

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Reporting July through December 31, 2024

Internal Audit Report No. 25-511

March 14, 2025



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period July 1 through December 31, 2024. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures; however, Internal Audit made a recommendation related to the presentation of variable and floating rate securities in the monthly Investment and Debt Programs Reports.

Portfolio Management

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

On December 31, 2024, the Portfolio's book value was approximately \$2.8 billion. The portfolio is divided into two portfolios: the liquid portfolio for immediate cash needs and the managed portfolio for future budgeted expenditures. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program. OCTA's Treasurer manages the liquid portfolio, and four external investment managers administer the managed 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 sets forth guidelines for all OCTA investments to ensure conformance with the California Government Code. The Investment 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 Investment Policy and requires investment managers to invest their portfolios in accordance with the provisions of the Investment 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 Investment Policy;
- 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 July 1 through December 31, 2024.

The methodology consisted of obtaining 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 haphazard sample of daily cash worksheets prepared by Accounting and Treasury staff, testing all the sweep purchases for compliance with the Investment Policy, testing all investment purchases for compliance with the Investment Policy and evidence of secondary review, testing a judgmental sample of wire and automated clearing house (ACH) transfers for accuracy and proper authorization, testing a judgmental sample of bank account reconciliations for compliance with policy, testing a haphazard sample of Treasury's weekly compliance review, and testing a haphazard sample of the monthly Investment and Debt Programs Reports provided to OCTA's Board of Directors, including testing a haphazard sample of 40 investment securities managed by investment managers for the selected month. For wire and ACH transfer testing, Internal Audit judgmentally selected wire or ACH transfers with a bias towards large transactions. Bank account reconciliations are selected with a bias towards bank accounts with the most transactions. Since the samples are non-statistical, any conclusions are limited to the sample items tested. The methodology also included confirming that Treasury obtained investment managers' acknowledgement of receipt of OCTA's Investment Policy and confirming that investment managers' performance is reported and compared to indices in the monthly Investment and Debt Program Reports.

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 that 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

Presentation of Variable and Floating Rate Securities in the Monthly Reports

Multiple securities were not appropriately identified as variable and floating rate securities in the Portfolio Listing of the September and November 2024 Investment and Debt Programs Reports. Variable and floating rate securities are identified with a Note (1) in the Portfolio Listing; however, the Note (1) was missing for 20 variable and floating rate securities in September 2024, and 17 variable and floating rate securities in November 2024.

Recommendation:

Internal Audit recommends that management confirm the presentation of variable and floating rate securities during its review of the monthly Investment and Debt Programs Reports.

Management Response:

Management concurs with the observation regarding the notation of floating and variable rate securities in the September and November 2024 Investment and Debt Programs Reports. Management will enhance its review process to ensure consistency in future reports.