



# Orange County Auditor-Controller Internal Audit



Compliance Monitoring of the  
Treasurer's Investment Portfolio for the  
Quarter Ended September 30, 2017

Audit Number 1720  
Report Date: November 28, 2017



O R A N G E C O U N T Y  
**AUDITOR-CONTROLLER**  
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**Eric H. Woolery, CPA**  
**Orange County Auditor-Controller**

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**ERIC H. WOOLERY, CPA**  
AUDITOR-CONTROLLER



**Transmittal Letter**

**Audit No. 1720**

**November 28, 2017**


**TO:** Members, Treasury Oversight Committee

**SUBJECT:** Compliance Monitoring of the Treasurer's Investment Portfolio  
For the Quarter Ended September 30, 2017

At the request of the Treasury Oversight Committee, we have completed the Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended September 30, 2017.

An **Audit Status Report** is submitted quarterly to the Audit Oversight Committee (AOC) and Board of Supervisors (BOS) detailing any critical or significant findings released in reports during the prior quarter 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 Scott Suzuki, Assistant Director, at (714) 834-5509 should you wish to discuss any aspect of the report. Additionally, we request the department to complete a **Customer Survey** of Audit Services that will be sent shortly after the distribution of our final report.

  
Eric H. Woolery, CPA  
Auditor-Controller

**Attachment**

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Shari L. Freidenrich, Treasurer-Tax Collector
- Frank Kim, County Executive Officer
- Mark Malbon, Assistant Treasurer-Tax Collector
- Gary Nguyen, Director of Investments, Treasurer-Tax Collector
- JC Squires, Financial Manager, Treasurer-Tax Collector – Treasury Division
- Jennifer Han, Accounting/Compliance Manager, Treasurer-Tax Collector – Treasury Division
- Robin Stieler, Clerk of the Board of Supervisors
- Foreperson, Grand Jury
- Macias Gini & O'Connell LLP, County External Auditor



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# Internal Auditor's Report

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**Audit No. 1720**

**November 28, 2017**

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

We have completed the compliance monitoring of the Treasurer's Investment Portfolio for the quarter ended September 30, 2017. The purpose of our engagement was to determine whether the Orange County Investment Pool (OCIP), Orange County Educational Investment Pool (OCEIP), and various other non-pooled investments managed by the Treasurer, such as John Wayne Airport Investment Fund, were in compliance with the applicable provisions of its Investment Policy Statement (IPS) and that instances of noncompliance, including technical incidents, were properly reported in the Treasurer's Monthly Investment Report. It is important to note that the Treasurer further invests pooled funds from the OCIP and OCEIP into three funds: the Orange County Money Market Fund (OCMMF) and the Orange County Educational Money Market Fund (OCEMMF) (collectively referred to as Money Market Funds), and the Extended Fund.

We perform the compliance monitoring of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. The 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 instances of noncompliance, technical incidents and required disclosures are properly reported.

Our compliance procedures included judgmentally selecting five (5) 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, to perform calculations and determine whether investment purchases were in compliance with the IPS.

Based on the procedures performed, **no instances of noncompliance were identified**. When applicable, our report also includes information regarding the Treasurer's reporting of technical incidents in the Treasurer's 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

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The following lists the procedures performed and results achieved:

1. **Authorized Investments (IPS Section VI, VII, VIII, IX, XI):** We judgmentally selected a sample of 15 investments purchased during the quarter (one investment for each of the 15 business days selected for testing). For the samples selected, we confirmed that the investments conform to authorized investment requirements in accordance with the IPS. We also confirmed that the investments were purchased from issuers or brokers 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, and that the John Wayne Airport Investment Fund met those diversification limits as well.

**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 and that WAM did not exceed 90 days for the John Wayne Airport Investment Fund.

**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 Funds, 5 years (1,826 days) for US treasury, government sponsored enterprise, and municipal debt securities, and 3 years (1,095 days) for medium-term notes and negotiable certificates of deposits for the Extended Fund, in accordance with the IPS and that the maximum maturity did not exceed 15 months (456 days) for the John Wayne Airport Investment Fund.

**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, and that the John Wayne Airport Investment Fund did not exceed those investment limits.

**Results:** We found no exceptions.



# Internal Auditor's Report

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7. **Financial Reporting (IPS Section XXI):** We reviewed the investment portfolio for a sample of 15 business days to determine that any instances of non-compliance or technical incidents were properly reported in the Treasurer's Monthly Investment Report in accordance with the IPS.

**Results:** We found no exceptions.

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 that reads "Eric H. Woolery".

Eric H. Woolery, CPA  
Auditor-Controller