



September 25, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2024, Internal Audit Report No. 25-502

Overview

The Internal Audit Department has completed an audit of investments for the period January 1 through June 30, 2024. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures; however, the Internal Audit Department made two recommendations to periodically update daily revenue estimates and to update the Treasury/Public Finance Debt and Investment Management Manual to reflect changes in procedures.

Recommendation

Direct staff to implement two recommendations provided in Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2024, Internal Audit Report No. 25-502.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA) Investment Portfolio (Portfolio). On June 30, 2024, the Portfolio's book value was approximately \$2.5 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.

Discussion

Revenue projections included in the daily cash projection worksheets are not updated on a regular basis, with the estimates of fare revenue and 91 Express Lanes revenue last updated in September 2022. Internal Audit recommended Treasury implement a process to periodically update revenue estimates, and management agreed to update the revenue estimates based on the adopted budget each year.

Treasury maintains a Treasury/Public Finance Debt and Investment Management Manual outlining OCTA's investment approach, specific roles and responsibilities, and detailed procedures to direct staff in their daily debt management, cash management, and investment activities. The last update to the manual was in July 2022. Internal Audit recommended Treasury update the manual to align with current practices, including staffing, banking relationship, system administrator assignments, and frequency of treasury meetings. Management agreed to update the manual.

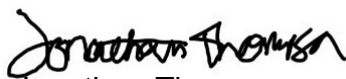
Summary

Internal Audit has completed an audit of investments for the period January 1 through June 30, 2024, and has offered two recommendations for improvement.

Attachment

- A. Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2024, Internal Audit Report No. 25-502

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Reporting January 1 through June 30, 2024

Internal Audit Report No. 25-502

September 13, 2024



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period January 1 through June 30, 2024. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures; however, Internal Audit made two recommendations to periodically update daily revenue estimates and to update the Treasury/Public Finance Debt and Investment Management Manual to reflect changes in procedures.

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, 2024, the Portfolio's book value was approximately \$2.5 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 the 91 Express Lanes Program. OCTA's Accounting and Financial Reporting (Accounting) Department 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.

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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.

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 complied 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 Finance and Administration 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.

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- 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, 2024.

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 transactions for compliance with the Investment Policy, testing a judgmental sample of wire and automated clearing house (ACH) transfers for accuracy and proper authorization, testing a haphazard sample of the Treasury's weekly compliance review, and testing a haphazard sample of the monthly Investment and Debt Programs Reports provided to OCTA's Board, including testing a haphazard sample of 40 investment securities managed by investment managers for the 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 and Debt Program Reports.

We 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.

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Audit Comments, Recommendations, and Management Responses

Updating Revenue Estimates

Revenue projections included in daily cash projection worksheets are not updated on a regular basis. Estimates of fare revenue and 91 Express Lanes revenue were last updated in September 2022.

Recommendation:

Internal Audit recommends Treasury implement a process to periodically update revenue estimates.

Management Response:

Management agrees and will update the revenue estimates based on the adopted budget each year.

Updating Treasury/Public Finance Debt and Investment Management Manual (Treasury Manual)

The Treasury Manual should be updated to accurately reflect current staffing, banking relationship, system administrator assignments, and frequency of treasury meetings.

Treasury maintains a Treasury Manual outlining OCTA's investment approach, specific roles and responsibilities, and detailed procedures to direct staff in their daily debt management, cash management and investment activities. The Treasury Manual was last updated in July 2022.

Recommendation:

Internal Audit recommends Treasury update the Treasury Manual to align with current practices.

Management Response:

Management agrees to update the department's desktop manual, which serves as a reference for internal staff in supporting the department's debt and investment programs.