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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.

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.

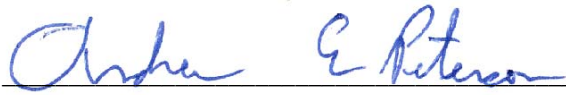
To strengthen internal controls over the Investment Pool's investment accounts, we recommend that consideration be given to establishing dual authorization on any transfers, withdrawals, or changes in the investment portfolio that are not in accordance with an established investment policy. To strengthen 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.

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 with a horizontal line underneath it.

Andrew E. Peterson

Klamath Falls, Oregon
July 15, 2011
