

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Reporting January 1 through June 30, 2017

Internal Audit Report No. 18-501

August 30, 2017



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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, 2017. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures; however, two minor reporting errors were identified in the first and second quarterly investment and debt reports. Internal Audit recommends management enhance review procedures to ensure line items are validated and schedules are reconciled before finalizing the report.

Background

Portfolio Management

The Treasury Department (Treasury) is responsible for the management of OCTA's investment portfolio (portfolio). On June 30, 2017, the portfolio's book value was approximately \$1.47 billion. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations and a 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 investments 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 for 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.

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, 2017.

The methodology consisted of reviewing 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 judgmental sample of daily cash worksheets prepared by Accounting and Treasury staff, 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 accuracy. For daily cash report testing, repo-sweep testing, and wire transfer testing, Internal Audit judgmentally selected one transaction per month during the scope period. For Treasury software and computer data testing, Internal Audit haphazardly selected five securities per trustee per quarter, resulting in a sample of 40 securities, and traced the securities from the statements 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 testing the Deputy Treasurer's monitoring of the investment managers' compliance with the Policy, including obtaining acknowledgement of receipt of OCTA's Policy, and obtaining written descriptions of the compliance and control environment of the investment managers.

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.

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Audit Comment, Recommendation and Management Response

Minor Errors in Quarterly Debt and Investment Reports

A discrepancy was identified between the detailed investment portfolio listing (\$1,445,990,726) and the investment summary report (\$1,446,285,110) in the 2017 First Quarter Debt and Investment Report. Also, the Orange County Investment Pool balance reflected in the Second Quarter 2017 Debt and Investment Report was misstated by a minor amount (\$79). While the errors are not material, secondary review of these reports should be enhanced.

Recommendation:

Management should consider enhancing the review procedures to ensure line items are validated and schedules are reconciled before finalizing the report.

Management Response:

Management concurs with the findings and will incorporate new reconciliation procedures that include documented reviews for investment and debt reports.