



November 13, 2019

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, 2019

Overview

The Internal Audit Department has completed an audit of investments for the period January 1 through June 30, 2019. Based on the audit, the Orange County Transportation Authority complied with its investment policies; however, the Internal Audit Department identified an error in the Second Quarter 2019 Investment and Debt Report and observed that the investment compliance schedule does not reflect all investments and bond indenture requirements.

Recommendation

Direct staff to implement two recommendations provided in Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2019, Internal Audit Report No. 20-502.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA's) Investment Portfolio (Portfolio). On June 30, 2019, the Portfolio's book value was approximately \$2.1 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. 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.

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

The balance of investments in the Orange County Investment Pool was understated by \$70,468, in the Second Quarter 2019 Investment and Debt Report. The audit of investments for the period July 1 through December 1, 2019, also identified an input error in the fourth quarter 2018 report. Internal Audit recommends Treasury implement and document a more robust secondary review to ensure the accuracy of investment information presented in quarterly reports to the Board of Directors. Management agreed and indicated that a more robust review process has already been implemented.

Management changed the format of the investment policy compliance schedule starting with the Second Quarter 2019 Investment and Debt Report. As a result, the schedule no longer reflects compliance monitoring of cash equivalent investments, including repurchase agreements. Also, while bond proceeds are not subject to diversification and maturity limits of the Policy, these investments are subject to requirements of their respective indentures. The indenture requirements are not currently reflected in the investment compliance schedule. Debt reserve funds are also not subject to investment policy guidelines per the schedule; however, these funds are not expressly exempted by the Policy. Internal Audit recommends that management revise the investment policy compliance schedule to evaluate all applicable investments in accordance with the Policy. Also, if management intends to exempt debt reserve funds from diversification and maturity limits of the Policy, the Policy should be updated accordingly. Finally, the schedule should include information on investment requirements of bond indentures and determination of compliance. Management agreed and had already made a change to include cash equivalents within the schedule. Also, management agreed to update the Policy to expressly exempt debt service reserve funds during the next update cycle. Finally, management agreed to include information detailing indenture requirements and compliance going forward.

Summary

Internal Audit has completed an audit of investments for the period January 1 through June 30, 2019, and has offered two recommendations for improvement.

Attachment

- A. Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2019 Internal Audit Report No. 20-502

Prepared by:



Gabriel Tang
Principal Internal Auditor
714-560-5746

Approved by:



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