

ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Reporting January through June 30, 2025

Internal Audit Report No. 26-502

October 1, 2025



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Conclusion

The Internal Audit Department (Internal Audit) has completed an audit of investments for the period January 1 through June 30, 2025. Based on the audit, the Orange County Transportation Authority (OCTA) complied with its debt, investment, and reporting policies and procedures; however, Internal Audit made one recommendation to strengthen controls to ensure all investments are reflected in monthly 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 June 30, 2025, the Portfolio's book value was approximately \$3.1 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'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 January 1 through June 30, 2025.

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 a judgmental sample of wire and automated clearing house (ACH) transfers for accuracy and proper authorization, 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 (Board), 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. 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

Under-Reporting of Money Market Fund Investments

Treasury under-reported money market fund investments in the September, October, and November 2024 Investment and Debt Program Reports (reports). SB 125 (Chapter 54, Statutes of 2023) grant funds received in early September 2024 were deposited in a segregated account and immediately invested in money market funds; however, these money market fund investments, totaling \$183 million in September and October 2024 and \$154 million in November 2024, were not included in monthly reports to the Board. Treasury began reporting these investments in December 2024.

Recommendation:

Internal Audit recommends management strengthen controls to ensure all investments are reflected in monthly reports.

Management Response:

Management agrees and actively addressed the reporting of SB 125 grant funds, which are advance proceeds subject to program specific restrictions and separate external reporting requirements in December 2024, by incorporating these funds into the monthly Investment and Debt Program Reports, where they have been consistently reported thereafter.

Treasury will continue to review all accounts and implement a systematic process to ensure special cases like this are consistently reported going forward.