

Internal Audit Department

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

FINAL CLOSE-OUT FIRST FOLLOW-UP:

REQUIRED ANNUAL EXAMINATION OF THE TREASURER'S INVESTMENT COMPLIANCE WITH GOVERNMENT CODE AND COUNTY INVESTMENT POLICIES

For the Year Ended
December 31, 2012

AS OF JULY 31, 2014

Our First Follow-Up Examination found the Treasurer fully implemented the one (1) recommendation from our original audit report dated October 15, 2013.

During the original audit period, investments held at fair value by the Treasurer were \$7.278 billion.

AUDIT NO: 1214-F1
(REFERENCE 1320)
ORIGINAL AUDIT NO. 1214

REPORT DATE: AUGUST 27, 2014

Director: Dr. Peter Hughes, MBA, CPA, CIA
Senior Audit Manager: Alan Marcum, CPA, CIA
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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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OC Fraud Hotline (714) 834-3608



Transmittal Letter



Audit No. 1214-F1 August 27, 2014

TO: Members, Treasury Oversight Committee

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

SUBJECT: **First and Final Close-Out Follow-Up:**
Required Annual Examination of the
Treasurer's Investment Compliance With
Government Code and County Investment
Policies For Year Ended December 31,
2012, Original Audit No. 1214, Issued
October 15, 2013

We have completed a First Follow-Up of the Required Annual Examination of the Treasurer's Investment Compliance with Government Code and County Investment Policies for Year Ended December 31, 2012. Our audit was limited to reviewing, as of July 31, 2014, actions taken to implement the **one (1) recommendation** from our original audit report dated October 15, 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 one (1) recommendation**. Because satisfactory corrective action has been taken for the one (1) recommendation, **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 pages 2 and 3.

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Required Annual Examination of the
Treasurer's Investment Compliance With
Government Code and County Investment Policies
Audit No. 1214-F1***

For the Year Ended December 31, 2012

As of July 31, 2014

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OC Internal Auditor's Report



Audit No. 1214-F1

August 27, 2014

TO: Members, Treasury Oversight Committee

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

SUBJECT: **First and Final Close-Out Follow-Up**: Required Annual Examination of the Treasurer's Investment Compliance with Government Code and County Investment Policies for Year Ended December 31, 2012, Original Audit No. 1214, Issued October 15, 2013

Scope of Review

We have completed a First Follow-Up of the Required Annual Examination of the Treasurer's Investment Compliance with Government Code and County Investment Policies for the Year Ended December 31, 2012. Our examination was limited to reviewing actions taken, as of July 31, 2014, to implement the **one (1) recommendation** from our original audit report dated October 15, 2013.

Background

We conducted an examination of the Treasurer's Investment Compliance for the year ended December 31, 2012 in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The original examination disclosed one (1) recommendation regarding an area 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 by 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 the one (1) recommendation. As such, this report represents the final close-out of the original examination** report dated October 15, 2013. Based on our First Follow-Up Examination, the following is the implementation status of the (1) original recommendation:

Finding No. 1 – The Treasurer-Tax Collector Did Not Send the Annual Request to the Financial Dealers and Qualified Institutions Approved to Do Business with the County Asking for Written Acknowledgment that They Received and Read the Investment Policy Statement. Non-Compliance with Section XI – AUTHORIZED FINANCIAL DEALERS AND QUALIFIED INSTITUTIONS

Recommendation No. 1: We recommend Treasurer-Tax Collector ensure that they send and receive written acknowledgement from all Financial Dealers and Qualified Institutions that they have received and read the most current Investment Policy Statement.

Current Status: Implemented. The TTC has updated its policies and procedures to reflect the required written acknowledgement from all Financial Dealers and Qualified Institutions approved to provide investment services to the County, indicating they have received and read the most current IPS.

The Board of Supervisors approved an updated IPS on February 4, 2014. IPS Section XI – AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS that now includes the following updated requirement: The Treasurer shall annually send a copy of the current investment policy to all broker/dealers and financial institutions approved to provide investment services to the County, and they shall notify the Treasurer in writing of receipt and that they have read it.

In March 2014, TTC sent their annual requests to all approved Financial Dealers and Qualified Institutions to acknowledge that they received and read the IPS, as part of the annual investment packet. Acknowledgements were received from all approved Financial Dealers and Qualified Institutions.

We appreciate the assistance extended to us by the 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:

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OC Internal Auditor's Report



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