



824 Pine Street  
Klamath Falls, OR 97601  
(541) 884-4164  
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## Certified Public Accountants

Board of Commissioners  
Klamath County Treasurer's Investment Pool  
Klamath County  
Klamath Falls, Oregon

Dear Commissioners,

We have audited the basic financial statements of Klamath County Treasurer's Investment Pool as of and for the year ended June 30, 2010, and have issued our report thereon dated July 15, 2011. Professional standards require that we advise you of the following matters relating to our audit.

### **Our Responsibility under Generally Accepted Auditing Standards and Government Auditing Standards**

As communicated in our engagement letter dated July 20, 2011, our responsibility, as described by professional standards, is to plan and perform our audit to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of Klamath County Treasurer's Investment Pool solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding significant control deficiencies over financial reporting, material noncompliance, and other matters noted during our audit in a separate letter to you dated July 15, 2011. (See Appendix A)

### **Other Information in Documents Containing Audited Financial Statements**

Pursuant to professional standards, our responsibility as auditors for other information in documents containing Klamath County Treasurer's Investment Pool's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform any procedures to corroborate such other information. However, in accordance with such standards, we have read and considered whether the management's discussion and analysis was materially inconsistent with its presentation in the financial statements. This information is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our responsibility also includes communicating to you any information which we believe is a material misstatement of fact. Nothing came to our attention that caused us to believe that such information, or its manner of presentation, is materially inconsistent with the information, or manner of its presentation, appearing in the financial statements.

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## **Planned Scope and Timing of the Audit**

We did not conduct our audit within the planned scope and timing as communicated to you in our engagement letter dated July 15, 2011. (See Appendix B) Due to significant issues with prior auditors, personnel and financial records, our audit extended several months beyond the original planned scope and timing. There is further discussion in the Significant Difficulties Encountered During the Audit section of this letter.

## **Qualitative Aspects of the Entity's Significant Accounting Practices**

### **Significant Accounting Policies**

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by Klamath County Treasurer's Investment Pool is included in Note 1 to the financial statements. There have been no initial selection of accounting policies and no changes in significant accounting policies or their application during June 30, 2010. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus. However, the application of various policies was inconsistent, with some policies followed, and other policies not followed. Therefore, we have included as a significant deficiency in our management letter the need to document internal control policies and procedures.

### **Significant Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the market values for various securities.

Management's estimate of the market values is based on prices published in the statements provided by the broker. We evaluated the key factors and assumptions used to develop the market value and determined that it is reasonable in relation to the basic financial statements taken as a whole and in relation to the applicable opinion units.

### **Financial Statement Disclosures**

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting Klamath County Treasurer's Investment Pool's financial statements relate to compliance with Oregon Revised Statutes regarding proper investment policies and procedures.

### **Significant Difficulties Encountered during the Audit**

Although we ultimately received full cooperation of management and believe that we were given direct and unrestricted access to the Klamath County Treasurer's Investment Pool's books and records, as we disclosed in the management letter, we encountered significant difficulties in performing and completing the audit process. Principally, these difficulties related to the poor condition of the books and records, lack of consistent and standard accounting procedures, lack of available documentation, and the lack of qualified internal staffing. The current chief financial officer did not begin work until six months after the prior year end, and had to perform essentially all of the analysis, adjustment, and closing of the prior year subsequent to that time. All of these issues, as well as others, contributed to the problem and added to the time required to complete the audit.

### **Uncorrected and Corrected Misstatements**

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. All misstatements identified during the audit that were not trivial, were corrected during the course of the audit.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. There were no material misstatements brought to the attention of management as a result of our audit.

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## **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to Klamath County Treasurer's Investment Pool's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

## **Representations Requested from Management**

We have requested certain written representations from management, which are included in the attached letter dated July 15, 2011. (See Appendix C)


## **Management's Consultations with Other Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

## **Other Significant Findings or Issues**

In the normal course of our professional association with Klamath County Treasurer's Investment Pool, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as Klamath County Treasurer's Investment Pool's auditors.

This report is intended solely for the information and use of the Klamath County Board of Commissioners, and management of Klamath County Treasurer's Investment Pool and is not intended to be and should not be used by anyone other than these specified parties.

  
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Andrew E. Peterson

July 15, 2011

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## **APPENDIX A**



824 Pine Street  
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Certified Public Accountants

Klamath County Treasurer's Investment Pool  
305 Main Street

Klamath Falls, OR 97601

Dear Commissioners:

In planning and performing our audit of the basic financial statements of Klamath County Treasurer's Investment Pool as of and for the year ended June 30, 2010, in accordance with auditing standards generally accepted in the United States of America, we considered Klamath County Treasurer's Investment Pool's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we do not express an opinion on the effectiveness of Klamath County Treasurer's Investment Pool's internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Klamath County Treasurer's Investment Pool's internal control to be significant deficiencies:

- 2010-1. Klamath County Treasurer's Investment Pool has not followed its own internal control documentation and has violated several Oregon Statutes. There has been no monitoring of the management of the investment pool.

During our audit, we noted that the Klamath County Treasurer's Investment Pool has not followed internal controls as written and has not complied with clear directives from the Oregon Revised Statutes for the management of an investment pool. We recommend that the Klamath County Treasurer's Investment Pool require monitoring of the person or persons responsible for the pool to insure compliance with laws and policies. More details are outlined in the detail section below.

- 2010-2. Klamath County Treasurer's Investment Pool has an inadequate design of internal control over the preparation of the financial statements being audited.

During our audit, we noted that the Klamath County Treasurer's Investment Pool does not have a system in place that would provide for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. Currently, the draft financial statements are prepared for the Investment Pool by the auditors. The auditors may prepare the draft financial statements as a matter of convenience but the Investment Pool must be in a position to take responsibility for them. Subsequent to year end this finding was resolved. The new chief financial officer has the capability of taking responsibility for the financial statements.

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Details and recommendations directly related to 2010-1 above are outlined below, and are also included in Note 6 to the financial statements:

Oregon Revised Statute (ORS) 294.125 states that the custodial officer of any county may after having obtained a written order from the governing body of the county and that order is recorded in the minutes of the governing body, invest surplus funds in accordance with ORS 294.035. ORS 294.135(a) states that the custodial officer may make investments having a maturity longer than 18 months when the governing body of the county has adopted a written investment policy that, prior to adoption, was submitted to the Oregon Short Term Fund Board for review and comment to the governing body, that includes guidelines concerning maximum investment maturity dates and that provides by its terms for re-adoption not less than annually. Klamath County Investment Policy also states that the policy will be readopted annually even if there are no changes.

The Investment Pool has a significant number of investments with maturities greater than 18 months. The investment policy was adopted on July 5, 2005, and has not been re-adopted since that date.

ORS 294.125 states that no custodial officer of any political subdivision of this state may accept for investment or invest the funds of any other political subdivision of this state, except as provided in ORS 294.035. ORS 294.035 states that the custodial officer may invest funds of other political subdivisions, but only after obtaining from the governing body of the county, municipality, political subdivision or school district a written order that has been entered in the minutes of the governing body.

The Investment Pool currently has significant amounts of other political subdivision's funds in custody. There are no written orders from other political subdivisions allowing the County Treasurer to invest such funds.

Klamath County Investment Policy states that the County Treasurer shall maintain a system of written internal controls which shall be reviewed and tested by the independent auditor annually.

Upon inquiry, we were informed that written internal controls over investments are not followed as written. The internal controls in place exist primarily in the knowledge of the County Treasurer with no cross training or other backup.

We suggest the Investment Pool take steps to inform its investment managers and the treasurer of these discrepancies and that the investment policy is to be followed as it is stated. A copy of the investment policy should be provided to the investment manager with written correspondence of these matters. An investment policy is a very effective means of protecting the assets of the Investment Pool, and we suggest that a procedure be implemented to be certain that it is carried out.

To strengthen internal controls over the Investment Pool's investment accounts, we recommend that consideration be given to establishing dual authorization on any transfers, withdrawals, or changes in the investment portfolio that are not in accordance with an established investment policy. To strengthen controls further, the Investment Pool could establish a requirement that at least one of the authorizations be from a Board member. If possible, having this dual authorization requirement established through the investment broker or bank before investment transactions can occur would be most effective.

ORS 294.155 states that (1) the custodial officer for a local government that holds and invests funds on behalf of another government unit shall at least once a year submit an audited report to that government unit for which funds are invested. An audit report shall be submitted to the local governmental unit or units within 30 days after receipt of the audit report by the custodial officer's governing body.

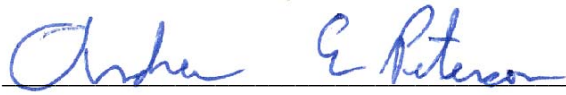
(2) The custodial officer shall prepare a report not less than monthly to each county, municipality, school district and other political subdivision the segregated funds of which the custodial officer is then investing, as to changes made in the investments of the funds of that body during the preceding month. If requested by that body, the custodial officer shall furnish to it details on the investment transactions for its fund. The custodial officer shall also provide copies of any investment policy which has been adopted to the custodial officer's governing body upon request.

During our audit procedures, it came to our attention that Klamath County Treasurer's Investment Pool does not follow ORS 294.155 regarding the audit of the investments that it holds for other municipalities, and we were informed that reports of the segregated funds were not timely during the later part of the year. We recommend that they establish procedures and policies to ensure that Klamath County Treasurer's Investment Pool is in compliance with ORS 294.155.

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This communication is intended solely for the information and use of management, the Klamath County Board of Commissioners, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in blue ink that reads "Andrew E. Peterson". The signature is written in a cursive style and is positioned above a horizontal line.

Andrew E. Peterson

Klamath Falls, Oregon  
July 15, 2011

## **APPENDIX B**

## **APPENDIX C**