



May 12, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer
Janet Sutter, Executive Director
Internal Audit

Subject: Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2020, Internal Audit Report No. 21-509

Overview

The Internal Audit Department has completed an audit of investments for the period July 1 through December 31, 2020. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures; however, the Internal Audit Department is recommending management consider incorporating assertions previously provided in quarterly reports to the Board of Directors that were eliminated in favor of providing monthly reports to the Board of Directors.

Recommendation

Direct staff to implement a recommendation provided in Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2020, Internal Audit Report No. 21-509.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA) Investment Portfolio (Portfolio). On December 31, 2020, the Portfolio's book value was approximately \$2.0 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 (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

After March 2020, Treasury eliminated the practice of providing Quarterly Investment and Debt (quarterly) reports to the Board of Directors (Board). In lieu of the quarterly reports, Treasury added additional information to the monthly Investment and Debt (monthly) reports, previously provided only to the Finance and Administration Committee, which are now presented to the Board as well. The quarterly reports previously included an assertion by the OCTA Treasurer of compliance with the Policy and confirmation of the ability to meet expenditure requirements for the next six months, as suggested by both Section 53646 of the California Government Code and the California Debt and Investment Advisory Commission's Local Agency Investment Guidelines. These statements are not provided in the monthly reports. Internal Audit recommended that Treasury incorporate suggested assertions into monthly reports. Management agreed with the recommendation and will incorporate the assertions beginning with the next monthly report, which will be for the month of April 2021.

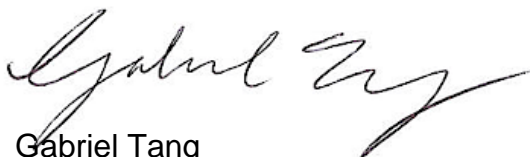
Summary

Internal Audit has completed an audit of investments for the period July 1 through December 31, 2020 and has offered one recommendation for improvement.

Attachment

- A. Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2020, Internal Audit Report No. 21-509

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