



**April 13, 2016**

**To:** Finance and Administration Committee

**From:** Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director  
Internal Audit

**Subject:** Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2015

### **Overview**

The Internal Audit Department has completed an audit of investments for the period July 1 through December 31, 2015. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures; however, a minor reporting error was identified in the monthly and quarterly investment and debt reports for the period ending December 31, 2015. The Internal Audit Department has recommended that management implement a review process to ensure accuracy of reporting and update the Debt and Investment Management Manual to reflect practices.

### **Recommendation**

Direct staff to implement the recommendation provided in Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2015, Internal Audit Report No. 16-506.

### **Background**

The Treasury Department (Treasury) is responsible for management of the Orange County Transportation Authority's (OCTA) investment portfolio (portfolio). On December 31, 2015, the portfolio's book value was approximately \$1.32 billion. The portfolio consists of three managed portfolios: liquid assets for OCTA's daily operations, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio and bond proceeds portfolio, and OCTA's Treasurer manages the liquid assets portfolio.

The Investment Policy (Policy) sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code. The 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.

### ***Discussion***

OCTA's investment activities are audited on a periodic basis by the Internal Audit Department (Internal Audit). The objective of the audit was to determine whether OCTA complied with its debt, investment, and reporting policies and procedures for the period July 1 through December 31, 2015.

During the audit, Internal Audit identified a data entry error that resulted in the Federated Prime Obligations Fund being overstated by \$9,196 in the monthly and quarterly debt and investment reports provided to the Finance and Administration Committee and the Board of Directors. In addition, Internal Audit noted that investment balances reflected on the Daily Summary of Outstanding Investments Reports, which are used to compile both the monthly and quarterly debt and investment reports, are not updated daily as indicated in the Debt and Investment Management Manual (Manual). Only the OCTA Concentration Account is updated daily, while other balances are updated monthly. Consequently, the error was not detected until the following month.

Internal Audit recommended the Treasury implement controls to validate balances reported in monthly and quarterly reports and comply with, or update, the Manual to reflect the current practices. Management agreed and indicated that controls will be implemented and the Manual updated to reflect current practices.

### ***Summary***

Based on the review, OCTA complied with its debt, investment, and Reporting policies and procedures; however, a minor error was identified in the monthly and quarterly debt and reports for the period ended December 31, 2015.

**Attachment**

- A. Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2015 Internal Audit Report No. 16-506

**Prepared by:**



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Gabriel Tang  
Principal Internal Auditor  
714-560-5746

**Approved by:**



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

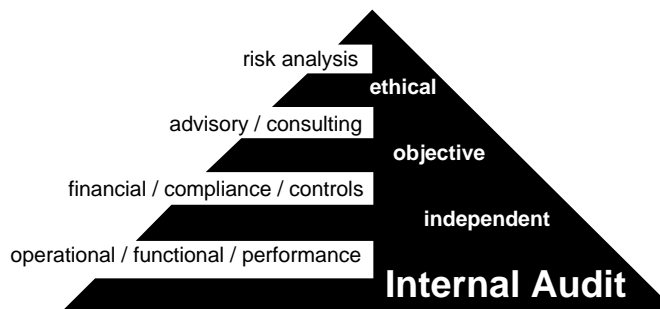
# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Investments: Compliance, Controls, and Reporting July 1 through December 31, 2015

### Internal Audit Report No. 16-506

March 24, 2016



**Performed by:** Janet Sutter, CIA, Executive Director  
Ricco Bonelli, CIA, Principal Internal Auditor  
Gabriel Tang, CPA, Principal Internal Auditor

**Distributed to:** Andrew Oftelie, Executive Director  
Kirk Avila, Vicki Austin, Rodney Johnson

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Reporting  
July 1 through December 31, 2015  
March 24, 2016**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Reporting  
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**Conclusion**

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period July 1, 2015 through December 31, 2015. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures; however, a minor reporting error was identified in the monthly and quarterly investment and debt reports ending December 31, 2015. Internal Audit has recommended that management implement a review process to ensure accuracy of reporting and update the Debt and Investment Management Manual (Manual) to reflect practices.

**Background**

Portfolio Management

The Treasury Department (Treasury) is responsible for the management of OCTA's investment portfolio (portfolio). On December 31, 2015, the portfolio's book value was approximately \$1.32 billion. The portfolio consists of three managed portfolios: liquid assets for OCTA's daily operations, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio and bond proceeds portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also has funds invested 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 reconciling all bank and custodial accounts monthly.

Investment Policy

The Investment Policy (Policy) sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code (CGC). The 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 Policy and requires investment managers to invest their portfolios in accordance with the provisions of the Policy.

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Reporting  
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March 24, 2016**

## **Objectives, Scope, and Methodology**

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

Additional objectives included determining if:

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

The scope included investment transactions and investment-related controls for the period July 1, 2015 through December 31, 2015.

The methodology consisted of reviewing a judgmental sample of daily cash worksheets prepared by Accounting and the Treasury, verifying a judgmental sample of wire transfers to source documents, reviewing and testing procedures for monitoring investment managers' compliance with the Policy, reviewing judgmental samples of daily investment holding reports and bank reconciliations, and reviewing the quarterly debt and investment reports provided to OCTA's Board of Directors (Board). For treasury software and computer data testing, Internal Audit haphazardly selected five securities per trustee per quarter, resulting in a sample of 60 securities, and traced to the Clearwater Daily Holding Reports. For daily cash report testing, repo-sweep testing, wire transfer testing, bank reconciliation testing, and investment policy compliance testing, Internal Audit judgmentally select one transaction per month for coverage in the scope period. For quarterly report transaction testing, Internal Audit haphazardly selected 40 investments per quarter for coverage over different types of securities. Since the samples are non-statistical, any conclusions are limited to the sample items tested.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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  
July 1 through December 31, 2015  
March 24, 2016**

**Audit Comment, Recommendation, and Management Response**

**Minor Error in Monthly and Quarterly Reports ending December 2015**

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The balance of the Federated Prime Obligations Fund was overstated by \$9,196 in the monthly and quarterly reports provided to the Finance and Administration Committee and the Board, for the period ended December 2015. The difference resulted from a data entry error during preparation of the Daily Summary of Outstanding Investments Report (Report), which is used to compile both the monthly and quarterly debt and investment reports.

In addition, Internal Audit noted that investment balances reflected on the Report are not updated daily, as required by the Manual. Only the OCTA concentration account balance is updated daily, and the other accounts are updated monthly. Consequently, the error was not detected until the following month.

**Recommendation 1:**

Internal Audit recommends the Treasury implement controls to validate balances reported in monthly and quarterly reports and comply with, or update, the Manual to reflect the current practices.

**Management Response:**

The Treasury/Toll Roads Department agrees with Internal Audit's recommendation to implement controls to validate balances reported and will revise the Debt and Investment Management Manual within 60 days to reflect current practices.