



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

**CONTINUOUS COMPLIANCE
AUDITING OF THE
TREASURY INVESTMENT
PORTFOLIO
FOR THE QUARTER
ENDED MARCH 31, 2015**



**Job Number 1154 (Reference 1552)
Report Date: August 31, 2015**



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I N T E R N A L A U D I T

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER

August 31, 2015

Job No. 1154
(Reference 1552)

TO: Members, Treasury Oversight Committee

SUBJECT: Continuous Compliance Auditing of the Treasury Investment Portfolio
For the Quarter Ended March 31, 2015

We have completed the continuous compliance auditing of the Treasury investment portfolio for the quarter ended March 31, 2015. The purpose of our engagement was to determine whether the Orange County Money Market Fund, Educational Money Market Fund, John Wayne Airport Investment Pool (all collectively referred to as Money Market Funds in this report), and Extended Fund managed by the Orange County Treasurer's Office were in compliance with certain provisions specified in the Investment Policy Statement (IPS) and that portfolio non-compliance including technical incidents were properly reported in the Treasurer's Monthly Investment Reports for January, February, and March 2015.

We are continuing our continuous compliance auditing of the Treasury investment portfolio at the request of the Treasury Oversight Committee. Our continuous auditing is designed to provide assurance to the Board of Supervisors, the County Executive Officer, Treasury Oversight Committee, and other stakeholders that the Treasury investment portfolio is in compliance with specific provisions of the IPS and that non-compliance deficiencies or technical incidents and required disclosures are properly reported.

Our compliance procedures included judgmentally selecting 10 business days for testing from each month and importing the selected electronic downloads from the Treasurer's Quantum System into ACL, a computer-assisted audit technique software, for purposes of performing calculations and validating that investment purchases were in compliance with the IPS by reviewing and testing supporting documentation. In conducting our procedures, we examined the following days in January: 2, 5, 7, 9, 14, 16, 20, 22, 27, and 30, February: 2, 4, 6, 10, 13, 17, 19, 23, 25, and 27, and March: 2, 4, 6, 10, 12, 17, 20, 24, 27, and 31.

Based on our continuous compliance auditing for the selected dates, **no compliance deficiencies were identified**. When applicable, our report also includes information regarding the Treasurer's reporting of technical incidents in the monthly investment report. The Treasurer defines a technical incident as an event, other than the purchase of a security, which causes an IPS limit to be exceeded. The most common cause of a technical incident is when the total investment pool holdings decrease causing the relative percentage of holdings to increase.



Continuous Compliance Auditing of the Treasury Investment Portfolio For the Quarter Ended March 31, 2015

The following lists the procedures performed and results achieved from the compliance continuous auditing procedures:

1. **Authorized Investments (IPS Section VI, VII, and VIII):** We judgmentally selected a sample of 35 investments representing each pool. The sample was selected from investments purchased on the 30 business days selected for review from January through March 2015. For the sample selected, we independently confirmed that the investments conform to authorized investment requirements in accordance with the IPS. We also confirmed for the Pooled Funds that the Treasurer used issuers and brokers who were on the Treasurer's authorized lists. For 100-GF investments sampled, as they are not pooled funds, we did not verify that the Treasurer used issuers on the Treasurer's authorized lists. However, we did verify that they were tax-exempt government securities not subject to the Alternative Minimum Tax (AMT) per Board of Supervisors Resolution 05-179.

Results: We found no exceptions.

2. **Diversification Compliance (IPS Section VIII.1):** We performed calculations to determine that the Money Market and Extended Fund portfolios met the diversification limits for investment types in accordance with the IPS.

Results: We found no exceptions.

3. **Weighted Average Maturity (WAM) Limitations (IPS Section VIII.2):** We performed calculations to determine that WAM did not exceed 60 days for the Money Market Funds in accordance with the IPS.

Results: We found no exceptions.

4. **Maximum Maturity Limitations (IPS Section VIII.2):** We confirmed that the maximum maturity of any portfolio instrument purchased did not exceed 13 months (397 days) for the Money Market Funds and 5 years (1,826 days) for the Extended Fund in accordance with the IPS. For 100-GF investments, we verified that the maximum maturity of any investment in this Fund did not exceed a year (365 days) per Board of Supervisors Resolution 05-179.

Results: We found no exceptions.

5. **Investment Type Maximum Maturity Limitations (IPS Section VIII.1):** We confirmed that the maximum maturity of commercial paper, banker's acceptances, or repurchase agreements purchased did not exceed 270 days for commercial paper, 180 days for banker's acceptances, or 1 year (365 days) for repurchase agreements in accordance with the IPS.

Results: We found no exceptions.



Continuous Compliance Auditing of the Treasury Investment Portfolio For the Quarter Ended March 31, 2015

6. **Issuer Limitations (IPS Section VIII.2):** We performed calculations to determine that the Money Market and Extended Fund portfolios did not exceed the investment limits for issuers in accordance with the IPS.

Results: We found no exceptions.

7. **Financial Reporting (IPS Section XXI):** We confirmed that the January 31, 2015, February 28, 2015, and March 31, 2015 Treasurer's Monthly Investment Reports included statements of portfolio non-compliance including technical incidents in accordance with the IPS.

Results:

Review of "Investment Policy Compliance Summary"

The Treasurer's Monthly Investment Report includes an "Investment Policy Compliance Summary" to disclose non-compliance issues that occurred during the month. The Treasurer's "Investment Policy Compliance Summary" for January, February, and March reported no compliance issues.

Technical Incidents

Although the Treasurer's IPS does not require technical incidents that occurred during the month to be reported in the Treasurer's Monthly Investment Report, it is Treasurer's policy to report the details of technical incidents outstanding at month end in the "Investment Policy Compliance Summary." In our sample selection, we did not observe any technical incidents.

Please let me know if you have any questions regarding our continuous auditing procedures.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Shari L. Freidenrich, Treasurer-Tax Collector
Eric H. Woolery, Auditor-Controller
Frank Kim, County Executive Officer
Mark Denny, Chief Operating Officer
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector, Treasury
Tomas Vargas, Assistant Treasurer-Tax Collector, Investments
JC Squires, Financial Manager, Treasurer-Tax Collector
Robin Stieler, Interim Clerk of the Board of Supervisors
Foreperson, Grand Jury
Macias Gini & O'Connell, LLP, County External Auditor
