



Orange County Auditor-Controller Internal Audit



Office of the Orange County Treasurer
Compliance Audit
For the Year Ended December 31, 2015

Audit Number 1513
Report Date: November 1, 2016



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

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Orange County Auditor-Controller

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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

November 1, 2016

Audit No. 1513

TO: Members, Treasury Oversight Committee

SUBJECT: Office of the Orange County Treasurer Compliance Audit
For the Year Ended December 31, 2015

At the direction of the Orange County Treasury Oversight Committee, we have completed our examination of the Office of the Orange County Treasurer's compliance with California Government Code Sections 27130 through 27137 and the Orange County Treasurer Investment Policy Statement during the year ended December 31, 2015. This annual examination is required by Government Code Section 27134. Our final report is attached for your review.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a monthly report to the Board of Supervisors (BOS) where I detail any critical and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. The results of this engagement will be included in future status reports to the AOC and BOS.

Please feel free to call me should you wish to discuss any aspect of our audit report. Additionally, we will request the department complete a **Customer Survey** of Audit Services. The Office of the Orange County Treasurer will receive the survey shortly after the distribution of our final report.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division

Attachments

Other recipients of this report are listed on the Independent Accountant's Report on pages 1 and 2.



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Compliance Audit
Audit No. 1513*

For the Year Ended December 31, 2015

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Independent Accountant's Report

Independent Accountant's Report

Gary G. Capata, CPA, Chair, Public Member
Treasury Oversight Committee
625 North Ross Street, Building 11
Santa Ana, California 92701

We have examined the Office of the Orange County Treasurer's (Treasurer) compliance with the Treasury Oversight Committee provisions contained in California Government Code, Article 6, Sections 27130 through 27137 and the Orange County Treasurer Investment Policy Statement for the year ended December 31, 2015. The Treasurer's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on the Treasurer's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Treasurer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Treasurer's compliance with specified requirements.

In our opinion, the Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2015.

This report is intended solely for the information and use of the County Treasury Oversight Committee, the management of the Office of the Orange County Treasurer, and the Board of Supervisors and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Toni Smart", is written over a light blue horizontal line.

Toni Smart, CPA, Director
Auditor-Controller Internal Audit Division
Santa Ana, California

November 1, 2016

Members, Treasury Oversight Committee Distribution:

Gary G. Capata, Public Member (Chair)
Laura Parisi, Public Member (Vice-Chair)
Hon. Dr. Al Mijares, County Superintendent, OC Department of Education
Eric Woolery, Auditor-Controller
Frank Kim, County Executive Officer
William "Andy" Dunn, Public Member
Richard A. Rohm, Public Member



Independent Accountant's Report

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors
Members, Audit Oversight Committee
Shari L. Freidenrich, Treasurer-Tax Collector
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector – Treasury
JC Squires, Financial Manager, Treasurer-Tax Collector
Michelle Aguirre, Chief Financial Officer
Claire Moynihan, Director, Central Accounting Operations, Auditor-Controller
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Macias Gini & O'Connell LLP, County External Auditor



Supplemental Information

*Office of the Orange County Treasurer
Compliance Audit
For the Year Ended December 31, 2015*

Background and General

In 1995, the California legislature passed provisions requiring each county to establish an oversight committee of from 3 to 11 members representing various organizations, where the pool of organizations was also specified in the legislation. The purpose of this committee was to oversee the policies that guide the investment of public funds. The committee was not to impinge on the day-to-day operations of the County Treasurer, but rather to review and monitor the Treasurer's investment policy and reporting. In 2005, the law changed to make the committee optional at the discretion of a California county. The County of Orange has elected to continue its Treasury Oversight Committee (TOC).

Establishment and Composition of Committee

The TOC was established by the Board of Supervisors (BOS) on December 19, 1995 by Resolution No. 95-946 in accordance with the California Government Code Article 6 of Division 2 of Title 3, Sections 27130 through 27137. The TOC structure approved by the BOS consists of seven members: the County Auditor-Controller or designee, the County Executive Officer or designee, the County Superintendent of Schools or designee, and four members of the public. The members of the TOC as of December 31, 2015 were as follows:

<u>Name</u>	<u>Member Type</u>
Laura Parisi (Chair)	Public Member
William "Andy" Dunn (Vice Chair)	Public Member
Gary Capata	Public Member
Frank Kim	County Executive Officer
Al Mijares	County Superintendent of Schools
Richard Rohm	Public Member
Eric Woolery	Auditor-Controller

Compliance Audit Requirement

The oversight legislation included many specific requirements such as the required contents of the Treasurer's Investment Policy. California Government Code Section 27134 requires an annual audit to determine compliance with the provisions. This audit serves to comply with that requirement.

Committee Operation

During 2015, five TOC meetings were held on the following dates: January 28, April 22, July 29, September 28, and October 28. We reviewed the minutes and believe that the meetings were properly conducted in order to provide oversight.

Investment Policy Statement Requirement

California Government Code Section 27133 requires the County Treasurer to annually prepare an investment policy statement. The Orange County Treasurer Investment Policy Statement (IPS) is reviewed by the TOC and submitted to the BOS for approval on an annual basis. We found that this was properly done and a policy was submitted to and approved by the Orange County Board of Supervisors on December 16, 2014.



Supplemental Information

Investment Policy Review

We reviewed the requirement specified in Government Code Section 27133, subsections (a) through (h). We believe the policy addressed all the required provisions as follows:

<u>Requirement</u>	<u>Policy Section</u>	<u>Deemed Compliant</u>
(a) Authorized securities	VI	Yes
Maximum percentage by type	VIII	Yes
(b) Maximum terms	VIII	Yes
(c) Criteria for selection of brokers	XI	Yes
Prohibition of political donations	XI	Yes
(d) Limits on gifts	X	Yes
(e) Reporting to Oversight Committee	XXI	Yes
(f) Calculation of treasurer's costs	XVI	Yes
(g) Voluntary depositors	XVII	Yes
(h) Requests to withdrawal	XVIII	Yes

As shown above, we believe the policy adopted contained all the provisions specified in the oversight legislation.

Investment Compliance Requirements

The investment compliance requirements presented in Government Code Sections 27130 through 27137 are summarized as follows:

Government Code 27130

The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds.

Government Code 27131

The board of supervisors in each county may, if the county is investing surplus funds, establish a county treasury oversight committee consisting of from three to eleven members. Members shall be nominated by the treasurer and confirmed by the board of supervisors.

Government Code 27132

The county treasury oversight committee shall consist of members appointed from the following: county treasurer; county auditor, auditor-controller, or finance director; a representative appointed by the county board of supervisors; the county superintendent of schools or designee; a representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts in the county; a representative selected by a majority of the presiding officers of the legislative bodies of the special districts; up to five other members of the public who either have expertise or an academic background in public finance and are economically diverse and bipartisan in political registration.



Supplemental Information

Investment Compliance Requirements, continued

Government Code 27132.1

Committee members may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

Government Code 27132.2

Committee members may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

Government Code 27132.3

Committee members may not secure employment with, or be employed by, bond underwriters, bond counsel, security brokerages or dealers, or financial services firms with whom the treasurer is doing business during the period that the person is a member of the committee or for one year after leaving the committee.

Government Code 27132.4

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act.

Government Code 27133

The county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include subsections (a) through (h) noted in the Investment Policy Review Section on page 4.

Government Code 27134

The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with this article [Government Code Sections 27130 through 27137].

Government Code 27135

The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.

Government Code 27136

Notwithstanding any other provision of law, any local agency, public agency, public entity, or public official that has funds on deposit in the county treasury pool and that seeks to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool, shall first submit the request for withdrawal to the county treasurer before withdrawing funds from the county treasury pool.

The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to subdivision (h) of Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.

Government Code 27137

Nothing in this article shall be construed to allow the county treasury oversight committee to direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.



Supplemental Information

Conclusion

We reviewed the Office of the Orange County Treasurer's actual practices during 2015 to determine compliance with California Government Code Sections 27130 through 27137 and the Orange County Treasurer Investment Policy Statement. In our opinion, the Orange County Treasurer complied, in all material respects, with the aforementioned requirements for the year ended December 31, 2015.