



ORANGE COUNTY
AUDITOR-CONTROLLER
INTERNAL AUDIT

EXHIBIT B

**CONTINUOUS COMPLIANCE
AUDITING OF THE
TREASURY INVESTMENT
PORTFOLIO
FOR THE QUARTER
ENDED JUNE 2013**



**Job Number 1120
Report Date: November 5, 2013**



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November 5, 2013

Job No. 1120

TO: Members, Treasury Oversight Committee

SUBJECT: Continuous Compliance Auditing of the Treasury Investment Portfolio
For the Quarter Ended June 2013

We have completed the continuous compliance auditing of the Treasury investment portfolio for the quarter ended June 2013. The purpose of our engagement was to determine whether the Orange County Money Market Fund, Educational Money Market Fund, John Wayne Airport Investment Pool, and Extended Fund managed by the Orange County Treasurer's Office were in compliance with certain provisions specified in the Investment Policy Statement (IPS) and that portfolio non-compliance including technical incidents were properly reported in the Treasurer's Monthly Investment Reports for April, May, and June 2013.

We are continuing our portfolio continuous compliance auditing at the request of the Treasury Oversight Committee. Our continuous auditing is designed to provide assurance to the Board of Supervisors, the County Executive Officer, Treasury Oversight Committee, and other stakeholders that the Treasury investment portfolio is in compliance with specific provisions of the IPS and that non-compliance deficiencies or technical incidents and required disclosures are properly reported.

Our compliance procedures included obtaining a daily electronic download of the investment portfolio from the Treasurer's Quantum system, judgmentally selecting 10 business days for testing for each month, importing the selected downloads into computer-assisted audit technique software ACL for purposes of performing calculations, and validating that investment purchases were in compliance with the IPS by reviewing and testing supporting documentation. In conducting our procedures, we examined the following days in April: 1, 3, 5, 10, 12, 16, 19, 24, 26, and 30; May: 1, 3, 6, 9, 15, 17, 21, 24, 28, and 31; and June: 3, 6, 11, 14, 17, 19, 21, 25, 27, and 28.

Based on our continuous compliance auditing for the selected dates, **no compliance deficiencies were identified**. When applicable, our report also includes information regarding Treasury policy pertaining to the reporting of technical incidents in the monthly investment report. The Treasurer defines a technical incident as an event, other than the purchase of a security, which



Continuous Compliance Auditing of the Treasury Investment Portfolio For the Quarter Ended June 2013

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. The following lists the procedures performed and results achieved from the compliance continuous auditing procedures:

1. **Authorized Investments (IPS Section VI, VII, and VIII):** We judgmentally selected a sample of 30 investments representing each pool. The selected sample consists of investments purchased on the 30 business days selected for review from April through June 2013. For the sample selected, we independently confirmed that the investments conform to authorized investment requirements in accordance with the IPS. We also confirmed that the Treasurer used issuers and brokers who were 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.

Results: We found no exceptions.

3. **Weighted Average Maturity (WAM) Limitations (IPS Section VIII.3):** We performed calculations to determine that WAM did not exceed 60 days for the Money Market Funds in accordance with the IPS.

Results: We found no exceptions.

4. **Maximum Maturity Limitations (IPS Section VIII.3):** We confirmed that the maximum maturity of any portfolio instrument purchased did not exceed 13 months (397 days) for the Money Market Fund and 5 years (1,826 days) for the Extended Fund in accordance with the IPS.

Results: We found no exceptions.

5. **Investment Type Maximum Maturity Limitations (IPS Section VIII.1):** We confirmed that the maximum maturity of commercial paper, banker's acceptances, or repurchase agreements purchased did not exceed 270 days for commercial paper, 180 days for banker's acceptances, or 1 year (365 days) for repurchase agreements in accordance with the IPS.

Results: We found no exceptions.



Continuous Compliance Auditing of the Treasury Investment Portfolio For the Quarter Ended June 2013

6. **Issuer Limitations (IPS Section VIII.2):** 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.

Results: We found no exceptions.

7. **Financial Reporting (IPS Section XXI):** We confirmed that the April 30, 2013, May 31, 2013, and June 30, 2013 Treasurer's Monthly Investment Reports included all statements of portfolio non-compliance including technical incidents in accordance with the IPS.

Results:

Review of "Investment Policy Compliance Summary"

The Treasurer's Monthly Investment Report includes an "Investment Policy Compliance Summary" to disclose non-compliance issues that occurred during the month. The Treasurer's "Investment Policy Compliance Summary" for April, May, and June reported no compliance issues.

Technical Incidents

Although the Treasurer's IPS does not require technical incidents that occurred during the month to be reported in the Treasurer's Monthly Investment Report, it is Treasury policy to report the details of technical incidents outstanding at month end in the "Investment Policy Compliance Summary." In our sample selection, we did not observe any technical incidents.

Please let me know if you have any questions regarding our continuous auditing procedures.

A handwritten signature in blue ink, reading "Nancy N. Ishida", is positioned above the printed name.

Nancy N. Ishida, CPA
Audit Manager

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Shari L. Freidenrich, Treasurer-Tax Collector
Jan E. Grimes, Auditor-Controller
Michael B. Giancola, County Executive Officer
Denise Steckler, Chief Deputy Auditor-Controller
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector
Ginika Ezinwa, Accounting/Compliance Manager, Treasurer-Tax Collector
Clerk of the Board of Supervisors



*Continuous Compliance Auditing of the Treasury Investment Portfolio For the Quarter
Ended June 2013*

Foreperson, Grand Jury
Peter Hughes, Director, Internal Audit Department