



October 13, 2021

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2021, Internal Audit Report No. 22-501

Overview

The Internal Audit Department has completed an audit of investments for the period January 1 through June 30, 2021. Based on the audit, the Orange County Transportation Authority complied with its debt, investment, and reporting policies and procedures; however, the Internal Audit Department did make one recommendation related to compliance monitoring.

Recommendation

Direct staff to implement a recommendation provided in Investments: Compliance, Controls, and Reporting, January 1 through June 30, 2021, Internal Audit Report No. 22-501.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA) Investment Portfolio (Portfolio). To accomplish this, Treasury uses the Clearwater treasury software system to monitor investments and investment manager performance.

On June 30, 2021, the Portfolio's book value was approximately \$2 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

The Debt and Investment Management Manual requires staff to review Clearwater's Daily Holdings reports and compliance module on a weekly basis. During the period, the compliance module flagged a portfolio concentration issue; however, while staff marked the issue as resolved, there was no documentation explaining the reason. After discussion with the investment manager, it was determined that the flagged issue did not represent an actual violation but resulted from the compliance module incorrectly calculating portfolio percentages based on an understated total portfolio value. Additionally, Internal Audit noted that the compliance module does not recognize variable and floating rate securities as a separate investment type and presents all investments at the market value rather than at cost, unlike the Daily Holdings reports, that are customized to better monitor against OCTA Policy. Internal Audit recommended that staff consistently document resolution of all issues flagged in the compliance module and consider customizing the compliance module. Management agreed to document the resolution of all issues flagged in the compliance module. Going forward, the compliance module will present all investments at cost, but will not recognize variable and floating rate securities as a separate investment type as this is not an option currently offered by Clearwater.

Summary

Internal Audit has completed an audit of investments for the period January 1 through June 30, 2021 and has offered one recommendation for improvement.

Attachment

- A. Investments: Compliance, Controls, and Reporting, January 1 through
June 30, 2021, Internal Audit Report No. 22-501

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