

# Internal Audit Department

O R A N G E C O U N T Y  
6<sup>th</sup> Largest County in the USA

## FINAL CLOSE-OUT FIRST FOLLOW-UP:

### ANNUAL AUDIT OF TREASURER'S INVESTMENT COMPLIANCE FOR YEAR ENDED DECEMBER 31, 2011

AS OF JUNE 30, 2014

Our First Follow-Up Examination found the Treasurer fully implemented all three (3) recommendations from our original audit report dated July 19, 2013.

During the original audit period, investments held at fair value by the Treasurer were \$7 billion.

AUDIT NO: 1112-F1  
(REFERENCE 1320)  
ORIGINAL AUDIT NO. 1112

REPORT DATE: AUGUST 6, 2014

**Director:** Dr. Peter Hughes, MBA, CPA, CIA  
Senior Audit Manager: Alan Marcum, CPA, CIA  
In-Charge Audit Manager: Lisette Free, CPA, CIA  
Audit Manager: Michael Dean, CPA, CIA

#### RISK BASED AUDITING

GAO & IIA Peer Review Compliant – 2001, 2004, 2007, 2010, 2013



American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year – Ethics Pays



2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

 ORANGE COUNTY BOARD OF SUPERVISORS'  
**Internal Audit Department**

*GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010, 2013*

*Providing Facts and Perspectives Countywide*

**RISK BASED AUDITING**

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Certified Information Technology Professional (CITP)  
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**OC Fraud Hotline (714) 834-3608**



## Transmittal Letter



**Audit No. 1112-F1 August 6, 2014**

**TO:** Members, Treasury Oversight Committee

**FROM:** Dr. Peter Hughes, CPA, Director  
Internal Audit Department

**SUBJECT:** **First and Final Close-Out Follow-Up:**  
Annual Audit of Treasurer's Investment  
Compliance For Year Ended December 31,  
2011, Original Audit No. 1112, Issued  
July 19, 2013

We have completed a First Follow-Up Examination of the Annual Audit of Treasurer's Investment Compliance For Year Ended December 31, 2011. Our audit was limited to reviewing, as of June 30, 2014, actions taken to implement the **three (3) recommendations** from our original audit report dated July 19, 2013. We conducted this First Follow-Up Examination in accordance with the *FY 13-14 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Our First Follow-Up Examination found that the **Treasurer implemented three (3) recommendations**. Because satisfactory corrective action has been taken for the three (3) recommendations, **this report represents the final close-out of the original audit.**

Each month I submit an **Audit Status Report** to the BOS where I detail any material 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. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

# Table of Contents



***First and Final Close-Out Follow-Up:  
Annual Audit of Treasurer's Investment Compliance  
For Year Ended December 31, 2011  
Audit No. 1112-F1***

**As of June 30, 2014**

<b>Transmittal Letter</b>	<b>i</b>
<b>OC Internal Auditor's Report</b>	<b>1</b>

# OC Internal Auditor's Report



**Audit No. 1112-F1**

**August 6, 2014**

TO: Members, Treasury Oversight Committee

FROM: Dr. Peter Hughes, CPA, Director  
Internal Audit Department

A handwritten signature in blue ink that reads "Peter Hughes".

SUBJECT: **First and Final Close-Out Follow-Up**: Annual Audit of Treasurer's Investment Compliance For Year Ended December 31, 2011, Original Audit No. 1112, Issued July 19, 2013

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## Scope of Review

We have completed a First Follow-Up of the Annual Audit of Treasurer's Investment Compliance for the Year Ended December 31, 2011. Our audit was limited to reviewing actions taken, as of June 30, 2014, to implement the **three (3) recommendations** from our original audit report dated July 19, 2013.

## Background

We conducted an examination of the Treasurer's Investment Compliance for the year ended December 31, 2011 in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The original audit disclosed three (3) recommendations regarding areas where compliance and internal controls over compliance could be improved.

California Government Code Sections 27000.1, 27000.3, and 53600.3 grants a County Board of Supervisors, not a County Treasurer, with authority for investing public funds. Thus, under California law, County Boards of Supervisors generally have primary responsibility for investment of public funds in a county treasury. The authority of the board to invest or reinvest funds deposited in a county treasury may be delegated to an individual or a fund manager for a one-year period by the Board of Supervisors. Subject to review, such a delegation may be renewed annually (Government Code Section 53607). It is common practice for the Board of Supervisors for counties in the State to delegate its investment responsibility to elected and appointed county treasurers.

California Government Code Section 27133 requires the Treasurer to prepare an annual investment policy statement. The County's Investment Policy Statement (IPS) is reviewed by the County's Treasury Oversight Committee (TOC) and approved the Board of Supervisors on an annual basis. The IPS, to the extent consistent with the restrictions of state law, establishes the legal parameters by which the Treasurer, or other qualified party to which investment authority is delegated, may invest monies deposited and held within the County treasury.

Specifically, the IPS maybe more conservative/restrictive than Government Code as regards to the quality and corresponding safety of the types of investment instruments and holdings that the Treasurer may purchase.



## Results

Our First Follow-Up Examination indicated that the **Treasurer implemented all three (3) recommendations** from our original audit report date July 19, 2013. **As such, this report represents the final close-out of the original examination.** Based on our First Follow-Up Examination, the following is the implementation status of the three (3) original recommendations:

### **Finding No. 1 – One TOC Member did not File the Required Statement of Economic Interests Disclosure and One TOC Member did not Complete a Certificate of Compliance Upon Accepting Appointment as a Member of the Committee**

**Recommendation No. 1:** We recommend the Treasurer-Tax Collector ensure each Treasury Oversight Committee member, upon accepting appointment as a member of the Committee, and annually thereafter, submit a state mandated conflict of interest form (Form 700), and a signed Certificate of Compliance.

**Current Status: Implemented.** The Treasurer-Tax Collector (TTC) updated the policies and procedures related to ensuring Treasury Oversight Committee (TOC) members are in compliance with the TOC Bylaws and Rules of Procedures. The updated policies and procedures reflect new and existing TOC member responsibilities for fulfilling annual Form 700 requirements.

We confirmed the TOC members filed the required Statement of Economic Interests Disclosure and Certificates of Compliance as required.

### **Finding No. 2 – The Treasurer-Tax Collector's Office Does Not Review the State of California Forms 700, Statement of Economic Interests Disclosure, for Potential Conflicts of Interest**

**Recommendation No. 2:** We recommend Treasurer-Tax Collector review State of California Forms 700 for designated employees including members of the Treasury Oversight Committee and resolve any conflicts disclosed as soon as practical.

**Current Status: Implemented.** The TTC worked with County Counsel to update IPS *Section X – Ethics and Conflict of Interest* and submitted an updated IPS for review by the TOC on October 30, 2013. The revised section eliminated the TTC's responsibility to resolve conflicts of interest disclosed by designated employees and members of the TOC. The BOS reviewed the updated IPS on December 17, 2013 and approved it on February 4, 2014. The TTC created an interim policy and procedure for review and resolution of any conflicts disclosed on Form 700 for designated employees including TOC members.

For 2012 and 2013, the interim procedure was used to help the TTC ensure conflicts noted in completed Form 700s would be appropriately addressed.

For 2014, the TTC is no longer required to review or resolve conflicts noted in completed Form 700s.



## **Finding No. 3 – Investment Policy Statement is Less Restrictive than Government Code Section 53635 and References a Repealed Government Code Section**

**Recommendation No. 3:** Although the Investment Policy Statement was not in compliance during the year under audit, it was subsequently amended and in compliance with the Government Code. Therefore, no further action is required.

**Current Status: Implemented.** The Investment Policy Statement has been amended and is in compliance with the Government Code.

We appreciate the assistance extended to us by Treasury Oversight Committee and Treasurer-Tax Collector staff during our Follow-Up Examination. If you have any questions, please contact me directly at 834-5475 or Alan Marcum, Senior Audit Manager at 834-4119.

### **Members, Treasury Oversight Committee Distribution:**

Hon. Dr. Al Mijares, County Superintendent, OC Department of Education  
Jan Grimes, Auditor-Controller  
Michael B. Giancola, County Executive Officer  
William "Andy" Dunn, Public Member  
Laura Parisi, CPA, Public Member  
Gary Capata, CPA, Public Member

### **Distribution Pursuant to Audit Oversight Committee Procedure No. 1:**

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Members, Audit Oversight Committee  
Shari L. Freidenrich, Treasurer-Tax Collector  
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector  
JC Squires, Financial Manager, Treasurer-Tax Collector  
Ginika Ezinwa, Accounting/Compliance Manager, Treasurer-Tax Collector  
Michael B. Giancola, County Executive Officer  
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Susan Novak, Clerk of the Board of Supervisors  
Macias Gini & O'Connell LLP, County External Auditor