



September 27, 2023

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2023, Internal Audit Report No. 24-501

Overview

The Internal Audit Department has completed an audit of investments for the period January 1 through June 30, 2023. Based on the audit, the Orange County Transportation Authority generally complied with its debt, investment, and reporting policies and procedures; however, the Internal Audit Department made two recommendations related to the timeliness of daily cash forecasting and monthly report review and presentation to the Finance and Administration Committee.

Recommendation

Direct staff to implement two recommendations provided in Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2023, Internal Audit Report No. 24-501.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA) Investment Portfolio (Portfolio). On June 30, 2023, the Portfolio's book value was approximately \$2.4 billion. The Portfolio consists of three managed portfolios: the liquid portfolio for immediate cash needs, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short-term portfolio for future budgeted expenditures. OCTA's Treasurer manages the liquid and bond proceeds portfolios, and four external investment managers administer the short-term portfolio. OCTA also has investments in debt service reserve funds for various outstanding debt obligations.

The Investment Policy sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code. The Investment Policy outlines permitted investments, as well as diversification guidelines. The diversification limits ensure the Portfolio is not unduly concentrated in securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

Monthly Investment and Debt Programs Reports (monthly investment reports) are submitted to the Finance and Administration Committee (Committee) and Board of Directors.

Discussion

Daily cash projections were not performed and approved on a timely basis, with worksheets created two to 78 days after the forecast date for the six days tested. The Debt and Investment Management Manual outlines responsibilities to prepare daily cash projections and to manage daily cash to ensure bank accounts are adequately funded and excess cash is appropriately invested. In addition, the checklists used to evidence manager validation of data in the monthly investment reports did not identify the date of review and were created after the reports were presented to the Committee. Internal Audit recommended Treasury prepare daily cast forecasts on a timely basis and that the manager perform all steps on the checklist prior to presenting the monthly investment reports to the Committee. All forecasts, checklists, worksheets, and reports that require manager review should include a date stamp, such as the Foxit software approval stamp, to evidence timely review. Management agreed to complete and electronically date stamp daily cash reports and ensure that checklists are signed and electronically date stamped to evidence timely review.

Monthly investment reports for March and June 2023 were not submitted to the Committee within 45 days, which is the benchmark set by the California Government Code for quarterly reports. Internal Audit recommended Treasury provide monthly investment reports to the Committee within 45 days of quarterly month end, consistent with the benchmark outlined for quarterly reports. Management agreed to target taking the final monthly report of each quarter to the Committee within 45 days of the end of the quarter.

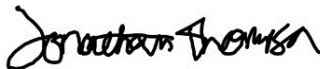
Summary

Internal Audit has completed an audit of investments for the period January 1 through June 30, 2023, and has offered two recommendations for improvement.

Attachment

- A. Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2023, Internal Audit Report No. 24-501

Prepared by:



Jonathan Thompson
Internal Auditor
(714) 560-5930

Approved by:



Janet Sutter
Executive Director, Internal Audit
(714) 560-5591

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Reporting January 1 through June 30, 2023

Internal Audit Report No. 24-501 September 11, 2023



Audit Team: Jonathan Thompson, Internal Auditor, Internal Audit *JT*
Serena Ng, CPA, Senior Manager

Distributed to: Andrew Oftelie, Chief Financial Officer, Finance and Administration
Sean Murdock, Robert Davis, Rima Tan, Changsu Lee

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2023
September 11, 2023**

Table of Contents

Conclusion	1
Objectives, Scope, and Methodology	2
Audit Comments, Recommendations, and Management Responses	4
Timeliness of Daily Cash Forecasting and Monthly Report Review	4
Monthly Reporting to the Legislative Body	5

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2023
September 11, 2023

Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period January 1 through June 30, 2023. Based on the audit, the Orange County Transportation Authority (OCTA) generally complied with its debt, investment, and reporting policies and procedures; however, Internal Audit made two recommendations related to the timeliness of daily cash forecasting and monthly report review and presentation to the Finance and Administration Committee (Committee).

Portfolio Management

The Treasury Department (Treasury) is responsible for the management of OCTA's Investment Portfolio (Portfolio). To accomplish this, Treasury uses the Clearwater treasury software system to monitor investments and investment manager performance.

On June 30, 2023, the Portfolio's book value was approximately \$2.4 billion. The Portfolio consists of three managed portfolios: the liquid portfolio for immediate cash needs, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short-term portfolio for future budgeted expenditures. OCTA's Treasurer manages the liquid and bond proceeds portfolios, and four external investment managers administer the short-term portfolio. OCTA also has investments in debt service reserve funds for various outstanding debt obligations. OCTA's Accounting Department (Accounting) is responsible for recording all debt and investment transactions, and for reconciling all bank and custodial accounts monthly.

Investment Policy

The Investment Policy sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code. The Investment Policy outlines permitted investments, as well as diversification guidelines. The diversification limits ensure the Portfolio is not unduly concentrated in securities of one type, industry, or entity, thereby assuring adequate portfolio liquidity should one sector or company experience difficulties.

OCTA has provided the investment managers with a copy of the Investment Policy and requires investment managers to invest their portfolios in accordance with the provisions of the Investment Policy.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2023
September 11, 2023

Objectives, Scope, and Methodology

The primary objective was to determine if OCTA complied with its debt, investment, and reporting policies and procedures.

Audit objectives included determining if:

- Internal controls over OCTA's investment activities were adequately designed;
- OCTA was in compliance with the Investment Policy;
- Investment transactions were adequately supported; and
- OCTA was in compliance with investment requirements of debt issuances.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.¹ The components and principles that were evaluated as part of this audit are:

- Control Environment
 - OCTA demonstrates a commitment to integrity and ethical values.
 - Management establishes, with the Committee and Board of Directors (Board) oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
 - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Risk Assessment
 - OCTA specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
 - OCTA identifies and assesses changes that could significantly impact the system of internal control.
- Control Activities
 - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Information and Communication
 - OCTA obtains, or generates and uses, relevant quality information to support the functioning of other components of internal control.

¹ See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2023
September 11, 2023

- Monitoring
 - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The scope included investment transactions and investment-related controls for the period January 1 through June 30, 2023.

The methodology consisted of obtaining the most current Investment Policy and Debt and Investment Management Manual, reviewing any personnel changes and corresponding updates to bank authorization signature cards, reviewing a haphazard sample of daily cash worksheets prepared by Accounting and Treasury staff, testing a haphazard sample of sweep purchases for compliance with the Investment Policy and evidence of supervisory review, testing a judgmental sample of wire and automated clearing house (ACH) transfers for accuracy and proper authorization, testing a haphazard sample of Treasury's weekly compliance review, and testing a haphazard sample of the monthly Investment and Debt Programs Reports (investment reports) provided to the Board, including testing a haphazard sample of 40 investment securities managed by investment managers for each selected month. For wire and ACH transfer testing, Internal Audit judgmentally selected wire or ACH transfers with a bias towards large transactions. Since the samples are non-statistical, any conclusions are limited to the sample items tested. The methodology also included confirming that Treasury obtained investment managers' acknowledgement of receipt of OCTA's Investment Policy and confirming that investment managers' performance is reported and compared to indices in the monthly investment reports.

Internal Audit conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2023
September 11, 2023**

Audit Comments, Recommendations, and Management Responses

Timeliness of Daily Cash Forecasting and Monthly Report Review

Daily cash projections are not performed and approved on a timely basis. Daily cash projection worksheets for all six days tested were created from two to 78 days after the forecast date. The Debt and Investment Management Manual defines Treasury's cash and investment management functions, including responsibilities to prepare daily cash projections and to manage daily cash to ensure bank accounts are adequately funded and excess cash is appropriately invested.

In addition, review and validation of data included in monthly investment reports provided to the Committee is not being performed timely. Starting in 2019, Treasury implemented a process to ensure accuracy of data included in the investment reports using a checklist to evidence manager validation of the data. Internal Audit noted that the two checklists tested did not identify the date of manager review and the checklists were created after the investment reports were presented to the Committee.

Recommendation:

Internal Audit recommends Treasury prepare daily cash forecasts on a timely basis. Internal Audit also recommends that the manager perform all steps on the checklist prior to presenting the investment reports to the Committee. All forecasts, checklists, worksheets, and reports that require manager review should include a date stamp, such as the Foxit software approval stamp, to evidence timely review.

Management Response:

Treasury does proactively manage cash activities ensuring bank accounts are adequately funded and excess cash is appropriately invested on a daily basis. Going forward, management agrees that daily cash reports will be completed and electronically date stamped to evidence timely review. Additionally, all steps on the comprehensive checklist implemented by Treasury are performed prior to routing the investment reports for management's review and approval, and are completed using an Excel worksheet well in advance of presenting the investment reports to the Committee. Going forward, staff will ensure that daily cash reports and the comprehensive checklists are signed and electronically date stamped to demonstrate timely review.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT
Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2023
September 11, 2023**

Monthly Reporting to the Legislative Body

Monthly investment reports for March and June 2023 were not submitted to the Committee within 45 days, which is the benchmark set by the California Government Code (Code) for quarterly reports.

Treasurers are required by the Code to make a monthly report of investment transactions to the legislative body, with no specified timing requirement. The Code also encourages treasurers to render a quarterly investment report within 45 days of quarter end. Treasury currently provides investment reports on a monthly basis only; however, these reports are not always provided within 45 days.

Recommendation:

Internal Audit recommends Treasury provide monthly investment reports to the Committee within 45 days of quarterly month end, consistent with the benchmark outlined for quarterly reports.

Management Response:

Management agrees with the recommendation and will target taking the final monthly report of each quarter to the Committee that is within 45 days of the end of the quarter.