



ERIC H. WOOLERY, CPA
AUDITOR-CONTROLLER



Transmittal Letter

August 30, 2016

Audit No. 1566

TO: Members, Treasury Oversight Committee

SUBJECT: Continuous Compliance Monitoring of the Treasurer's Investment Portfolio
For the Quarter Ended June 30, 2016

At the request of the Treasury Oversight Committee, we have completed the Continuous Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 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 or significant findings released in reports during the prior month 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 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.

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 June 30, 2016
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Internal Auditor's Report

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August 30, 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 monitoring of the Treasurer's Investment Portfolio for the quarter ended June 30, 2016. The purpose of our engagement was to determine whether the Orange County Money Market Fund, Educational Money Market Fund, John Wayne Airport Fund (all collectively referred to as Money Market Funds), and Extended Fund managed by the Orange County Treasurer were in compliance with specific provisions of the Investment Policy Statement (IPS) and that portfolio non-compliance, including technical incidents, were properly reported in the Treasurer's Monthly Investment Reports for April, May, and June 2016.

We perform our continuous compliance monitoring of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. Our continuous 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 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.

Based on our continuous compliance monitoring 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 34 investments representing each pool. The sample was selected from investments purchased on the 30 business days selected for review from April to June 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 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.

Results: We found no exceptions.



Internal Auditor's Report

7. **Financial Reporting (IPS Section XXI):** We reviewed the investment portfolio for a sample of 30 business days to determine whether there were any instances of non-compliance or technical incidents that should be reported in accordance with the IPS. We also reviewed the Treasurer's Monthly Investment Reports for the months of April, May, and June 2016 to determine whether instances of portfolio non-compliance or technical incidents, if any, were properly reported.

Results: We found no exceptions. No compliance deficiencies or technical incidents were noted in the Treasurer's Monthly Investment Reports for the months of April, May, and June 2016. In addition, no compliance deficiencies or technical incidents were identified in our sample of 30 business days selected for review.

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,

A handwritten signature in blue ink, appearing to read "Toni Smart", with a long horizontal flourish extending to the right.

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