



# Orange County Auditor-Controller Internal Audit



Compliance Monitoring of the  
Treasurer's Investment Portfolio for the  
Quarter Ended December 31, 2018

Audit Number 1882  
Report Date: April 30, 2019



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

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



**Audit No. 1882**

**April 30, 2019**

**TO:** Members, Treasury Oversight Committee

**SUBJECT:** Compliance Monitoring of the Treasurer's Investment Portfolio  
For the Quarter Ended December 31, 2018

At the request of the Treasury Oversight Committee, we have completed our compliance monitoring of the Treasurer's investment portfolio for the quarter ended December 31, 2018.

Please feel free to call me at (714) 834-2456 or Michael Steinhaus, Audit Manager, at (714) 834-6106 should you wish to discuss any aspect of our 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
- Larry Walker, Assistant Treasurer-Tax Collector
- Gary Nguyen, Director of Investments, Treasurer-Tax Collector – Treasury
- Robert Sharp, Accounting/Compliance Manager, Treasurer-Tax Collector – Treasury
- Salvador Lopez, Chief Deputy Auditor-Controller
- Robin Stieler, Clerk of the Board of Supervisors
- Foreperson, Grand Jury
- Vavrinek, Trine, Day & Co., LLP, County External Auditor



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# Internal Auditor's Report

Audit No. 1882

April 30, 2019

Richard Rohm, CPA, Chair, Public Member  
Treasury Oversight Committee  
625 North Ross Street, Building 11  
Santa Ana, California 92701

We have completed our compliance monitoring of the Treasurer's investment portfolio for the quarter ended December 31, 2018. 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 our 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 complies with specific provisions of the IPS, and that instances of noncompliance are properly reported.

Our compliance procedures included judgmentally selecting five business days for testing from each month and importing the selected electronic downloads from the Treasurer's Quantum system into TeamMate Analytics, an Excel-based data analytics software, to perform calculations and determine whether investment purchases complied 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 its diversification limits.

**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 397 days for the Money Market Funds, 5 years for US treasury, government sponsored enterprise, and municipal debt securities, and 3 years 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 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 did not exceed 270 days for commercial paper, 180 days for bankers' acceptances, or one year 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 its 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