



Frank Davies, CPA
Orange County Auditor-Controller



Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2020

Audit Manager: Michael Steinhaus, CPA, CGMA
Auditor II: John Lim

Audit Number 2003
Report Date: May 19, 2021

Internal Audit



OFFICE OF THE
ORANGE COUNTY AUDITOR-CONTROLLER

FRANK DAVIES, CPA
AUDITOR-CONTROLLER

Transmittal Letter

Audit No. 2003

May 19, 2021

TO: Members, Treasury Oversight Committee

SUBJECT: Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2020

At the request of the Treasury Oversight Committee, we have completed our compliance monitoring of the Treasurer's investment portfolio for the quarter ended December 31, 2020. Our final report is attached for your review.

We appreciate the assistance extended to us by the personnel of the Treasurer-Tax Collector during this engagement. If you have any questions please contact me at 714-834-2457 or Michael Steinhaus, Audit Manager, at 714-834-6106.

Frank Davies, CPA
Auditor-Controller

Other recipients of this report:

Members, Board of Supervisors
Members, Audit Oversight Committee
Shari Freidenrich, Treasurer-Tax Collector
Frank Kim, County Executive Officer
Christine Herrera, Director of Treasury, Treasurer-Tax Collector
Gary Nguyen, Director of Investments, Treasurer-Tax Collector
Salvador Lopez, Chief Deputy Auditor-Controller
Foreperson, Grand Jury
Robin Stieler, Clerk of the Board of Supervisors
Eide Bailly LLP, County External Auditors



Internal Auditor's Report

Alisa Backstrom, CCMT, CPFIM, Chair
Treasury Oversight Committee

We have completed our compliance monitoring of the Treasurer's investment portfolio for the quarter ended December 31, 2020. The purpose of our engagement was to determine whether the pooled and non-pooled funds complied with the Treasurer's Investment Policy Statement (IPS) and compliance exceptions were reported in the Treasurer's Monthly Investment Report. The funds covered by this engagement include those of the Orange County Investment Pool (OCIP), Orange County Educational Investment Pool (OCEIP), and John Wayne Airport (JWA) Investment Fund. The Treasurer invests pooled funds from the OCIP and OCEIP into three funds: the Orange County Money Market Fund and the Orange County Educational Money Market Fund (collectively referred to as Money Market Funds), and the Extended Fund.

We performed our compliance monitoring of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. It 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 complies with the IPS and the Treasurer reports all compliance exceptions.

Our procedures included judgmentally selecting 15 business days for testing and importing the selected electronic downloads from the Treasurer's Quantum system into TeamMate Analytics, an Excel-based data analytics software, to perform calculations and determine whether investment purchases complied with the IPS.

Based on the procedures performed, no compliance exceptions were identified.

The following lists the procedures performed and the results achieved:

1. Authorized Investments (IPS Sections VI, VII, VIII, IX, and XI): We judgmentally selected 15 investments purchased during the quarter (one investment for each of the 15 business days selected for testing). We confirmed that the investments conformed to the investment requirements at the time of purchase and were purchased from issuers or brokers on the Treasurer's authorized lists per the IPS.

Results: We found no exceptions.

2. Diversification Limits (IPS Section VIII.1): We confirmed that the investments did not exceed the diversification limits for investment types per the IPS.

Results: We found no exceptions.

3. Weighted Average Maturity (WAM) Limits (IPS Section VIII.2): We confirmed that WAM did not exceed 60 days for the Money Market Funds per the IPS, and that WAM did not exceed 90 days for the JWA Investment Fund.

Results: We found no exceptions.



Internal Auditor's Report

4. Maximum Maturity Limits (IPS Section VIII.2): We confirmed that the maximum maturity of any investment purchased did not exceed 397 days for the Money Market Funds and five years for the Extended Fund per the IPS, and that the maximum maturity did not exceed 15 months for the JWA Investment Fund.

Results: We found no exceptions.

5. Investment Type Maximum Maturity Limits (IPS Section VIII.1): We confirmed that the maximum maturity of investment types purchased that have lower limits than those covered by IPS Section VIII.2 did not exceed 180 days for repurchase agreements in the Extended Fund and bankers' acceptances, 270 days for commercial paper, 18 months for negotiable certificates of deposit, and two years for medium-term notes in accordance with the IPS.

Results: We found no exceptions.

6. Issuer Concentration Limits (IPS Section VIII.1): We confirmed that the investments did not exceed the issuer concentration limits per the IPS.

Results: We found no exceptions.

7. Financial Reporting (IPS Section XXI): We confirmed that any compliance exceptions identified during our testing were reported in the Treasurer's Monthly Investment Report per the IPS.

Results: We found that T-TC reported compliance exceptions for 12/29/20 and 12/31/20 in the Treasurer's December 2020 Investment Report. We selected 12/29/20 and 12/31/20 for testing and did not note any compliance exceptions. The reason for the difference is because T-TC considers certain amounts held by Northern Trust in demand accounts to be investments; however, we agree with Northern Trust that those amounts are cash. Regardless of whether the amounts are investments or cash, they are not recorded in Quantum. We recommend that T-TC management ensure that all amounts included in the Treasurer's investment portfolio are recorded in Quantum.

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.

Frank Davies, CPA
Auditor-Controller
May 19, 2021