Forward	FY 2019-2020
2019-14	Revenue recovery & uncollected revenue-Countywide	Compliance	Countywide	100	(100)	-	-	-	0%	Carry Forward	FY 2019-2020
2019-16	Transit Occupancy Tax & Airbnb Review	Compliance	Dept of Financial Services	100	(100)	-	-	-	0%	Carry Forward	FY 2019-2020
2019-01	Treasury Internal Control Review	Internal Control	Dept of Financial Services	200	-	200	43	157	22%	In-progress	In-progress; Audit focus wire transfers & ACH payments
2019-15	Property Tax Administration Review	Internal Control	Dept of Financial Services	100	(100)	-	-	-	0%	Carry Forward	FY 2019-2020
2019-34	Integrated Waste Management Internal Control Cash Audit	Internal Control	Community Service	-	300	300	248	52	83%	In-progress	In progress; Anticipated completion by June 30, 2019
2019-02	Risk Assessment-Countywide	Risk Asmt	Countywide	300	27	327	327	-	100%	Complete	DIA review risk assessment process; HHSa Report completed
2018-06	INFOR-Discussion Draft Auditor's Initial Review (F	Special Project	Countywide	-	343	343	343	-	100%	Complete	Audits of system controls & continuous auditing (e.g. contracts, p-cards, accounts payable and payroll timekeeping) will be included in FY 2019-2020 audit plan
2019-03	INFOR-Review of System Control	Special Project	Countywide	450	(450)	-	-	-	0%	Reallocate	Reallocate hours to INFOR Audit
2019-06	Continuous Auditing Program-Dev/Impl/Rpt	Special Project	Countywide	170	151	321	321	-	100%	Complete	Completed P-Card Dev; Continuous auditing P-Card / Travel Report by November 2019
2019-17	Special Reviews-Management Request	Special Project	Countywide	130	(130)	-	-	-	0%	Reallocate	
2019-36	County Management Request - PCard Individual Statement	Special Project	Health & Human Services	-	70	70	70	-	100%	Complete	Completed; Recommendation for individual card to be left in suspended status until proper purchase card training can be administered
2019-04	Training-Instructional Sessions Countywide	Admin Tasks	Countywide	300	(289)	12	12	-	100%	Complete	IA Mgr vacant
2019-23	Department Financial Services-Administration	Admin Tasks	Dept of Financial Services	-	623	623	623	-	100%	Complete	
2019-05	CAP Testing and Follow-up on Audits-Countywide	Other-General	Countywide	200	(161)	39	39	-	100%	Complete	IA Mgr vacant
2019-18	Manager Internal Audit-General	Other-General	Countywide	400	(161)	240	240	-	100%	Complete	IA Mgr vacant
2019-19	Manager Workpaper Review (2nd Level Review)	Other-General	Countywide	350	(320)	31	31	-	100%	Complete	IA Mgr vacant
2019-20	Supervisor Workpaper Review (1st Level Review)	Other-General	Countywide	150	-	150	18	132	12%	In-progress	
2019-21	Internal Audit-General	Other-General	Countywide	846	924	1,770	1,832	(62)	104%	In-progress	Hours include implementation of audit time tracking system; training & development of audit staff; transfer of managerial duties; non-audit work-monitoring, etc. and audit work less than 8 hours
2019-07	Audit Chief Sub-Committee	Other	Dept of Financial Services	50	(50)	-	-	-	0%	Cancel	IA Mgr vacant
2019-08	Peer Review-External Placer & DIA Internal Annual	Other	Dept of Financial Services	120	-	120	69	51	58%	In-progress	In-progress; Anticipated completion by June 30, 2019
2019-22	Training & Conferences-Continuing Professional Edu	Other-General	Dept of Financial Services	240	57	297	298	(1)	100%	In-progress	Training hours include 160 hours towards continuous auditing
2019-24	Break Time-Admin MOU	Other-General	Dept of Financial Services	390	(70)	320	210	110	66%	In-progress	
2019-25	County Holiday-Admin MOU	Other-Leave	Dept of Financial Services	252	-	252	252	-	100%	Complete	
2019-26	Floating Holiday-Admin MOU	Other-Leave	Dept of Financial Services	112	16	128	123	5	96%	Complete	

Yolo County  
 Division of Internal Audit  
 Internal Audit Activity - Fiscal Year 2018-2019  
 As of May 31, 2019

Project Num	Project Name	Project Type	Dept Name	Hours Budget	Hours Adjust	Total Hours Budget	Actual Hours	Remaining Hours	Percentage of Completion	Project Status	Project Summary
2019-27	Administrative Leave-Admin MOU (Manager Only)	Other-Leave	Dept of Financial Services	48	-	48	48	-	100%	Complete	IA Mgr vacant
2019-28	Sick Leave-Admin MOU (Estimated)	Other-Leave	Dept of Financial Services	120	111	231	259	(28)	112%	Open	
2019-29	Vacation Leave-Admin MOU (Estimated)	Other-Leave	Dept of Financial Services	312	112	424	492	(68)	116%	Open	
2019-35	Accumulated Time Earned / Taken	Other-Leave	Dept of Financial Services	-	16	16	24	(8)	150%	Complete	
<b>Total audit &amp; non-audit hours</b>				<b>6,240</b>	<b>518</b>	<b>6,758</b>	<b>6,411</b>	<b>347</b>			

# AUDIT FACT SHEET

## Yolo County Division of Internal Audit Report on the Audit of Yolo County Purchase Card Program

For the Period: July 1, 2016 to June 30, 2018  
Audit No: 2019-2  
Report Date: May 28, 2019

### FINDINGS

#### Program Administration

- Finding #1: Card management needs improvement
- Finding #2: Monthly reconciliation of the purchase card program not performed
- Finding #3: Purchase Card Procedures Manual not up to date

#### Purchase Card Transactions

The auditors examined 61 purchase card transactions.

#### Audit Results:

Total of 137 Exceptions. 81 for noncompliance with County policy and procedures and lack of supporting documentation. 56 for noncompliance with program eligibility and department's policy and procedures for client services.

### RECOMMENDATIONS

**The auditors recommend that management consider the following to improve accountability and compliance within the Yolo County Purchase Card Program.**

- Establish criteria for spending and transaction limits
- Provide written procedures for card issuance, cancellation, transfer to another department, employee terminations, and disciplinary actions for county and purchase card violations
- Maintain current listing of Cardholders, Approving Officials and Reconcilers
- Monitor cardholder activity and restricted Merchant Category Codes (MCCs)
- Perform monthly reconciliations of the purchase card transactions and ensure that journal entries are posted timely
- Provide training for Cardholders, Approving Officials, and Reconcilers
- Update the Purchase Card Procedures Manual and the CAL-Card system from the finding noted within this report

### HIGHLIGHTS

The auditors performed a variety of audit tests of the purchase card accounts and transactions using the Audit Command Language (ACL) Analytics software. The auditors analyzed transactions in the areas of **card management, merchant management, and transaction analysis.**

#### Card Management Analysis

Procedure	Result
<b>Unmatched Accounts</b> – Purchase cards not matching the employee's payroll name	Thirty-five (35) purchase cards were issued to individuals that did not match the employee payroll name. One (1) Cardholders had 2-cards under two different names.
<b>Non-Active Employees</b> – Purchase cards issued to terminated employees	No purchase cards issued to terminated employees.
<b>Employees Transferred to Other Departments</b> – Purchase cards issued to employees transferred to other departments	One (1) purchase card issued to an employee that had transferred to another department.
<b>Low Card Activity</b> – Cardholders with lowest volume of transactions	Twenty (20) Cardholders only used their cards 1 to 4 times during the 2-year audit period.
<b>No Card Activity</b> – Purchase cards that were not used during the audit period	Eleven (11) Cardholders had no activity for the 24 months under review.
<b>Multiple Purchase Cards</b> – Cardholders with duplicate cards	Seven (7) Cardholders had duplicate cards.
<b>Accounts Exceeding Policy Amounts</b> – Spending limits are in accordance with County Policy	There is no criteria established for setting up credit limits. The single transaction limits range from \$0 to \$5,000 and monthly credit limit from \$250 to \$20,000. (See Figure 3)

#### Merchant Management Analysis

Procedure	Result
<b>Access to Restricted MCCs</b> – Cardholders with access to restricted merchant category codes (MCC)	Thirty (30) cardholders have access to restricted MCCs authorized by the County.
<b>Activity with Restricted MCCs</b> – Purchase card transactions involving restricted MCCs	746 purchase card transactions involved restricted MCCs.
<b>Activity with Restricted MCCs by Cardholders with No Access to Restricted MCCs</b> – Transactions involving restricted MCCs were performed by the cardholders with access to restricted MCCs	490 out of 746 transactions involved restricted MCCs not authorized by the County.

#### Transaction Analysis

Procedure	Result
<b>Transactions Exceeding Single Purchase Limit</b> – Cardholders that exceeded their single purchase limit	Ninety-seven (97) transactions exceeded the single purchase limit. 94 out of 97 transactions were from one (1) Cardholder with a zero single purchase limit.
<b>Transactions Exceeding Monthly Credit Limit</b> – Cardholders that exceeded their monthly credit limit	Six (6) instances where the monthly transactions exceeded the Cardholder limits.
<b>Split Transactions</b> – Potential split purchases within the same day and across multiple days to circumvent purchase card limits	Fifty-four (54) potential split transactions.
<b>Weekend/Holiday Transactions</b> – Transactions that occurred on weekends or holidays	1,811 transactions occurred on Saturday, Sunday or a County holiday.
<b>Top Cardholders</b> – Cardholders with the highest transaction amounts	Ten (10) Cardholders with the highest transaction amounts
<b>Purchases Typically Made Through Other Means</b> – Purchase transactions typically made through a purchase order or the County's Travel Agency (hotels, airline, catering vehicle, fuel, software, computer, services, etc.)	4,742 potential transactions that should have been made through a purchase order or the County's Travel Agency



**VAVRINEK, TRINE, DAY & CO., LLP**  
 Certified Public Accountants

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**INDEPENDENT ACCOUNTANTS' REPORT  
 ON APPLYING AGREED-UPON PROCEDURES**

To the Board of Supervisors and  
 Financial Oversight Committee  
 County of Yolo, California

We have performed the procedures enumerated below, which were agreed to by the County of Yolo, California (County) (the specified parties), on the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments for the quarter ended June 30, 2018. The County's management is responsible for the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments. The sufficiency of these procedures is solely the responsibility of the County. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and associated findings are as follows:

- 1) Inspected the Division of Internal Audit's work papers, verifying that the Division observed and certified the treasury cash count. Traced cash count performed to Treasurer daily cash report and Investment Summary.

Finding: No exceptions were found as a result of this procedure.

- 2) Verified that the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments and the records of the County of Yolo Auditor are reconciled as of June 30, 2018, pursuant to *Government Code Section 26905*.

Finding: The Investment Summary for the Treasurer's Pooled and Non-Pooled Investments and the records of the County of Yolo Auditor were not reconciled within 30 days after June 30, 2018, as required by *Government Code Section 26905*. All reconciliations were performed more than 30 days after June 30, 2018.

- 3) Reconciled the investments included in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2018, to the statements provided by the related financial institutions.

Finding: No exceptions were found as a result of this procedure.

- 4) We compared the investments listed in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2018, to the types of investments authorized by the County's Investment Policy and *Government Code Section 53601*.

Finding: No exceptions were found as a result of this procedure.

- 5) We compared the market value of the investments listed in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2018, to the statements provided by the related financial institutions. We identified all variances in excess of \$10,000 of the financial institution amount. For the variances above the scope, we received variance explanations from the County Treasury staff to identify whether variances are routine or non-routine.

Finding: Variances in excess of \$10,000 of the financial institution amount are summarized in Attachment A. The County Treasury staff considers these variances to be routine.

- 6) We read the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments to ascertain if it contained the information/data required by *Government Code Section 53646* and met the timing requirements of *Government Code Section 53646* and the County's Investments Policy, as follows:
- a) Was submitted within 30 days following the end of the quarter.
  - b) Included type of investment, issuer, date of maturity, par and dollar amount invested on all securities, investments, and monies held by the County.
  - c) Included those funds under management of contracted parties (fiscal agents, trustees, deferred compensation administrators, etc.).
  - d) Included market value (and source) as of the date of the report of all securities held by the County or under management of any outside party.
  - e) Stated compliance of the portfolio to the Investment Policy of the County.
  - f) Included a statement addressing the ability of the County to meet the pool's expenditure requirements for the next six months.

Finding: No exceptions were found as a result of this procedure.

- 7) We compared the investments listed in the Investment Summary for the Treasurer's Pooled and Non-Pooled Investments as of June 30, 2018, to the prohibited investments listed in *Government Code Section 53601.6*.

Finding: No exceptions were found as a result of this procedure.

This agreed-upon procedures engagement 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 examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Investment Summary for the Treasurer's Pooled and Non-Pooled investments for the quarter ended June 30, 2018. 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 information and use of the County of Yolo and is not intended to be and should not be used by anyone other than those specified parties.

Varrinck, Trine, Day & Co. LLP

Sacramento, California  
February 6, 2019



**County of Yolo, California**  
**Investment Summary for the Treasurer's Pooled and Non-Pooled Investments**  
**Agreed-Upon Procedures Report**  
**Quarter Ended June 30, 2018**  
**Attachment A**  
**Procedure 5 Results – Market Value Comparison**

<u>Description</u>	<u>CUSIP</u>	<u>County Investment Summary</u>	<u>Financial Institution Statements</u>	<u>Variance</u>	
				<u>\$</u>	<u>%</u>
Wells Fargo:					
Dreyfus AMT-Free Tax Exempt Cash	26202K205	\$ 3,893,268	\$ 3,909,621	\$ (16,352)	-0.42%



# Yolo County Investment Review First Quarter 2019

Presented By

**Sarah Meacham, Managing Director**

June 25, 2019

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PFM Asset  
Management LLC  
**pfm.com**

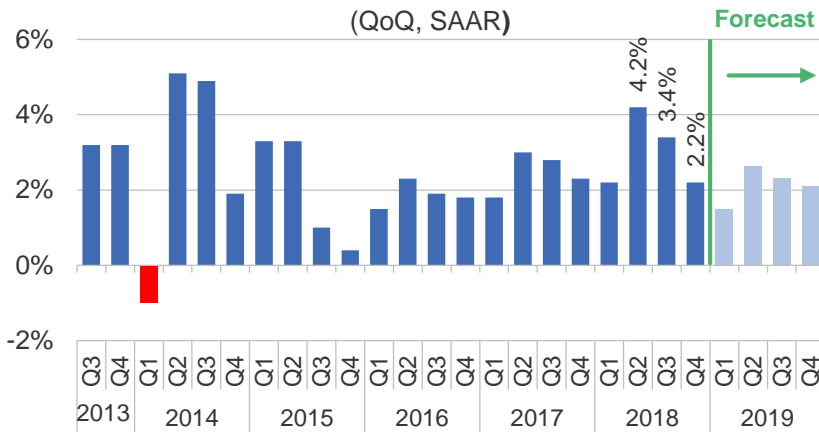


# **Economic and Interest Rate Update**

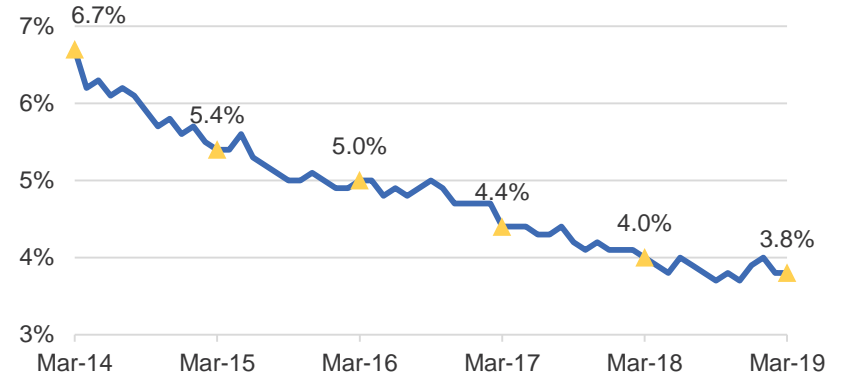


# Economic Summary

**U.S. Real GDP**  
(QoQ, SAAR)



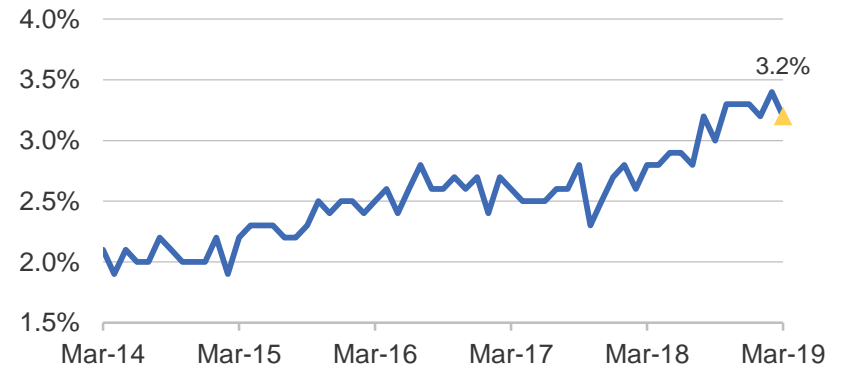
**Unemployment Rate**



**Consumer Confidence**



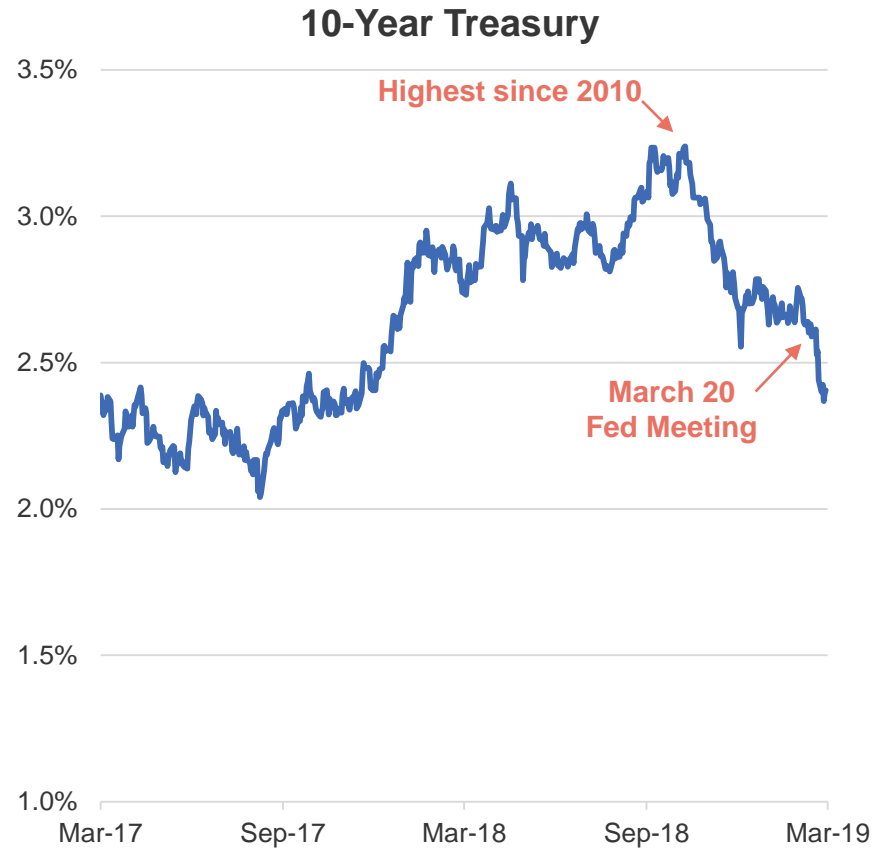
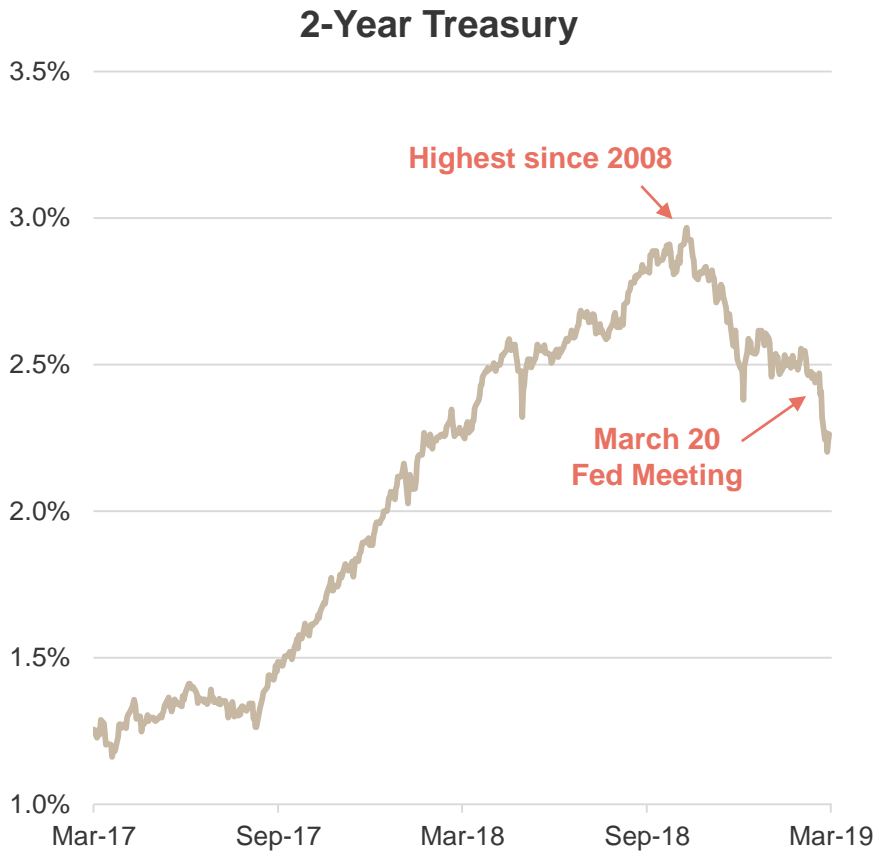
**Average Hourly Earnings (YoY)**



Source: Bloomberg, latest data available as of 3/31/19. SAAR is seasonally adjusted annualized rate.



# Treasury Yields Fall Further in the First Quarter



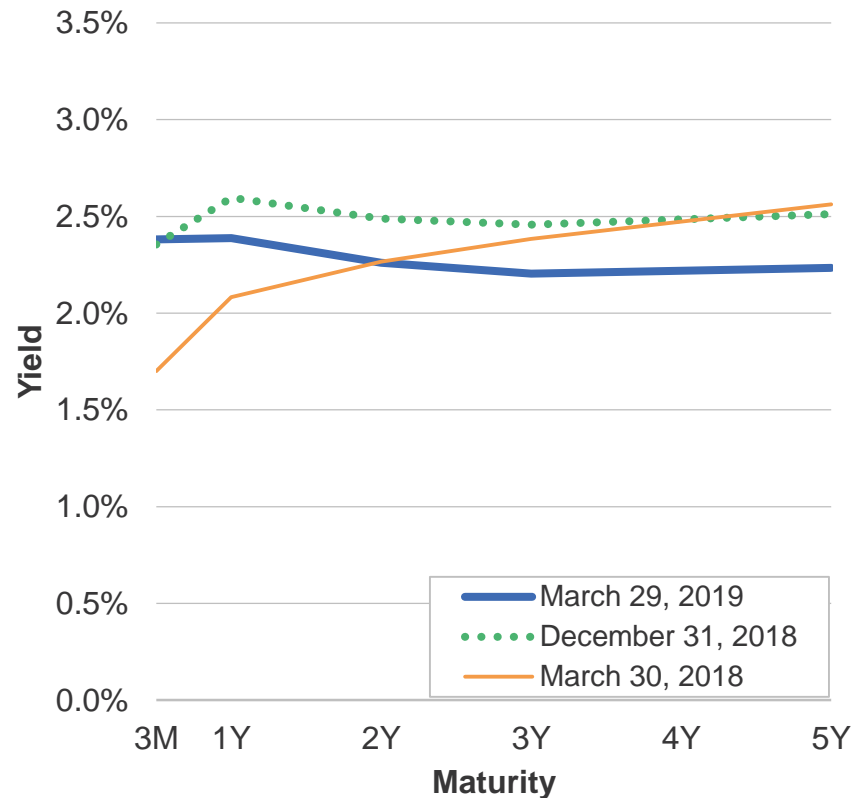
Source: Bloomberg, as of 03/31/19.



# U.S. Treasury Yield Curve

Tenor	03/29/19	12/31/18	03/30/2018
3-month	2.38%	2.35%	1.70%
1-year	2.39%	2.60%	2.08%
2-year	2.26%	2.49%	2.27%
3-year	2.20%	2.46%	2.38%
5-year	2.23%	2.51%	2.56%
10-year	2.41%	2.68%	2.74%
30-year	2.81%	3.01%	2.97%

U.S. Treasury Yield Curve

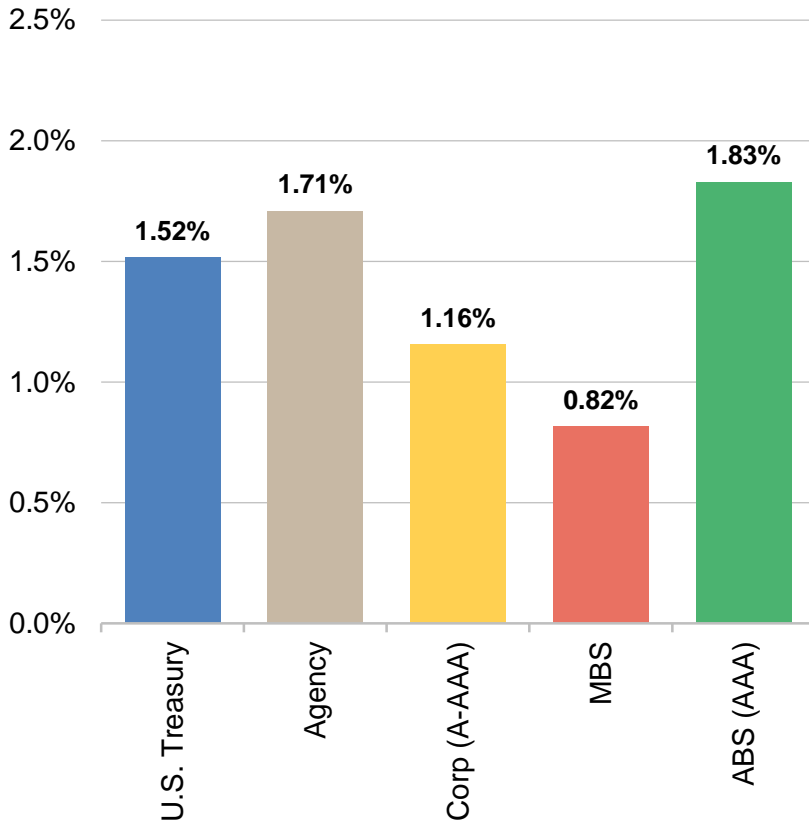


Source: Bloomberg, as of 03/29/19.

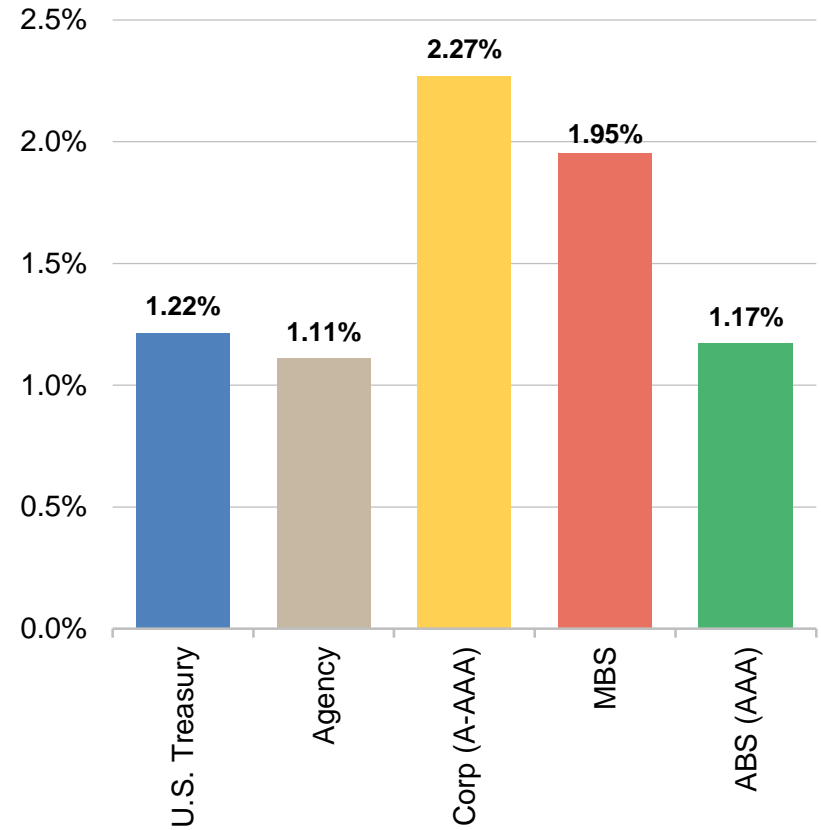


## Strong Fixed Income Sector Returns in First Quarter

2018 Returns



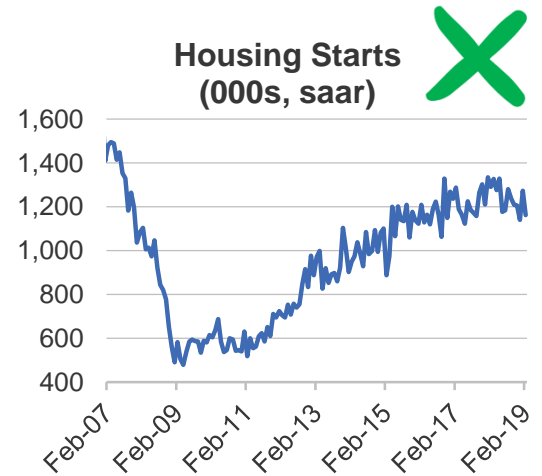
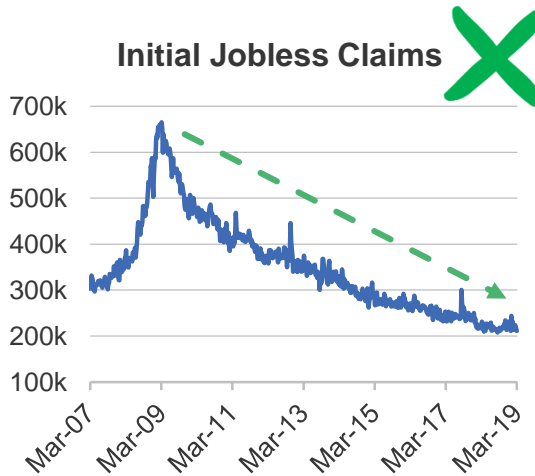
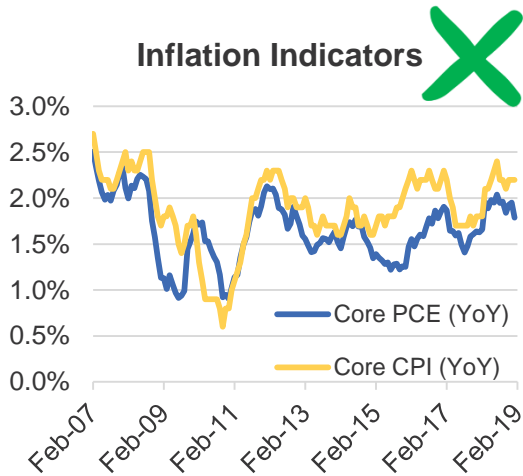
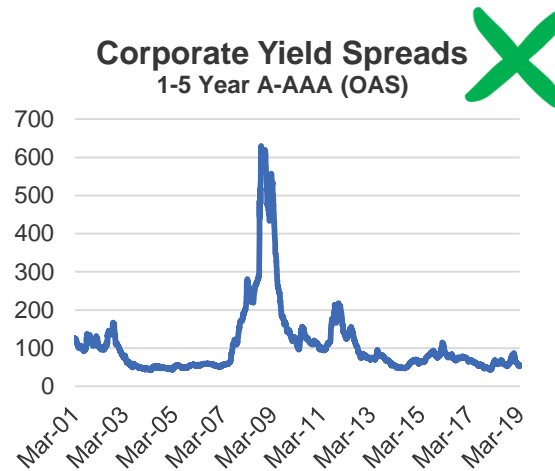
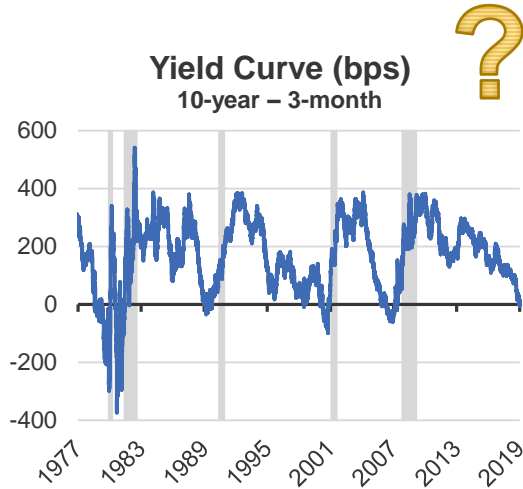
2019 Q1 Returns



Source: 1-5 Year ICE BofAML Indices. MBS and ABS indices are 0-5 year, based on weighted average life. As of 03/31/19.



# Market Indicators Not Yet Pointing to an Imminent Recession

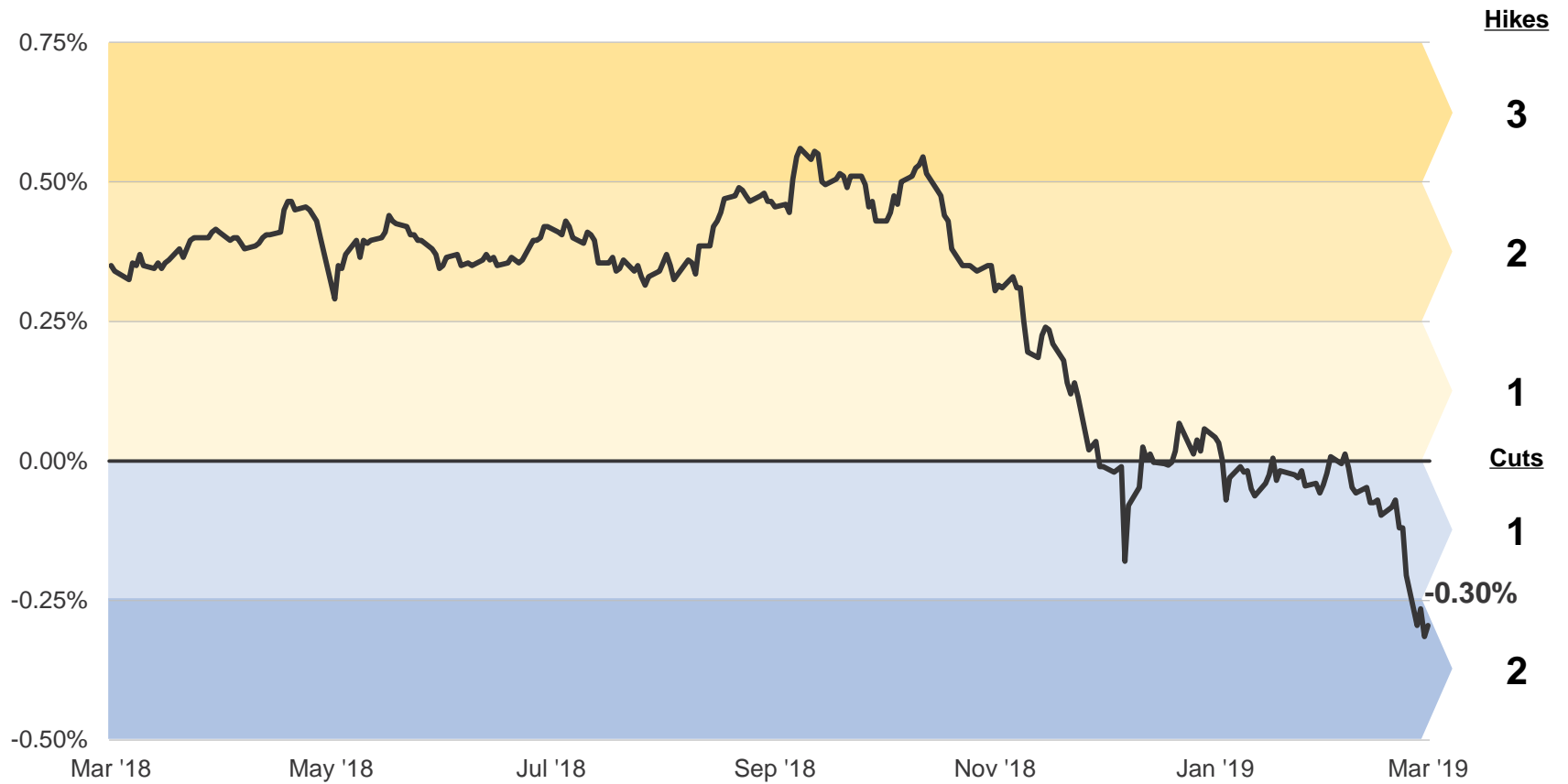


Source: Bloomberg, as of 3/31/19.





## Market Expects a Rate Cut by Year End



Source: Bloomberg, as of 03/28/19.



# Portfolio Update



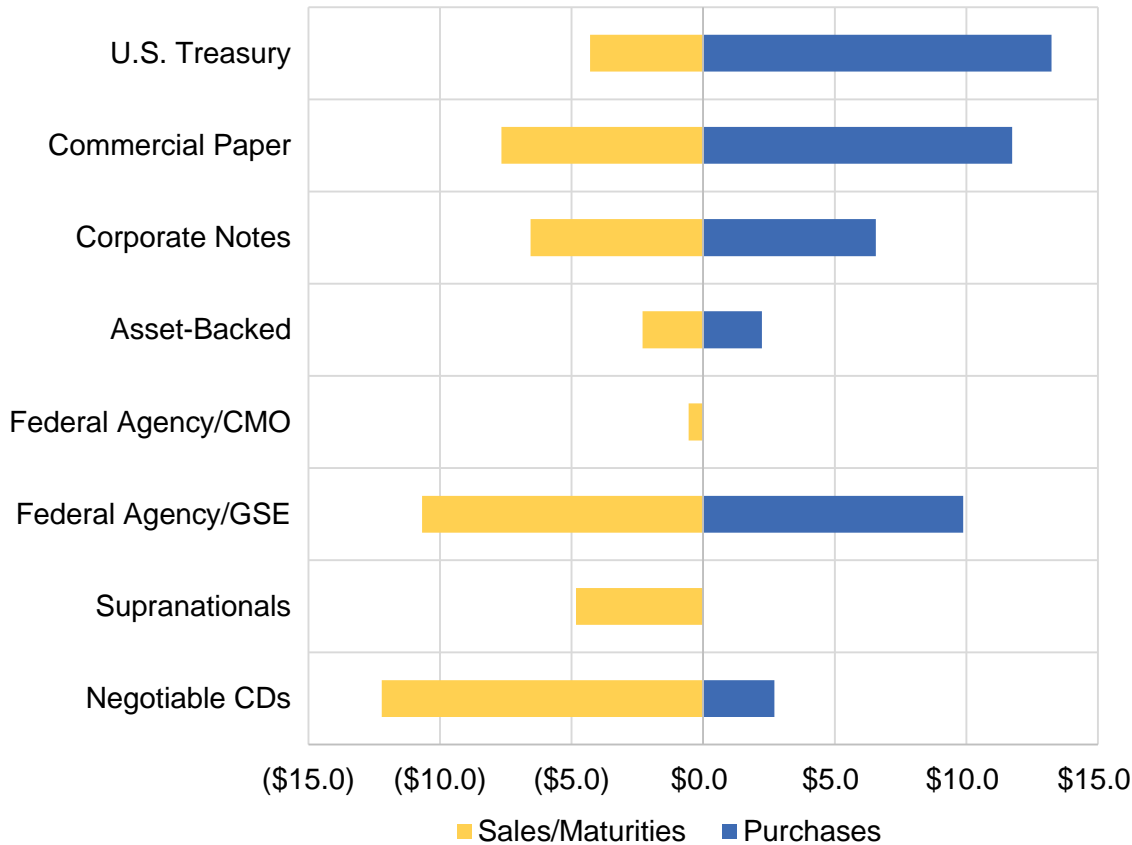
## First Quarter Portfolio Strategy

- Managing portfolio with a target duration in line with the benchmark.
- Portfolio strategy continued to favor broad diversification, generally including the widest range of permitted investments.
- During the quarter we found relative value in:
  - U.S. Treasuries and Federal Agencies
    - Yield spreads between Treasuries and Agencies remain narrow, however we have found opportunities to add Agencies in select maturities.
  - Corporate Notes
    - After corporate yield spreads increased to their widest levels in over two years in the fourth quarter, we sought opportunities in the sector as spreads moved tighter throughout the first quarter.
  - Commercial Papers
    - In light of the partially inverted yield curve, short-term, high-quality credit in the form of commercial paper offers attractive spreads to similar and longer-maturity Treasuries.
  - Asset-Backed Securities (ABS)
    - We found ABS to be an attractive alternative outlet to other credit instruments.
    - ABS typically experiences less volatility than corporates during periods of volatility.



# Summary of Trade Activity

## Summary of Portfolio Trade Activity December 31, 2018 – March 31, 2019



## Net Transactions by Sector (\$ millions)

U.S. Treasury	+ \$8.93
Commercial Paper	+ \$4.07
Corporate Notes	(<\$0.01)
Asset-Backed	(\$0.06)
Federal Agency/CMO	(\$0.56)
Federal Agency/GSE	(\$0.81)
Supranationals	(\$4.83)
Negotiable CDs	(\$9.51)

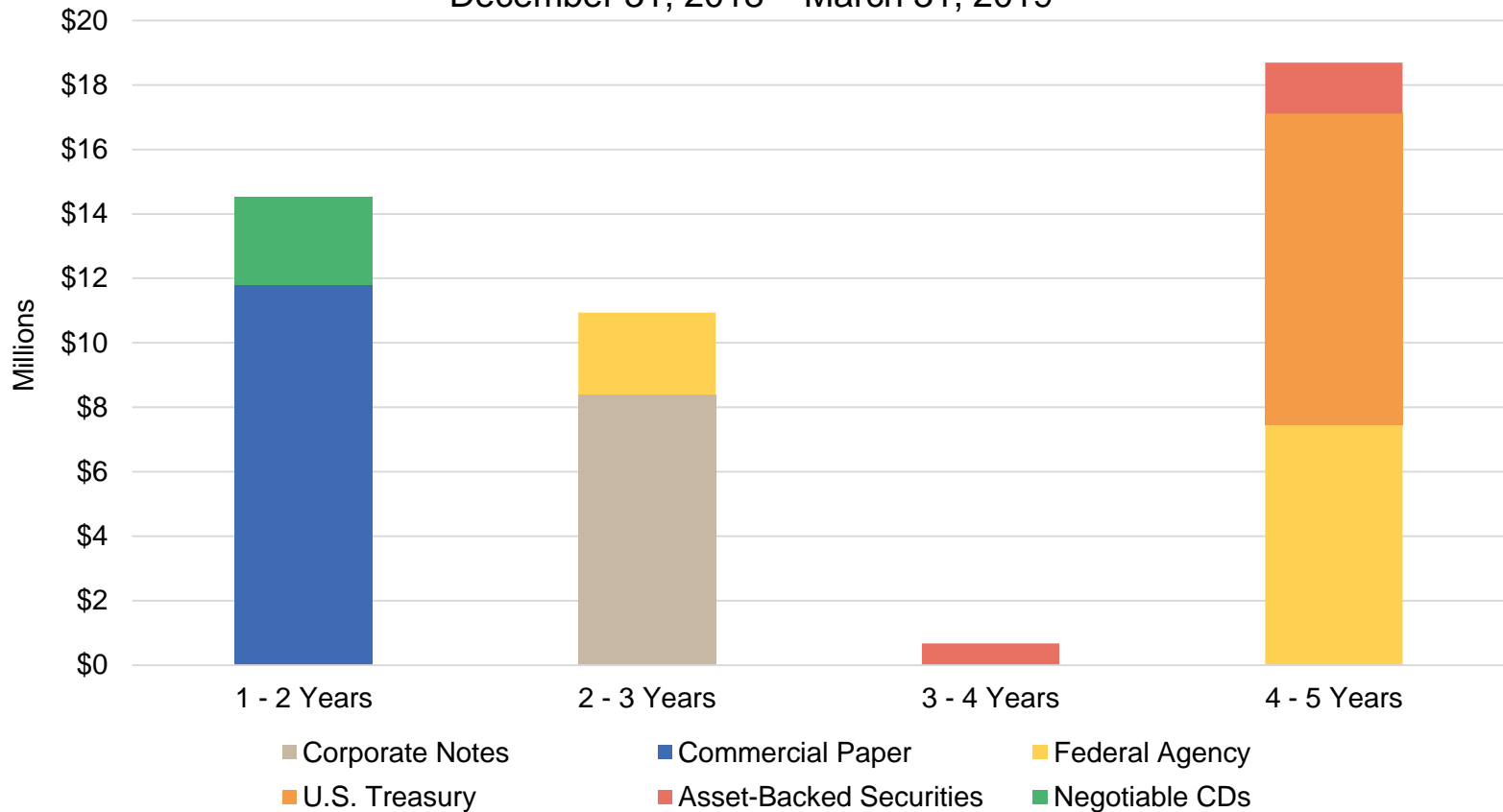
Based on par value of purchases, sells, maturities, and pay downs.



## Summary of Purchase Activity

### Purchased Securities Maturity Distribution

December 31, 2018 – March 31, 2019



Based on market values as of 3/31/19.

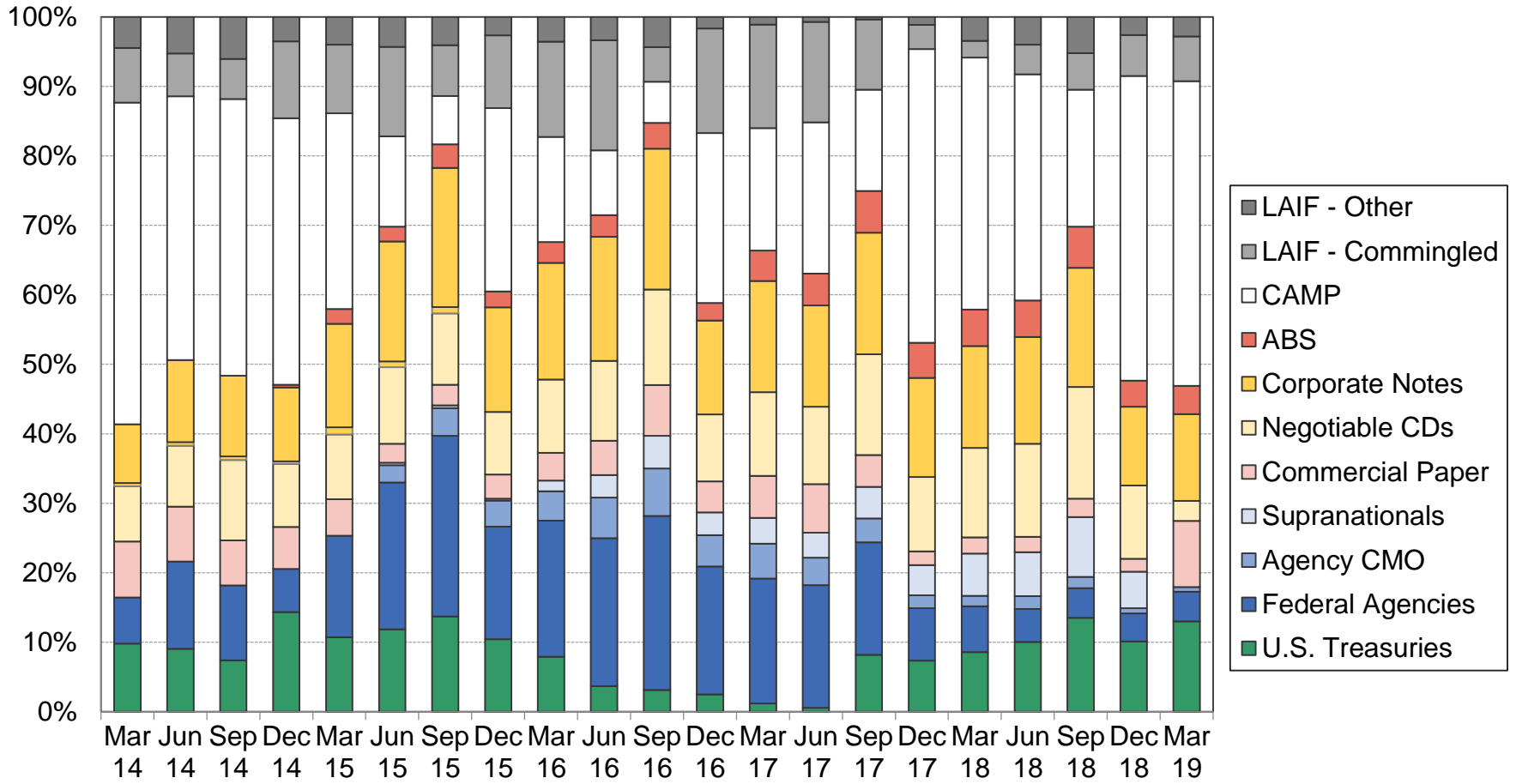


## Portfolio Composition

Security Type	Market Value as of 3/31/19	% of Portfolio	% Change vs. 12/31/18	Permitted by Policy	In Compliance
U.S. Treasury	\$61,258,616	12.7%	+2.4%	100%	✓
Federal Agency	\$20,150,563	4.2%	+0.1%	100%	✓
Federal Agency CMOs	\$3,274,251	0.7%	-0.1%	100%	✓
Supranationals	\$22,370,017	4.7%	-0.8%	30%	✓
Negotiable CDs	\$44,943,955	9.3%	-1.5%	30%	✓
Corporate Notes	\$58,802,417	12.2%	+0.6%	30%	✓
Commercial Paper	\$13,605,463	2.8%	+0.9%	40%	✓
Asset-Backed Securities	\$19,197,197	4.0%	+0.2%	20%	✓
<b>Securities Sub-Total</b>	<b>\$243,602,479</b>	<b>50.7%</b>			
Accrued Interest	\$1,100,686				
<b>Securities Total</b>	<b>\$244,703,165</b>				
CAMP	\$206,913,170	43.0%	-2.0%	100%	✓
LAIF – Total	\$30,370,712	6.3%	+0.3%	\$65 million per account	✓
<b>Total Investments</b>	<b>\$481,987,047</b>	<b>100.0%</b>			



## Adding Value through Sector Allocation





## Portfolio Issuer Distribution

U.S. Treasury	25.1%	ING Funding LLC	1.4%
Fannie Mae	6.3%	Canadian Imperial Bank of Commerce	1.3%
IBRD	4.6%	JP Morgan Chase	1.2%
Toyota Motor Credit	3.2%	Freddie Mac	1.2%
Credit Agricole	2.9%	Wells Fargo	1.2%
International Finance Corporation	2.5%	MUFG Bank	1.1%
American Express	2.4%	Credit Suisse NY	1.1%
Honda Auto Receivables	2.2%	Visa	1.1%
Sweda Company	2.2%	IBM	1.1%
Inter-American Development Bank	2.2%	Bank of America	1.1%
Bank of New York	2.1%	Citigroup Inc	1.1%
American Honda Finance	2.1%	BB&T	1.1%
Skandinav Enskilda Banken NY	2.0%	Sumitomo Mitsui Bank	1.0%
Federal Home Loan Bank	2.0%	Goldman Sachs	1.0%
Bank of Montreal Chicago	1.9%	Cisco Systems	1.0%
Westpac Banking Corp (NY)	1.8%	Nissan Auto Receivables	0.8%
Bank of Nova Scotia Houston	1.8%	BNP Paribas	0.7%
Exxon Mobil	1.7%	Chevron Corp.	0.7%
Hyundai Auto Receivables	1.7%	United Parcel Service	0.6%
Ally Auto Receivables Trust	1.7%	John Deere Owner Trust	0.5%
Natixis NY	1.7%	Berkshire Hathaway	0.5%
Nordea Bank Finland	1.6%	National Rural Utilities Cooperative Finance Corp.	0.4%
UBS	1.6%	Unilever Capital Corp.	0.2%
Apple Inc	1.4%		

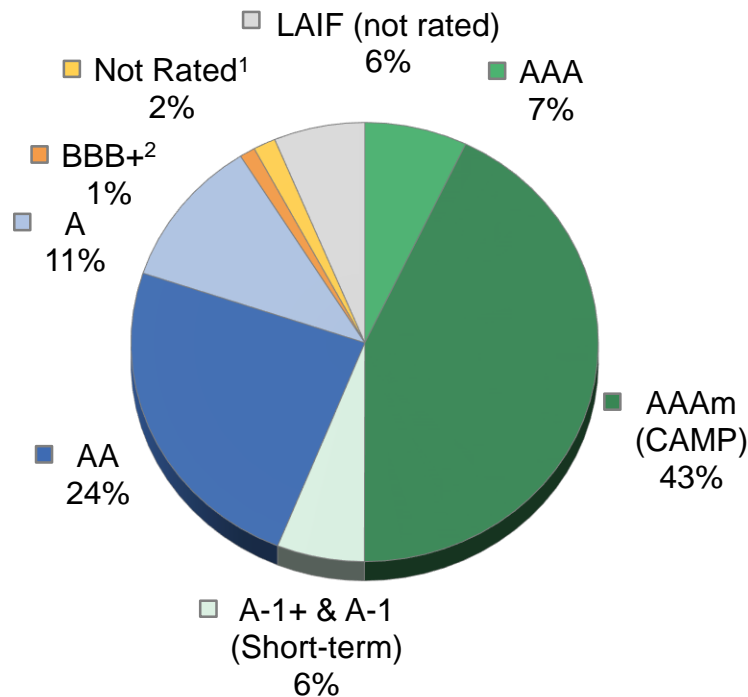




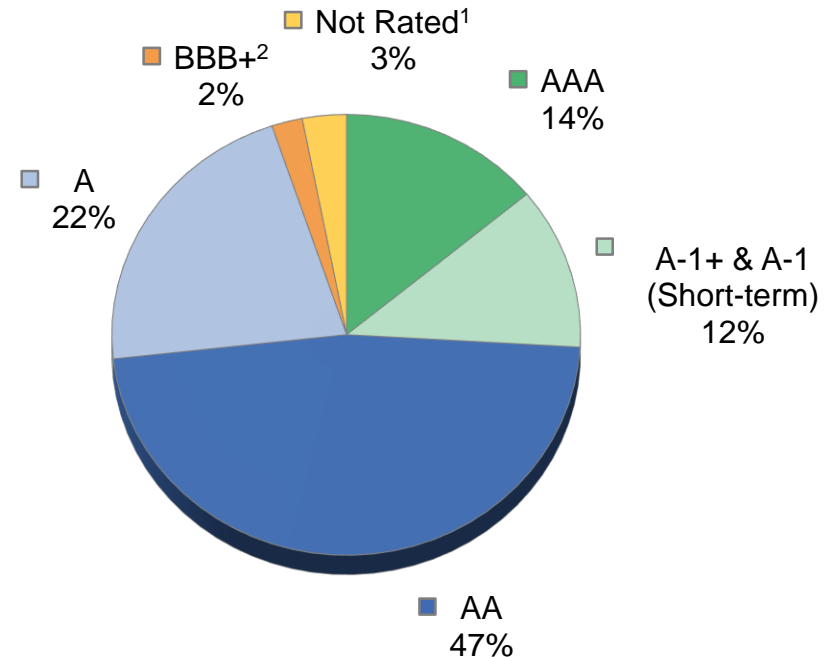
## Portfolio Credit Quality

- The County's portfolio comprises high-quality securities.

### Including Liquid Accounts



### Excluding Liquid Accounts



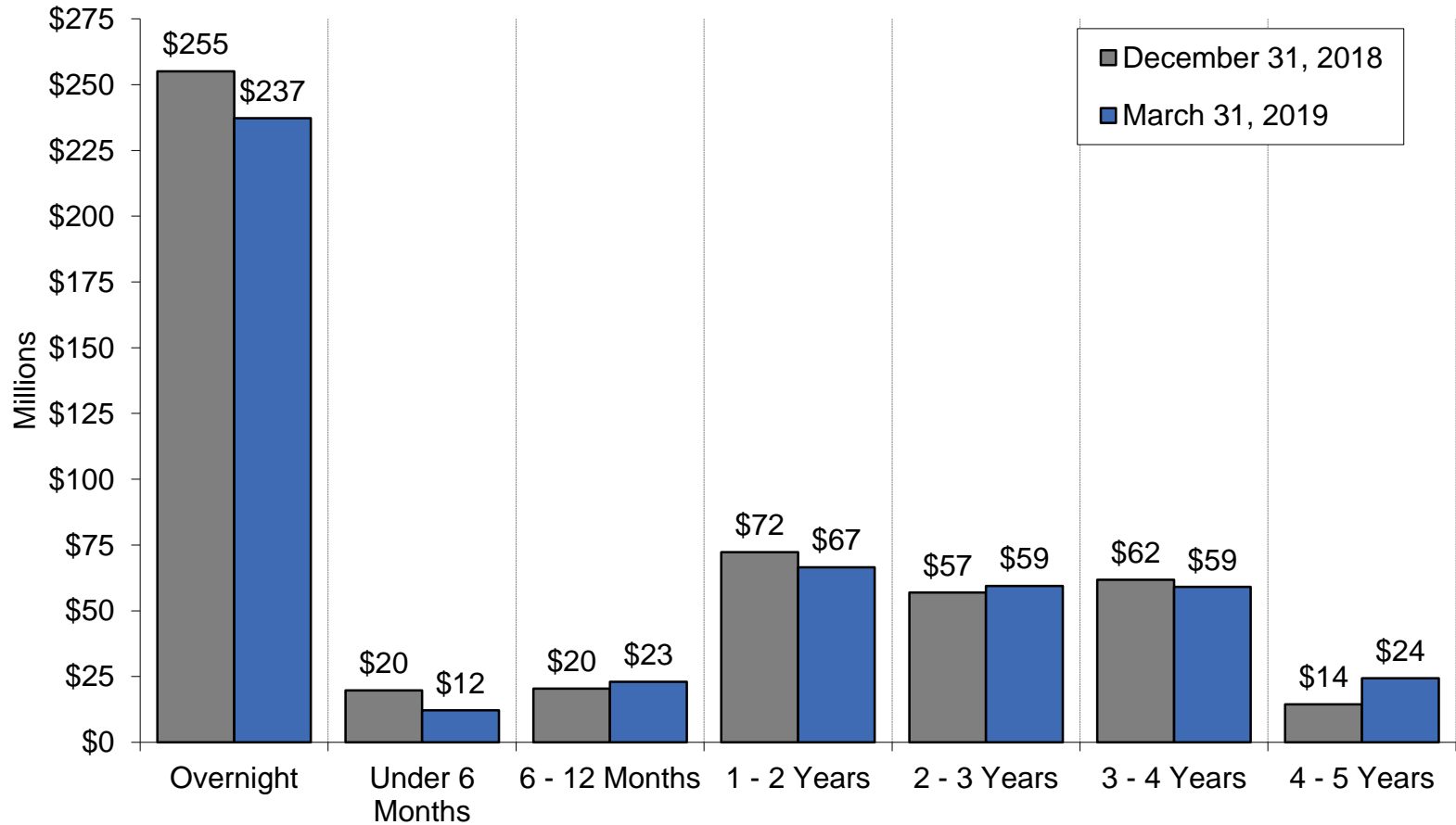
As of March 31, 2019. Percentages may not sum to 100% due to rounding.  
Ratings are based on Standard & Poor's.

1. The "Not Rated" category comprises asset-backed securities rated Aaa by Moody's.

2. The "BBB+" category comprises securities rated in a rating category of A or better by at least one NRSRO.



## Portfolio Maturity Distribution



Callable and floating-rate securities are included in the maturity distribution analysis to their stated maturity date.

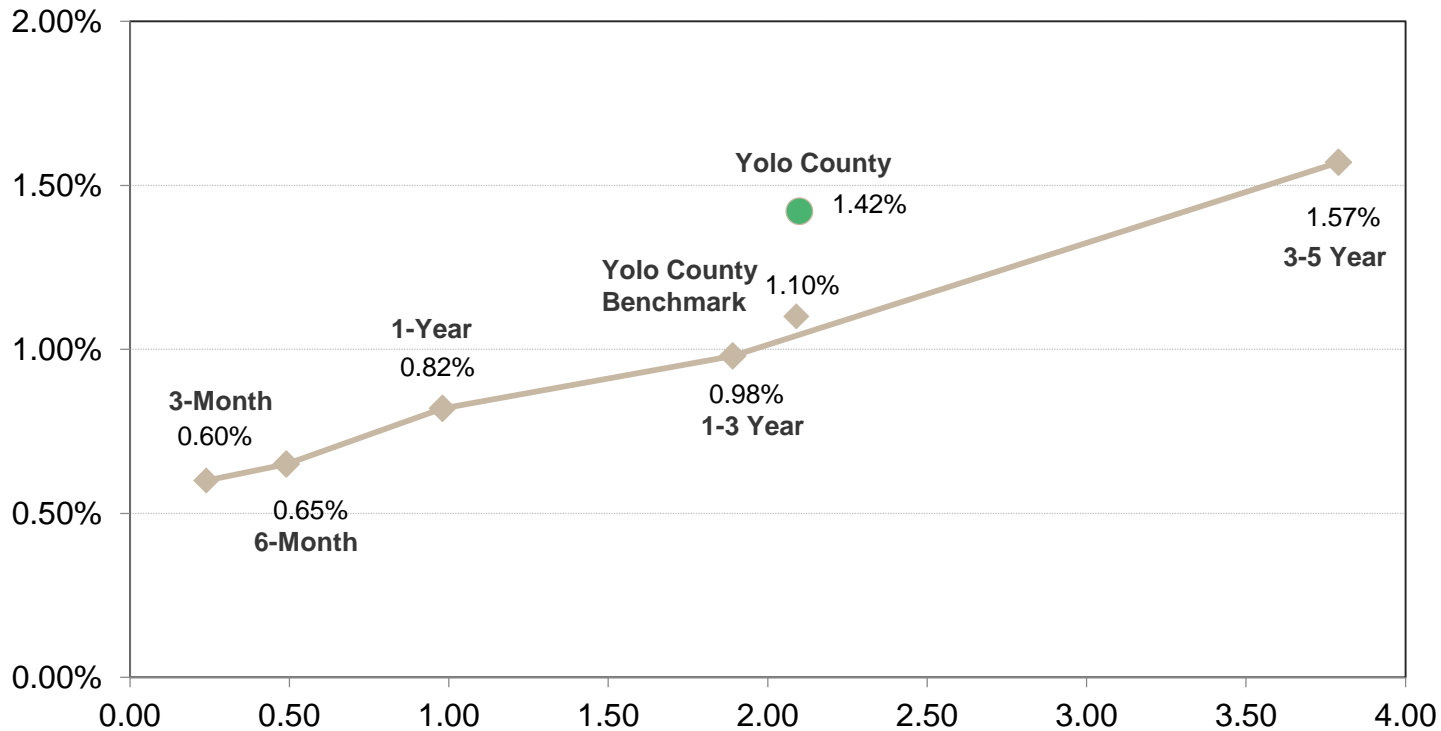


# Longer-Duration Strategies Outperformed as Rates Fell in First Quarter

## Quarterly Total Returns

## Yields

*Yolo County, Yolo County Benchmark, and Various ICE BofA Merrill Lynch Treasury Indices*



Portfolio Yield and LAIF Quarterly Apportionment Rate	
Yolo County	2.39%
LAIF	2.55%

- For periods ending March 31, 2019.
- Yolo County yield is the weighted average yield at cost.
- Source: Bloomberg, LAIF website.
- The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.



## Total Return Performance

- During the quarter, the portfolio benefitted from its longer duration position and diversified sector allocation as yields declined over the quarter and corporate notes outperformed Treasuries.
- Historically, the portfolio continues to outperform the benchmark by a wide margin.

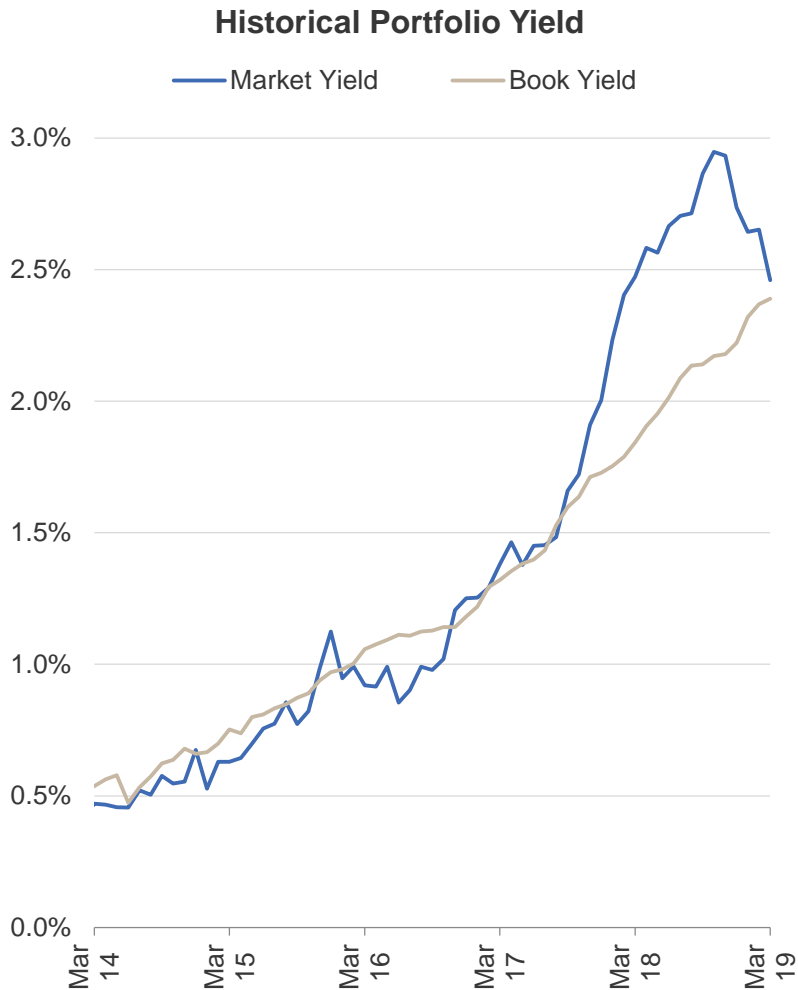
### Total Return For periods ended March 31, 2019

	Duration (years)	Past Quarter	Past 1 Year	Past 5 Years	Past 10 Years	Since Inception
<b>Yolo County</b>	<b>2.10</b>	<b>1.42%</b>	<b>3.49%</b>	<b>1.28%</b>	<b>1.39%</b>	<b>3.13%</b>
Treasury Benchmark	2.09	1.10%	2.96%	0.87%	0.75%	2.47%

- Performance on a trade-date basis, gross (i.e., before fees), in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).
- Bank of America Merrill Lynch indices provided by Bloomberg Financial Markets.
- Inception date is June 30, 1998.
- Performance, yield, and duration calculations exclude holdings in CAMP, LAIF, and the money market fund.
- The County's benchmark is the ICE Bank of America Merrill Lynch (BAML) 0-5 Year U.S. Treasury Index. From March 31, 2015, to September 30, 2017, the benchmark was a blend of 30% ICE BAML 3-month Treasury index and 70% ICE BAML 1-3 year U.S. Treasury Index. From March 31, 2002, to March 31, 2015, the benchmark was a blend of 50% ICE BAML 1-3 Year U.S. Treasury index and 50% ICE BAML 3-month Treasury Bill index. Prior to March 31, 2002, the benchmark was the ICE BAML 1-3 Year U.S. Treasury index.

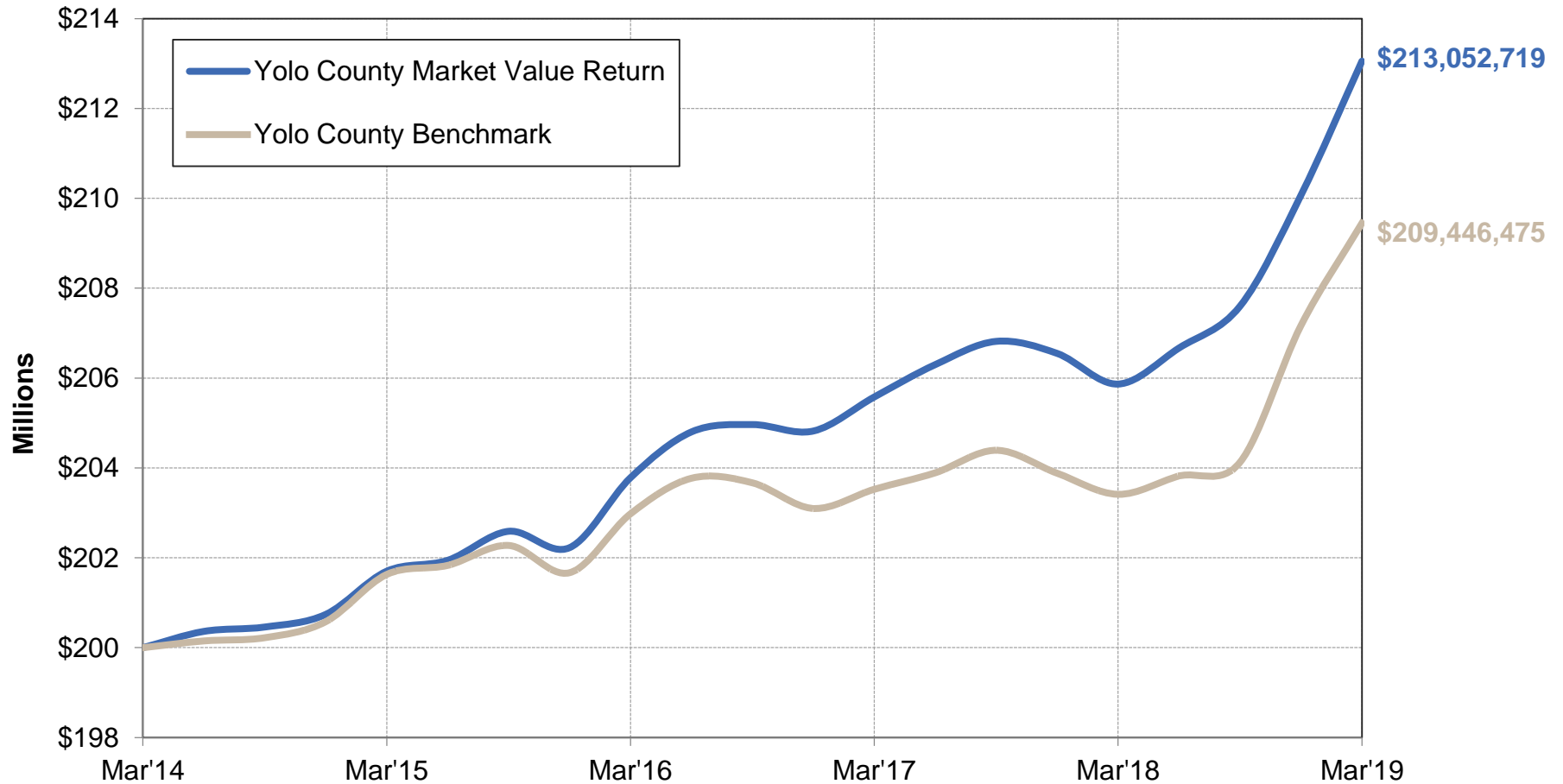


# Historical Securities Portfolio Yields and Quarterly Accrual Earnings





## County's Strategy Continues to Be Effective



- Source: Bloomberg.
- Hypothetical growth of \$200 million.
- Past performance is not indicative of future performance.



## Investment Strategy Outlook

- ◆ With the Fed on hold and the market's current outlook for lower future interest rates:
  - We will maintain a neutral duration posture in the portfolio relative to the benchmark.
- ◆ As a result of the outlook for slower economic growth:
  - We continue to recommend maintaining diversification among investment grade sectors with a tilt toward higher grade corporate bonds given their income-producing potential.
- ◆ As federal agency spreads remain very tight:
  - We expect agency purchases to be minimal, seeking better value in either Treasuries or other sectors.
- ◆ Corporate spreads have narrowed, settling in around longer-term, post-recession historical averages.
  - The corporate spread curve remains positively sloped, offering value for extending maturities.
  - However, given international growth concerns, we remain diligent in our issuer and security selection process.
- ◆ Broad diversification across all investment-grade sectors remains a key component of our portfolio strategy while maintaining a high credit quality for the County's portfolio.



## Disclosures

*This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness, or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some but not all of which are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.*



# YOLO COUNTY

Audit Report

## APPORTIONMENT AND ALLOCATION OF PROPERTY TAX REVENUES

*July 1, 2014, through June 30, 2017*



**BETTY T. YEE**  
California State Controller

March 2019



**BETTY T. YEE**  
California State Controller

March 13, 2019

Chad Rinde, CPA, Chief Financial Officer  
Yolo County  
625 Court Street, Room 102  
Woodland, CA 95695

Dear Mr. Rinde:

The State Controller's Office audited the methods employed by Yolo County to apportion and allocate property tax revenues for the period of July 1, 2014, through June 30, 2017. We conducted the audit pursuant to the requirements of Government Code section 12468.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. We determined that Yolo County incorrectly calculated its:

- Computation and distribution of property tax revenues;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation; and
- Redevelopment Property Tax Trust Fund (RPTTF) administration.

As stated in the Supplemental Information section of this audit report, we did not make a determination on the validity of the county's methodology for apportioning the residual balance from the RPTTF due to a pending appellate court decision.

If you have any questions, please contact Lisa Kurokawa, Chief, Compliance Audits Bureau, by telephone at (916) 327-3138.

Sincerely,

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

JLS/hf

Chad Rinde, CPA,  
Chief Financial Officer

-2-

March 13, 2019

cc: Don Saylor, Chair  
Yolo County Board of Supervisors  
Sheryl Hardy-Salgado, Property Tax Supervisor  
Yolo County  
Chris Hill, Principal Program Budget Analyst  
Local Government Unit  
California Department of Finance

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the methods employed by Yolo County to apportion and allocate property tax revenues for the period of July 1, 2014, through June 30, 2017.

Our audit found instances of noncompliance with California statutes for the apportionment and allocation of property tax revenues for the audit period. We determined that the county incorrectly calculated its:

- Computation and distribution of property tax revenues;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation; and
- RPTTF administration.

As stated in the Supplemental Information section of this audit report, we did not make a determination on the validity of the county's methodology for apportioning the residual balance from the Redevelopment Property Tax Trust Fund (RPTTF) due to a pending appellate court decision.

## Background

After the passage of Proposition 13 in 1978, the California State Legislature (Legislature) enacted new methods for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts. The main objective was to provide local government agencies, school districts, and community college districts with a property tax base that would grow as assessed property values increased. The method has been further refined in subsequent laws passed by the Legislature.

One key law was Assembly Bill (AB) 8, Chapter 282, Statutes of 1979, which established the method of allocating property taxes for fiscal year (FY) 1979-80 (base year) and subsequent fiscal years. The methodology is commonly referred to as the AB 8 process or the AB 8 system.

Property tax revenues that local government agencies receive each fiscal year are based on the amount received in the prior year plus a share of the property tax growth within their boundaries. Property tax revenues are then apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods defined in the Revenue and Taxation Code.

The AB 8 process involves several steps, including the transfer of revenues from school and community college districts to local government agencies (AB 8 shift) and the development of the tax rate area (TRA) annual tax increment (ATI) apportionment factors, which determine the amount of property tax revenues to be allocated to each jurisdiction.

The total amount to be allocated to each jurisdiction is then divided by the total amount to be allocated to all entities to determine the AB 8 factor (percentage share) for each entity for the year. The AB 8 factors are

computed each year for all entities using the revenue amounts established in the prior year. These amounts are adjusted for growth annually using ATI factors.

Subsequent legislation removed from the AB 8 process revenue generated by unitary and operating nonunitary properties, pipelines, regulated railway companies, and qualified electric (QE) properties. These revenues are now apportioned and allocated under separate process.

Other legislation established an Educational Revenue Augmentation Fund (ERAF) in each county. Most local government agencies are required to transfer a portion of their property tax revenues to the fund. The fund is subsequently apportioned and allocated to school and community college districts by the county auditor according to instructions received from the county superintendent of schools or the chancellor of the California community colleges.

Revenues generated by the different types of property tax are apportioned and allocated to local government agencies, school districts, and community college districts using prescribed formulas and methods, as defined in the Revenue and Taxation Code. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the county assessor. Tax rolls contain an entry for each parcel of land, including parcel number, owner's name, and value. The types of property tax rolls are:

- *Secured Roll*—Property that, in the opinion of the assessor, has sufficient value to guarantee payment of the tax levies and that, if the taxes are unpaid, the obligation can be satisfied by the sale of the property by the tax collector.
- *Unsecured Roll*—Property that, in the opinion of the assessor, does not have sufficient “permanence” or other intrinsic qualities to guarantee payment of taxes levied against it.
- *State-Assessed Roll*—Utility properties composed of unitary and operating nonunitary value assessed by the State Board of Equalization (BOE).
- *Supplemental Roll*—Property that has been reassessed due to a change in ownership or the completion of new construction, where the resulting change in assessed value is not reflected in other tax rolls.

To mitigate problems associated with the apportionment and allocation of property tax revenues, Senate Bill 418, which requires the State Controller to audit the counties' apportionment and allocation methods and report the results to the Legislature, was enacted in 1985.

Apportionment and allocation of property tax revenues can result in revenues to an agency or agencies being overstated, understated, or misstated. Misstated revenues occur when at least one taxing agency receives more revenue than it was entitled to, while at least one taxing agency receives less revenue than it was entitled to.

The agency that received less tax revenue than its statutory entitlement would have standing to require that adjustments be made by the county, either on a retroactive or prospective basis. SCO does not have enforcement authority or standing to require the county to take corrective action with respect to misallocation of tax revenues, unless the misallocation resulted in overpaid state funds (funds intended for the ERAF, school districts, or community college districts). SCO has authority to recover misallocations resulting in overpaid state funds pursuant to Government Code (GC) sections 12410, 12418, and 12419.5.

GC section 12410 provides the State Controller with broad authority to “superintend the fiscal concerns of the state.” GC section 12418 provides the State Controller with the authority to “direct and superintend the collection of all money due the State, and institute suits in its name” against all debtors of the State. GC section 12419.5 provides the State Controller with the authority to offset any amounts due the State against any amounts owing the debtor by the State.

Revenue and Taxation Code (RTC) section 96.1(b) allows a reallocation of current audit findings and unresolved prior audit findings.

RTC section 96.1(c)(3) limits a cumulative reallocation or adjustment to one percent of the total amount levied at a one-percent rate of the current year’s original secured tax roll. For reallocation to the ERAF, school districts, or community college districts, a reallocation must be completed in equal increments within the following three fiscal years, or as negotiated with the State Controller.

## **Objective, Scope, and Methodology**

The objective of our audit was to determine whether the county complied with Revenue and Taxation Code, Health and Safety Code, and Government Code requirements pertaining to the apportionment and allocation of property tax revenues.

The audit period was July 1, 2014, through June 30, 2017.

To achieve our objective, we:

- Interviewed key personnel to gain an understanding of the county’s process for apportioning and allocating property tax revenues;
- Reviewed the county’s written procedures for apportioning and allocating property tax revenues;
- Performed analytical reviews to assess the reasonableness of property tax revenues;
- Judgmentally selected a non-statistical sample of five from approximately 64 taxing jurisdictions within the county for all fiscal years in the audit period (the actual number of taxing jurisdictions, which include the ERAF, can vary from year to year based on jurisdictional changes). Errors found were not projected to the intended population. Then, we:
  - Recomputed apportionment and allocation reports to verify computations used to develop property tax apportionment factors;

- Tested TRA reports to verify that the correct TRA factors were used in the computation of the ATI;
- Reviewed supplemental property tax administrative costs and fees to determine whether recovery costs associated with administering supplemental taxes were based on actual costs and did not exceed five percent of revenues collected, as prescribed in statute;
- Verified computations used to develop supplemental property tax apportionment factors;
- Verified unitary and operating nonunitary, unitary regulated railway, and QE property computations used to develop apportionment factors;
- Reviewed RPTTF deposits and distributions. As stated in the Supplemental Information section of this audit report, we did not make a determination on the validity of the county's methodology for apportioning the residual balance from the RPTTF due to a pending appellate court decision;
- Reviewed property tax administration cost reports and recomputed administrative costs associated with work performed for apportioning and allocating property tax revenues to local government agencies, school districts, and community college districts;
- Reviewed ERAF reports and verified computations used to determine the shift of property taxes from local government agencies to the ERAF and, subsequently, to school and community college districts;
- Reviewed the Sales and Use Tax letter and recomputed Vehicle License Fee computations used to verify the amount transferred from the ERAF to counties and cities to compensate for the diversion of these revenues;
- Reviewed reports to determine any increases in property tax revenues due cities having low or nonexistent property tax amounts; and
- Reviewed BOE jurisdictional change filing logs and their impact on the tax apportionment and allocation system.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow to develop appropriate auditing procedures. We did not evaluate the effectiveness of internal controls relevant to the apportionment and allocation of property tax revenues. We did not audit the county's financial statements.



We conducted this audit under the authority of GC section 12468, which requires the SCO to audit the apportionment and allocation of property tax revenues. A property tax bill contains the property tax levied at a one percent tax rate pursuant to the requirement of Proposition 13. A bill may also contain special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city. The scope of our audit is concerned with the distribution of the one percent tax levy. Special taxes, debt service levies on voter-approved debt, fees, and assessments levied by the county or a city are beyond the scope of our audit and were not reviewed or audited.

## **Conclusion**

Without consideration of the legal issue described in the Supplemental Information section of this audit report, our audit found that Yolo County did not comply with California statutes for the apportionment and allocation of property tax revenues for the audit period, as it incorrectly calculated its:

- Computation and distribution of property tax revenues;
- Unitary and operating nonunitary apportionment and allocation;
- Unitary regulated railway apportionment and allocation; and
- RPTTF administration.

These instances of noncompliance are described in the Findings and Recommendations section of this audit report.

## **Follow-up on Prior Audit Findings**

Our prior audit report, issued March 24, 2015, for the period of July 1, 2007, through June 30, 2014, included no findings related to the apportionment and allocation of property tax revenues by the county.

## **Views of Responsible Officials**

We issued a draft audit report on December 17, 2018. Chad Rinde, CPA, Chief Financial Officer, responded by letter dated January 11, 2019 (Attachment), agreeing with the audit results. This final audit report includes the county's response.

## **Restricted Use**

This audit report is solely for the information and use of Yolo County, the Legislature, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this audit report, which is a matter of public record and is available on the SCO website at [www.sco.ca.gov](http://www.sco.ca.gov).

*Original signed by*

JIM L. SPANO, CPA  
Chief, Division of Audits

March 13, 2019

# Findings and Recommendations

## **FINDING 1— Computation and Distribution of Property Tax Revenues**

During testing of the county's property tax revenue computation and distribution process, we found that the county made several errors that resulted in the misallocation of property tax revenues to affected entities in the county. Specifically, we found that the county:

- Incorrectly included unsecured aircraft assessed values in its computations of the ATI for each fiscal year in the audit period;
- Incorrectly computed current-year AB 8 revenue for FY 2014-15;
- Used incorrect prior-year base revenue when computing the current-year increment for FY 2014-15 and FY 2015-16;
- Did not use the updated unitary revenue amount in the tax distribution factors schedule for FY 2014-15 and FY 2015-16, and did not use the updated tax increment for redevelopment agencies (RDAs) in the FY 2014-15 tax distribution factors schedule; and
- Did not apportion homeowner property tax revenue using the computed factors for FY 2014-15 and FY 2015-16.

The error occurred because the county has always included unsecured aircraft in the ATI, and was unaware that unsecured aircraft should be excluded from the ATI. In addition, other errors related to incorrect formulas and factors occurred because the county does not have established policies and procedures to ensure that computation worksheets are accurate.

We are unable to quantify the monetary impact due to various errors affecting the calculation.

RTC sections 96 through 96.5 provide the legal requirements for the computation of ATI and the apportionment and allocation of property tax revenues.

ATI is the difference between the total amount of property tax revenues computed each year using the equalized assessment roll and the sum of the amounts allocated pursuant to RTC section 96.1(a). Each TRA will receive an increment based on its share of the incremental growth in assessed valuations. ATI added to the tax computed for the prior fiscal year will develop the apportionments for the current fiscal year.

### Recommendation

We recommend that the county:

- Review the aforementioned Revenue and Taxation Code sections and update its procedures to exclude unsecured aircraft assessed values from its ATI calculations;
- Establish and implement policies and procedures to ensure that computation worksheets are properly supported and reviewed in detail for accuracy;
- Recalculate the ATI computation for each fiscal year in the audit period; and

- Make monetary adjustments as necessary to affected entities.

#### County's Response

The county concurs with the audit finding and will make necessary adjustments, if they are material.

## **FINDING 2— Unitary and Operating Nonunitary Allocation and Apportionment**

During testing of the county's unitary and operating nonunitary apportionment and allocation process, we found the county did not use the correct prior-year worksheet to compute the unitary revenues for FY 2015-16, which resulted in the misallocation of unitary revenues to entities in the county.

We have determined that the error, while procedurally incorrect, is not material. The error occurred because the county was engaged in system implementation and undergoing high staff turnover, which constrained resources dedicated to tax administration. Only one staff member performed the computation with limited review; as a result, the county did not detect the errors.

RTC section 100 provides the legal requirements for the apportionment and allocation of the unitary and operating nonunitary property tax revenues.

Unitary properties are those properties on which BOE "may use the principle of unit valuation in valuing properties of an assessee that are operated as a unit in the primary function of the assessee" (i.e., public utilities, railroads, or QE properties). RTC section 723.1 states, "Operating nonunitary properties are those that the assessee and its regulatory agency consider to be operating as a unit, but the board considers not part of the unit in the primary function of the assessee."

In FY 1988-89, the Legislature established a separate system for apportioning and allocating the unitary and operating nonunitary property tax revenues. The system created the unitary and operating nonunitary base year, and developed formulas to compute the distribution factors for the fiscal years that followed.

#### Recommendation

We recommend that the county:

- Establish and implement policies and procedures to ensure that computation worksheets are properly supported and reviewed in detail for accuracy;
- Recalculate the unitary and operating nonunitary allocation factors beginning with FY 2015-16; and
- Make monetary adjustments as necessary to affected entities.

#### County's Response

The county concurs with the audit finding and will make necessary adjustments, if they are material.

**FINDING 3—  
Unitary Regulated  
Railway Allocation and  
Apportionment**

During testing of the county’s unitary regulated railway apportionment and allocation process, we found that, for FY 2015-16, the county’s apportionment factors for revenues over 102% of prior year (excess factors) did not reconcile to supporting documentation. This resulted in the misallocation of unitary regulated railway revenues to entities in the county.

We have determined that the error, while procedurally incorrect, is not material. The error occurred because the county was engaged in system implementation and undergoing high staff turnover, which constrained resources dedicated to tax administration. Only one staff member performed the computation with limited review; as a result, the county did not detect the errors.

RTC section 100.11 provides the legal requirements for the apportionment and allocation of unitary regulated railway property tax revenues.

Unitary regulated railway properties are facilities that were completely constructed and placed in service after January 1, 2007. RTC section 723 defines unit valuation of a property that is operated as a unit in a primary function of the assessee.

Recommendation

We recommend that the county:

- Establish and implement policies and procedures to ensure that computation worksheets are properly supported and reviewed in detail for accuracy;
- Recalculate the unitary regulated railway allocation factors beginning with FY 2015-16; and
- Make monetary adjustments as necessary to affected entities.

County’s Response

The county concurs with the audit finding and will make necessary adjustments, if they are material.

**FINDING 4—  
Redevelopment  
Property Tax Trust  
Fund Administration**

During testing of the RPTTF administration process, we found that the county made several errors which resulted in misallocation of the tax increment to the City of Winters’ Redevelopment Successor Agency and of pass-through payments to various affected entities in the project area. Specifically, we found that the county:

- Distributed an incorrect amount for Recognized Obligation Payment Schedule 14-15B to the City of Winters’ Redevelopment Successor Agency for FY 2014-15;
- Incorrectly computed the tax increment for the City of Winters’ Redevelopment Successor Agency for FY 2015-16 and FY 2016-17; and

- Incorrectly computed the contractual pass-through payments to the county's funds (the General Fund, the ACO Fund, and the Library Fund), the Winters Cemetery District, and the Solano County Community College District for each fiscal year in the audit period.

The error occurred because the county was engaged in system implementation and undergoing high staff turnover, which constrained resources dedicated to tax administration. Only one staff member performed the calculation and distribution of the RPTTF with limited review; as a result, the county did not detect the errors.

We are unable to quantify the monetary impact due to various errors affecting the calculation.

RTC section 97.401 and Health and Safety Code sections 34182 through 34188 provide the legal requirements for administration of the RPTTF.

In 2012, the Legislature passed a law dissolving the previously established RDAs. Provision of the law included the creation of successor agencies (SAs) and oversight boards to oversee the winding-down of the defunct agencies' affairs.

Under the applicable Health and Safety Code sections, SAs will receive the ATI previously given to RDAs to fund payments of their obligations, including, but not limited to, administrative costs, pass-through payments, and debts.

#### Recommendation

We recommended that the county establish and implement policies and procedures to:

- Ensure that it correctly administers RPTTF deposits and fund activities (allocations and disbursements) in accordance with applicable statutes and pass-through agreements; and
- Ensure that computation worksheets are properly supported and reviewed for accuracy.

In addition, we recommend that the county:

- Recalculate the tax increment for the City of Winters' Redevelopment Successor Agency for FY 2015-16 and FY 2016-17;
- Recalculate the contractual pass-through payments for the City of Winters' Redevelopment Successor Agency for FY 2014-15 through FY 2016-17; and
- Make monetary adjustments as necessary to affected entities.

#### County's Response

The county concurs with the audit finding and will make necessary adjustments, if they are material.

# Supplemental Information

## **Redevelopment Property Tax Trust Fund**

On May 26, 2015, the Sacramento County Superior Court ruled in Case No. 34-2014-80001723-CU-WM-GDS between the cities of Chula Vista, El Cajon, Escondido, Poway, San Diego, San Marcos, and Vista (petitioners) and the San Diego County Auditor-Controller (respondent) regarding the methodology for apportioning the residual balance from the RPTTF.

The Court stated, in part:

(1) that a cap on the residual amount each entity can receive be imposed in an amount proportionate to its share of property tax revenue in the tax area; and (2) the calculation of the residual share an entity is entitled to receive must be done by considering the property tax available in the Redevelopment Property Tax Trust Fund after deducting only the amount of any distributions under paragraphs (2) and (3) of subdivision (a) of Section 34183.

On September 17, 2015, the respondent appealed the ruling to the Court of Appeal of the State of California, Third Appellate District.

As the appellate court has not decided on the case, we will follow up on this issue in a subsequent audit.

**Attachment—  
County's Response to Draft Audit Report**

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# County of Yolo

CHAD RINDE, CPA  
Chief Financial Officer

[www.yolocounty.org](http://www.yolocounty.org)

## DEPARTMENT OF FINANCIAL SERVICES

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- Financial Leadership
- Budget & Financial Planning
- Treasury & Finance
- Tax & Revenue Collection

- Financial Systems Oversight
- Accounting & Financial Reporting
- Internal Audit
- Procurement

January 11, 2019

Jeffrey V. Brownfield, CPA  
Chief  
State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

Dear Mr. Brownfield,

Please find our responses below to your audit report dated December 17, 2018:

### **FINDING 1 – COMPUTATION AND DISTRIBUTION OF PROPERTY TAX REVENUES**

The County agrees with this finding. The County has reviewed the applicable Revenue and Taxation Codes and updated procedures to exclude unsecured aircraft assessed values from Annual Tax Increment (ATI) calculations. The County has established policies and procedures to ensure property tax computation worksheets are properly reviewed to ensure accuracy and adequate supporting documentation. The County will recalculate the ATI for the fiscal years in the audit period and will make monetary adjustments to affected entities, if material.

### **FINDING 2 – UNITARY AND OPERATING NON-UNITARY ALLOCATION AND APPORTIONMENT**

The County agrees with this finding. The County has established policies and procedures to ensure property tax computation worksheets are properly reviewed to ensure accuracy and adequate supporting documentation. The County will recalculate the unitary and operating non-unitary allocation factors with the 2015-16 fiscal year identified and will make monetary adjustments to affected entities, if material.

### **FINDING 3 – UNITARY REGULATED RAILWAY ALLOCATION AND APPORTIONMENT**

The County agrees with this finding. The County has established policies and procedures to ensure property tax computation worksheets are properly reviewed to ensure accuracy and adequate supporting documentation. The County will recalculate the unitary regulated railway allocation factors with the 2015-16 fiscal year identified and will make monetary adjustments to affected entities, if material.

**FISCAL RESPONSIBILITY & SUSTAINABILITY**



**FINDING 4 – REDEVELOPMENT PROPERTY TAX TRUST FUND  
ADMINISTRATION**

The County agrees with this finding. The County has established policies and procedures to ensure redevelopment property tax trust fund computation worksheets are properly reviewed to ensure accuracy and adequate supporting documentation. The County will correct the 14-15B Recognized Obligation Payment to the City of Winters, recompute tax increment factors for the 2015-16 and 2016-17 fiscal years, recompute the contractual pass-through payments identified and will make monetary adjustments to affected entities, if material.

Sincerely,



Chad Rinde, CPA  
Chief Financial Officer

Cc: Sheryl Hardy-Salgado, Property Tax Supervisor

**State Controller's Office  
Division of Audits  
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