



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
TREASURER'S
INVESTMENT PORTFOLIO
FOR THE QUARTER ENDED
SEPTEMBER 30, 2015**



**Audit Number 1554 (Reference 1180)
Report Date: December 15, 2015**



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December 15, 2015

Audit No. 1554
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TO: Members, Treasury Oversight Committee

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

We have completed the continuous compliance auditing of the Treasurer's investment portfolio for the quarter ended September 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 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 July, August, and September 2015.

We performed the 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, 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 July: 1, 6, 7, 10, 14, 16, 21, 23, 28, and 31, August: 3, 5, 7, 11, 13, 17, 19, 24, 28, and 31, and September: 1, 4, 8, 10, 15, 17, 21, 23, 25, and 30.

Based on our continuous compliance auditing for the selected dates, **no compliance deficiencies were 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 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.



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 38 investments representing each pool. The sample was selected from investments purchased on the 30 business days selected for review from July to September 2015. For the sample selected, we independently confirmed that the investments conformed 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. For 100-GF investments, we verified that the maximum maturity of any investment did not exceed a year (365 days). For Fountain Valley School District Fund 40 investments, we verified that the maximum maturity of any investment in this fund did not exceed 5 years.

Results: We found no exceptions.

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 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.



7. **Financial Reporting (IPS Section XXI):** We confirmed that the July, August, and September 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 July, August, and September reported no compliance issues.

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." In our sample selection, we did not observe any technical incidents.

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

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

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
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