

Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2017



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**AUDITOR-CONTROLLER** 



#### **Transmittal Letter**

**Audit No. 1618** 

August 8, 2017

TO: Members, Treasury Oversight Committee

**SUBJECT:** Compliance Monitoring of the Treasurer's Investment Portfolio

For the Quarter Ended June 30, 2017

At the request of the Treasury Oversight Committee, we have completed the Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2017.

I submit an **Audit Status Report** quarterly to the Audit Oversight Committee (AOC) and a quarterly report to the Board of Supervisors (BOS) where I detail any critical or significant findings released in reports during the prior quarter and the implementation status of recommendations as disclosed by our Follow-Up Audits. Although there were no findings noted during this engagement, 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 report. Additionally, we request the department to complete a **Customer Survey** of Audit Services that will be sent shortly after the distribution of our final report.

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

Mark Malbon, Assistant Treasurer-Tax Collector

Gary Nguyen, Director of Investments, Treasurer-Tax Collector – Treasury

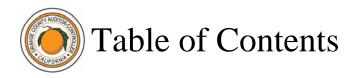
JC Squires, Financial Manager, Treasurer-Tax Collector – Treasury

Jennifer Han, Accounting/Compliance Manager, Treasurer-Tax Collector - Treasury

Robin Stieler, Clerk of the Board of Supervisors

Foreperson, Grand Jury

Macias Gini & O'Connell LLP, County External Auditor



## Compliance Monitoring of the Treasurer's Investment Portfolio For the Quarter Ended June 30, 2017 Audit No. 1618

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Audit No. 1618 August 8, 2017

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

We have completed the compliance monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2017. The purpose of our engagement was to determine whether the Orange County Investment Pool (OCIP), Orange County Educational Investment Pool (OCEIP), and various other non-pooled investments managed by the Treasurer, such as John Wayne Airport Investment Fund, were in compliance with the applicable provisions of its Investment Policy Statement (IPS) and that instances of noncompliance, including technical incidents, were properly reported in the Treasurer's Monthly Investment Report. It is important to note that the Treasurer further invests pooled funds from the OCIP and OCEIP into three funds: the Orange County Money Market Fund (OCMMF), the Orange County Educational Money Market Fund (OCEMMF) (collectively referred to as Money Market Funds), and the Extended Fund.

We perform the compliance monitoring of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. The monitoring is designed to provide limited assurance to the Treasury Oversight Committee and the Office of the Treasurer-Tax Collector that the Treasurer's investment portfolio is in compliance with specific provisions of the IPS, and that instances of noncompliance, technical incidents, and required disclosures are properly reported.

Our compliance procedures included judgmentally selecting five 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, to perform calculations and determine whether investment purchases were in compliance with the IPS.

Based on the procedures performed, **no instances of noncompliance were identified**. When applicable, our report also includes information regarding the Treasurer's reporting of technical incidents in the Treasurer's 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.

The following lists the procedures performed and results achieved:

Authorized Investments (IPS Section VI, VII, VIII, IX, XI): We judgmentally selected
a sample of 15 investments purchased during the quarter (one investment for each of
the 15 business days selected for testing). For the samples selected, we confirmed
that the investments conform to authorized investment requirements in accordance
with the IPS. We also confirmed that the investments were purchased from issuers or
brokers 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, and that the John Wayne Airport Investment Fund met those diversification limits as well.

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 and that WAM did not exceed 90 days for the John Wayne Airport Investment Fund.

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, 5 years (1,826 days) for US treasury, government sponsored enterprise, and municipal debt securities, and 3 years (1,095 days) for medium-term notes and negotiable certificates of deposits for the Extended Fund, in accordance with the IPS, and that the maximum maturity did not exceed 15 months (456 days) for the John Wayne Airport Investment Fund.

Results: We found no exceptions.

5. Investment Type Maximum Maturity Limitations (IPS Section VIII.1): We confirmed that the maximum maturity of investments purchased for commercial paper, bankers' acceptances, and repurchase agreements did not exceed 270 days for commercial paper, 180 days for bankers' acceptances, or one 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, and that the John Wayne Airport Investment Fund did not exceed those investment limits.

Results: We found no exceptions.

7. **Financial Reporting (IPS Section XXI):** We reviewed the investment portfolio for a sample of 15 business days to determine that any instances of non-compliance or technical incidents were properly reported in the Treasurer's Monthly Investment Report in accordance with the IPS.

**Results**: We found no exceptions.

This report is intended solely for the information and use of the Treasury Oversight Committee and the Office of the Treasurer-Tax Collector; however, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Toni Smart, CPA, Director

Auditor-Controller Internal Audit Division