



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
MARCH 31, 2016**



**Audit Number 1556
Report Date: June 13, 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

Eric H. Woolery, CPA
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ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

June 13, 2016

Audit No. 1556

TO: Members, Treasury Oversight Committee

SUBJECT: Continuous Compliance Auditing of the Treasurer's Investment Portfolio for the Quarter Ended March 31, 2016

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 March 31, 2016.

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
- 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 March 31, 2016
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Internal Auditor's Report

Audit No. 1556

June 13, 2016

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

We have completed the Continuous Compliance Auditing of the Treasurer's Investment Portfolio for the quarter ended March 31, 2016. The purpose of our engagement was to determine whether the Orange County Money Market Fund, Educational Money Market Fund, John Wayne Airport Investment Pool (collectively referred to as Money Market Funds), 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 January, February, and March 2016.

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 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 non-compliance deficiencies or technical incidents and required disclosures are properly reported.

Our compliance procedures included judgmentally selecting ten (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: 4, 7, 8, 12, 15, 20, 22, 25, 27, and 29; February: 1, 3, 5, 9, 11, 16, 19, 22, 25, and 29; and March: 1, 4, 7, 11, 14, 18, 21, 24, 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, VIII, IX, XI):** We judgmentally selected a sample of 31 investments representing each pool. The sample was selected from investments purchased on the 30 business days selected for review from January to March 2016. 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 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.

Results: We found no exceptions.



Internal Auditor's Report

7. **Financial Reporting (IPS Section XXI):** We reviewed the January 31, 2016, February 29, 2016, and March 31, 2016 Treasurer's Monthly Investment Reports to determine that compliance issues and technical incidents, if any, are properly reported.

Results: We found no exceptions.

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 2016 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 January, February, and March 2016 reported no technical incidents, and none were found in our sample of 30 business days selected for review.

This report is intended for the information and use of the Treasury Oversight Committee and the Orange County Treasurer-Tax Collector; 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", is written over a light blue horizontal line.

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