



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
TREASURER'S INVESTMENT
PORTFOLIO**

**FOR THE QUARTER ENDED
DECEMBER 31, 2015**



**Audit Number 1555
Report Date: March 9, 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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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

March 9, 2016

Audit No. 1555

TO: Members, Treasury Oversight Committee

SUBJECT: Continuous Compliance Auditing of the Treasurer's Investment Portfolio
For the Quarter Ended December 31, 2015

At the request of the Treasury Oversight Committee, we have completed the Continuous Compliance Auditing of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2015.

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. Although there were no findings noted during this audit, the results 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 Treasurer-Tax Collector will receive the survey shortly after the distribution of our final report.

A handwritten signature in blue ink, appearing to read "Toni Smart".

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

Attachment

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Shari L. Freidenrich, Treasurer-Tax Collector
- Eric H. Woolery, Auditor-Controller
- Frank Kim, County Executive 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, Clerk of the Board of Supervisors
- Foreperson, Grand Jury
- Macias Gini & O'Connell, LLP, County External Auditor



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Treasurer's Investment Portfolio
For the Quarter Ended December 31, 2015
Audit No. 1555*

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Internal Auditor's Report

March 9, 2016

Gary G. Capata, CPA, Chair, Public Member
Treasury Oversight Committee
c/o Capata CPA's
28202 Cabot Road, Suite 245
Laguna Niguel, CA 92677

We have completed the continuous compliance auditing of the Treasurer's investment portfolio for the quarter ended December 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 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 October, November, and December 2015.

We perform our continuous compliance auditing of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. Our continuous auditing is designed to provide reasonable assurance to the Board of Supervisors, the County Executive Officer, Treasury Oversight Committee, and other stakeholders that the Treasurer's 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 October: 1, 5, 8, 13, 15, 19, 22, 26, 28, and 30, November: 2, 4, 6, 10, 13, 17, 20, 23, 25, and 30, and December: 1, 3, 8, 10, 15, 18, 21, 23, 29, and 31.

Based on our continuous compliance auditing for the selected dates, **no compliance deficiencies were identified**, as discussed later in this report. When applicable, our report also includes information regarding the Treasurer's reporting of technical incidents in the Monthly Investment Reports. 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.



Internal Auditor's Report

The following lists the procedures performed and results achieved from the continuous compliance 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 October to December 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.

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 Fund and 5 years (1,826 days) for the Extended Fund in accordance with the IPS.

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, and 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.

6. **Issuer Limitations (IPS Section VIII.1):** 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.



Internal Auditor's Report

7. **Financial Reporting (IPS Section XXI):** We reviewed the October 31, 2015, November 30, 2015, and December 31, 2015 Treasurer's Monthly Investment Reports and no instances of portfolio non-compliance or technical incidents were noted. No compliance issues or technical incidents were identified in our sample testing.

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 October, November, and December 2015 reported no compliance issues, and none were found in our sample of 30 business days selected for review.

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 the Treasurer's policy to report the details of technical incidents outstanding at month end in the "Investment Policy Compliance Summary." The Treasurer's "Investment Policy Compliance Summary" for October, November, and December 2015 reported no technical incidents, and none were found in our sample of 30 business days selected for review.

This report is intended solely for the information and use of the Orange County Treasurer-Tax Collector and County Treasury Oversight Committee and is not intended to be and should not be used by anyone other than the specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to read "Toni Smart".

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