



O R A N G E C O U N T Y
AUDITOR-CONTROLLER
I N T E R N A L A U D I T

**CONTINUOUS COMPLIANCE
AUDITING OF THE
TREASURY INVESTMENT
PORTFOLIO
FOR THE QUARTER
ENDED JUNE 30, 2015**



**Audit Number 1553 (Reference 1155)
Report Date: September 28, 2015**



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I N T E R N A L A U D I T

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September 28, 2015

Audit No. 1553
(Reference 1155)

TO: Members, Treasury Oversight Committee

SUBJECT: Continuous Compliance Auditing of the Treasurer's Investment Portfolio
For the Quarter Ended June 30, 2015

We have completed the continuous compliance auditing of the Treasurer's investment portfolio for the quarter ended June 30, 2015. The purpose of our engagement was to determine whether the Orange County Money Market Fund, Educational Money Market Fund, John Wayne Airport Investment Pool (all collectively referred to as Money Market Funds in this report), and Extended Fund managed by the Office of the Orange County Treasurer were in compliance with certain provisions specified in 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 2015.

We are continuing our continuous compliance auditing of the Treasurer's investment portfolio at the request of the Treasury Oversight Committee. Our continuous auditing is designed to provide reasonable assurance to the Board of Supervisors, the County Executive Officer, Treasury Oversight Committee, and other stakeholders that the Treasurer's investment portfolio is in compliance with specific provisions of the IPS and that non-compliance deficiencies or technical incidents and required disclosures are properly reported.

Our compliance procedures included judgmentally selecting 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. In conducting our procedures, we examined the following days in April: 1, 3, 6, 9, 15, 17, 21, 24, 27, and 30, May: 1, 4, 7, 12, 14, 18, 21, 26, 28, and 29, and June: 1, 3, 5, 9, 15, 17, 19, 22, 24, and 30.

Based on our continuous compliance auditing for the selected dates, **one compliance issue was identified**, which is discussed later in this report. When applicable, our report also includes information regarding the Treasurer's reporting of technical incidents in the monthly investment report. 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.



Continuous Compliance Auditing of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2015

The following lists the procedures performed and results achieved from the compliance continuous auditing procedures:

1. **Authorized Investments (IPS Section VI, VII, and VIII):** We judgmentally selected a sample of 40 investments representing each pool. The sample was selected from investments purchased on the 30 business days selected for review from April to June 2015. 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 Funds and 5 years (1,826 days) for the Extended Fund in accordance with the IPS. For 100-GF investments, we verified that the maximum maturity of any investment in this fund did not exceed a year (365 days).

Results: We found one exception.

John Wayne Airport Investment Pool

Compliance Exception

The Investments Division purchased a Federal Farm Credit investment on June 30, 2015 for the John Wayne Airport Investment Pool that had a maturity date of 11/7/16 which was 496 days from date of purchase. This exceeded the allowable maximum maturity of 397 days per the IPS. The Investments Division subsequently sold the investment on July 2, 2015 to bring the portfolio back into compliance. The Treasury Division identified this compliance exception as part of their daily review of all transactions. In addition, the Treasurer reported this non-compliance exception in the *Treasurer's Investment Report for the Month Ended June 30, 2015*.



Continuous Compliance Auditing of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2015

Bloomberg controls did not prevent the purchase as the control used the next interest reset date rather than the maturity date to check for maximum maturity compliance. The Treasury Division updated the control in Bloomberg that is now based on final maturity and not the next interest reset date as used for money market mutual funds required to follow Federal Rule 2a-7 of the Investment Company Act of 1940. This control will trigger a compliance exception warning if the days to maturity from the date of purchase exceed the IPS limitation for the Money Market Fund, Educational Money Market Fund, and John Wayne Airport Investment Pool. Based upon review of the updated control, it appears that the Treasurer has sufficiently implemented controls to prevent a similar occurrence in the future.

5. **Investment Type Maximum Maturity Limitations (IPS Section VIII.1):** We confirmed that the maximum maturity of commercial paper, banker's acceptances, or repurchase agreements purchased did not exceed 270 days for commercial paper, 180 days for banker's acceptances, or 1 year (365 days) for repurchase agreements in accordance with the IPS.

Results: We found no exceptions.

6. **Issuer Limitations (IPS Section VIII.2):** 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.

7. **Financial Reporting (IPS Section XXI):** We confirmed that the April 30, 2015, May 31, 2015, and June 30, 2015 Treasurer's Monthly Investment Reports included all statements of portfolio non-compliance in accordance with the IPS and any technical incidents were reported consistent with the Treasurer's policy.

Results:

Review of "Investment Policy Compliance Summary"

The Treasurer's Monthly Investment Report includes an "Investment Policy Compliance Summary" to disclose non-compliance issues that occurred during the month. The Treasurer's "Investment Policy Compliance Summary" for April and May reported no compliance issues. As noted in this report, the Treasurer properly reported a non-compliance exception in the *Treasurer's Investment Report for the Month Ended June 30, 2015*, when a Federal Farm Credit investment was purchased on June 30, 2015 for the John Wayne Airport Investment Pool that had a maturity date of 11/7/16, which was 496 days from date of purchase. This exceeded the allowable maximum maturity of 397 days per the IPS. Based upon our review, it appears that the Treasurer has sufficiently implemented additional controls to prevent a similar occurrence in the future.



Continuous Compliance Auditing of the Treasurer's Investment Portfolio for the Quarter Ended June 30, 2015

Technical Incidents

Although the Treasurer's IPS does not require technical incidents that occurred during the month to be reported in the Treasurer's Monthly Investment Report, it is the Treasurer's policy to report the details of technical incidents outstanding at month end in the "Investment Policy Compliance Summary." For the quarter ended June 30, 2015, no technical incidents were reported by the Treasurer, and none were found in our sample of 30 business days selected for review.

Please let me know if you have any questions regarding our continuous auditing procedures.

A handwritten signature in black ink, appearing to read "Toni Smart", is written over a horizontal line.

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

cc: 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
Tomas Vargas, Assistant Treasurer-Tax Collector-Investments
JC Squires, Financial Manager, Treasurer-Tax Collector
Robin Stieler, Interim Clerk of the Board of Supervisors
Foreperson, Grand Jury
Macias Gini & O'Connell, LLP, County External Auditor