



March 27, 2024

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit

Subject: Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2023, Internal Audit Report No. 24-509

Overview

The Internal Audit Department has completed an audit of investments for the period July 1 through December 31, 2023. Based on the audit, the Orange County Transportation Authority generally complied with its debt, investment, and reporting policies and procedures; however, the Internal Audit Department made two recommendations to improve monthly investment and Clearwater system reporting.

Recommendation

Direct staff to implement two recommendations provided in Investments: Compliance, Controls, and Reporting, July 1 through December 31, 2023, Internal Audit Report No. 24-509.

Background

The Treasury Department (Treasury) is responsible for the management of the Orange County Transportation Authority's (OCTA) Investment Portfolio (Portfolio). On December 31, 2023, the Portfolio's book value was approximately \$2.5 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 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.

Monthly Investment and Debt Programs Reports (monthly investment reports) are submitted to the Finance and Administration Committee (Committee) and Board of Directors.

Discussion

The monthly investment report for September 2023 understated the Fidelity Money Market Government Portfolio balance by \$88,587.79, and the monthly investment report for November 2023 overstated the value of the 2021 Bond Anticipation Notes First American Treasury Obligations by \$219.10. In both cases, bank statements were not used to obtain the month-end balances used in the report. Internal Audit recommended bank statements be used to prepare monthly investment reports. Management agreed to use bank statements going forward.

Clearwater charges OCTA a monthly fee based on a percentage of portfolio market value. Market values in Clearwater are updated through automated data feeds, except for seven accounts, for which values are not automatically obtained and are not updated in the system. As a result, OCTA pays approximately \$350 per month in fees to Clearwater for the accounts whose values are not properly reflected in the system. Internal Audit recommended management discontinue paying fees for these seven accounts unless a process to automatically update the portfolio values can be implemented. Management agreed and has removed the accounts from the system until such time that a resolution to the issues can be achieved.

Summary

Internal Audit has completed an audit of investments for the period July 1 through December 31, 2023, and has offered two recommendations for improvement.

Attachment

- A. Investments: Compliance, Controls, and Reporting, July 1 through
December 31, 2023, Internal Audit Report No. 24-509

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