

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Monthly Reporting July 1 through December 31, 2025

Internal Audit Report No. 26-510

April 8, 2026



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investment reporting for the period July 1 through December 31, 2025. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its investment reporting policies and procedures, and reported investments comply with the Investment Policy (Policy); however, Internal Audit made two recommendations related to the timeliness of the Investment and Debt Programs Reports' (Reports) review and the presentation of Reports schedules.

Portfolio Management

The Treasury Department (Treasury) is responsible for the management of OCTA's Investment Portfolio (Portfolio).

On December 31, 2025, the Portfolio's book value was approximately \$3.2 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 and 405 Express Lanes programs. OCTA's Treasurer manages the liquid portfolio, and four external investment managers administer the managed portfolio.

Investment Policy

The Policy sets forth the investment guidelines for all funds of OCTA and conforms to 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.

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 or the respective bond agreements as applicable.

Monthly Investment and Debt Programs Reports

Treasury is responsible for providing monthly Reports to the Finance and Administration Committee (Committee) and Board of Directors (Board) that include portfolio performance by investment manager, market values, compliance updates, and outstanding debt summaries.

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Objectives, Scope, and Methodology

The primary objective was to determine whether OCTA complied with its investment reporting policies and procedures and if reported investments comply with the Policy.

Audit objectives included the following:

- Reconciling investments from the monthly Reports to the account statements
- Confirming monthly Reports have been reviewed by management

The scope covered six monthly Reports, including report schedules and listings, for the period July 1 through December 31, 2025.

The methodology consisted of reconciling the investment balances on the portfolio listings to the account statements, tracing a judgmental sample of 25 investment securities per month from the account statement to the portfolio listing with a bias towards recent purchases, recalculating the portfolio percentages on the investment compliance schedule, tracing a haphazard sample of five transactions per month from the transaction activity schedule to the account statement and a haphazard sample of five transactions per month from the account statement to the transaction activity schedule, reviewing the credit ratings and credit histories in Bloomberg for 25 investment securities in the December 2025 Report judgmentally selected with a bias towards securities with minimum credit quality requirements, and confirming the completion of the Investment and Debt Programs Report – Checklists (checklist). 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 the Policy and confirming that investment managers' performance is reported and compared to indices in the monthly 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 Comments, Recommendations, and Management Responses

Timeliness of Report Review

Monthly Reports are reviewed by the department manager to confirm accuracy and completeness. These reviews are documented on a checklist and electronically stamped for approval.

Internal Audit noted that three of the six monthly Reports reflected review by the department manager after upload of the reports for inclusion on Committee and Board agendas.

Recommendation 1:

Internal Audit recommends management ensure Reports have been reviewed and approved prior to inclusion on Committee and Board agendas.

Management Response:

Management agrees with the recommendation. The comprehensive review was performed; however, the formal approval was documented at a later point in time. Management will ensure documentation of the formal approval prior to inclusion on Committee and Board agendas.

Report Disclosures

Monthly Reports schedules would be improved with the inclusion of references and explanatory notes.

While the investment compliance schedule includes a note about the total amount of variable and floating rate securities and its percentage of the portfolio in comparison to the 30 percent Policy limit, the detailed portfolio listing does not identify which securities are variable and floating rate securities. Also, a transaction activity schedule was added to present purchases, dispositions, and maturities/call redemptions; however, it excludes money market fund sweep transactions, paydowns, and coupon activity, without explanatory notes. Finally, investment of prepaid Express Lanes customer account balances has been added to the investment compliance schedule and the portfolio listing, but only the investment compliance schedule includes a note describing how these prepaid customer account balances represent customer liabilities.

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Recommendation 2:

Internal Audit recommends that management enhance the Reports with references and explanatory notes.

Management Response:

Management agrees with the recommendation and will include the recommended explanatory references and footnotes.