



October 12, 2016

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2016

Overview

The Internal Audit Department has completed an audit of investments for the period January 1, 2016 through June 30, 2016. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures.

Recommendation

Receive and file Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2016, Internal Audit Report No. 17-501, as an information item.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA) investment portfolio (portfolio). On June 30, 2016, the investment portfolio's book value was approximately \$1.34 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 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 reviewed on a periodic basis by the Internal Audit Department (Internal Audit). The objective of the audit was to determine if OCTA was in compliance with its debt, investment, and reporting policies and procedures for the period January 1 through June 30, 2016.

OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), will perform agreed-upon procedures with respect to the Treasury function for the year ended June 30, 2016. Internal Audit limited the scope of this audit to procedures that will not be performed by VTD during the course of their agreed-upon procedures.

Summary

Based on the audit, OCTA complied with its debt, investment, and reporting policies and procedures.

Attachment

- A. Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2016, Internal Audit Report No. 17-501

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Reporting January 1 through June 30, 2016

Internal Audit Report No. 17-501

October 3, 2016



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Distributed to: Andrew Oftelie, Executive Director
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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Reporting
January 1 through June 30, 2016
October 3, 2016**

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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period January 1, 2016 through June 30, 2016. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures.

Background

Portfolio Management

The Treasury Department (Treasury) is responsible for the management of OCTA's investment portfolio (portfolio). On June 30, 2016, the investment portfolio's book value was approximately \$1.34 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 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.

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Objectives, Scope and Methodology

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

Additional audit 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 January 1 through June 30, 2016. OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), will perform agreed-upon procedures with respect to the Treasury function for the year ended June 30, 2016. Internal Audit limited the scope of this audit to procedures that will not be performed by VTD during the course of their agreed-upon procedures.

The methodology consisted of reviewing the most current Investment Policy and Debt and Investment Management Manual, reviewing any personnel changes in Accounting and the Treasury and corresponding updates to bank authorization signature cards, reviewing a judgmental sample of daily cash worksheets prepared by Accounting and the Treasury, reviewing a judgmental sample of repo-sweeps, verifying a judgmental sample of wire transfers to source documents, reviewing judgmental samples of securities for Treasury software and computer data testing, and reviewing the quarterly debt and investment reports provided to OCTA's Board of Directors. For daily cash report testing, repo-sweep testing, and wire transfer testing, Internal Audit judgmentally selected one transaction per month for coverage in the scope period. For Treasury software and computer data testing, Internal Audit haphazardly selected 5 securities per trustee per quarter, resulting in a sample of 40 securities from statements and traced to the Clearwater Daily Holding Reports. 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. The methodology also included reviewing and testing procedures for monitoring investment managers' compliance with the Policy, obtaining the portfolio managers' acknowledgement of the receipt of OCTA's Policy, and verifying the Deputy Treasurer's receipt of the investment manager's description of its compliance and control environment from each of the managers.

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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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.