



October 23, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Investment Manager Contracts, Internal Audit Report No. 25-504

Overview

The Internal Audit Department of the Orange County Transportation Authority has completed an audit of investment manager contracts. Based on the audit, oversight, contract compliance, and invoice review controls are generally adequate; however, two recommendations have been made to improve compliance with contract terms related to replacing key personnel and to improve the timeliness of invoice processing.

Recommendation

Direct staff to implement two recommendations provided in Investment Manager Contracts, Internal Audit Report No. 25-504.

Background

The Treasury/Public Finance Department (Treasury) is responsible for overall management of the Orange County Transportation Authority's (OCTA) investment portfolio. On June 30, 2024, OCTA's portfolio book value was approximately \$2.5 billion, of which approximately \$2.0 billion is in a short-term portfolio managed by four investment firms.

Treasury maintains contracts with external investment managers Chandler Asset Management, Inc. (CAM), MetLife Investment Advisors, LLC (MetLife), Payden & Rygel (P&R), and PFM Asset Management, LLC (PFM) under Agreement Nos. C-7-1813, C-7-2062, C-7-2063, and C-7-2064 (contracts), respectively. The firms are responsible for investing funds in compliance with the OCTA Investment Policy and the California Government Code. The firms serve as a general resource for OCTA staff for economic insight, investment advice,

and education regarding fixed-income securities and investments. Per the contracts, investment managers are required to provide monthly reports of investments, earnings, and the value of the portfolio. Invoices are submitted quarterly, and fees are calculated based on the value of assets under management. Treasury is responsible for oversight and contract compliance, as well as review and approval of invoices in accordance with the contract terms and OCTA policy.

Discussion

Changes to investment manager key personnel are not identified and approved timely. The agreement requires the resume and qualifications of proposed replacement key personnel be submitted to OCTA for approval seven calendar days prior to the departure of the incumbent, and that OCTA respond to these requests within seven calendar days. Internal Audit identified six instances in which an investment management firm replaced key personnel without notifying OCTA, and two instances in which the notification was not made within seven calendar days and the response from OCTA was not made within seven calendar days. Internal Audit recommended management remind investment managers of contract requirements for replacement of key personnel and implement a procedure to periodically validate key personnel. Management agreed and indicated that staff will remind investment managers of the contract requirement, will request that investment managers limit the designations of key personnel, and will implement a process to periodically validate key personnel.

Internal Audit identified delays in invoice review and processing. The agreement requires payment within 30 calendar days of receipt of an invoice. Internal Audit identified four invoices that were paid beyond 30 calendar days of receipt, with delays ranging from 44 to 101 days. Internal Audit recommended management improve the timeliness of invoice review, approval, and processing. Management agreed and indicated additional controls will be implemented to ensure timely payment.

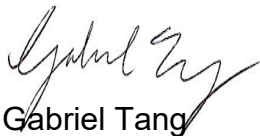
Summary

Internal Audit has completed an audit of investment manager contracts, and has offered two recommendations, which management has agreed to implement.

Attachment

- A. Investment Manager Contracts, Internal Audit Report No. 25-504

Prepared by:



Gabriel Tang
Principal Internal Auditor
714-560-5746

Approved by:



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