



October 9, 2013

To: Finance and Administration Committee

From: Darrell Johnson, Chief Executive Officer

Janet Sutter, Executive Director
Internal Audit Department

Subject: Investments: Compliance, Controls, and Accounting Review,
January 1 through June 30, 2013

Overview

The Internal Audit Department has completed an investments review for the period January 1 through June 30, 2013. Based on the review, the Orange County Transportation Authority generally complied with its debt, investment, and accounting policies and procedures; however, Internal Audit has made one recommendation to management that formal back-up procedures be developed to ensure that daily review and monitoring responsibilities are met in the absence of the Deputy Treasurer or Treasurer.

Recommendation

Direct staff to implement recommendation in Investments: Compliance, Controls, and Accounting, January 1 through June 30, 2013, Internal Audit Report No. 14-501.

Background

The Treasury/Public Finance Department is responsible for management of the Orange County Transportation Authority's (OCTA) investment portfolio. On June 30, 2013, the investment portfolio's book value was approximately \$1.14 billion. The portfolio consists of three managed portfolios: liquid assets for OCTA's daily operations, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio and bond proceeds portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also has funds invested in debt service reserve funds for various outstanding debt obligations. OCTA's Accounting Department is

responsible for recording all debt and investment transactions and reconciling all bank and custodial accounts monthly.

OCTA's investment activities are reviewed on a periodic basis by the Internal Audit Department (Internal Audit). The objective of the review was to determine if OCTA was in compliance with its debt, investment, and accounting policies and procedures for the period January 1 through June 30, 2013. OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), also performs agreed-upon procedures with respect to investments. As a result, Internal Audit limited the scope of this review to procedures that will not be performed by VTD during the course of their agreed-upon procedures review for the year ended June 30, 2013.

Discussion

Internal Audit noted that daily procedures are not always performed in accordance with the timeframe specified in the Debt and Investment Management Manual (Manual) in the absence of the Deputy Treasurer or Treasurer. During the review, Internal Audit noted that four consecutive daily investment worksheets were missing, and several holding reports were not signed by the Treasurer and/or Deputy Treasurer within the next business day as required by the Manual.

Summary

Based on the review, it appears that OCTA generally complied with its debt, investment, and accounting policies and procedures; however, Internal Audit made one recommendation to management that formal back-up procedures be developed to ensure that daily review and monitoring responsibilities are met in the absence of the Deputy Treasurer or Treasurer.

Attachment

- A. Investments: Compliance, Controls, and Accounting Review, January 1 through June 30, 2013 Internal Audit Report No. 14-501

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Accounting January 1 through June 30, 2013

Internal Audit Report No. 14-501

September 30, 2013



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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2013
September 30, 2013**

Contents

Conclusion 1
Background 1
Objectives, Scope and Methodology 2
Audit Comment, Recommendation, and Management Response 3
 Back up in Daily Procedures for Treasury Duties 3

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2013
September 30, 2013**

Conclusion

The Internal Audit Department (Internal Audit) has completed an investments review for the period January 1, 2013 through June 30, 2013. Based on the review, the Orange County Transportation Authority (OCTA) generally complied with its debt, investment, and accounting policies and procedures; however, Internal Audit has made one recommendation to management that formal back-up procedures be developed to ensure that daily review and monitoring responsibilities are met in the absence of the Deputy Treasurer or Treasurer.

Background

Portfolio Management

The Treasury/Public Finance Department is responsible for management of OCTA's investment portfolio. On June 30, 2013, the investment portfolio's book value was approximately \$1.14 billion. The portfolio consists of three managed portfolios: liquid assets for OCTA's daily operations, a bond proceeds portfolio to meet Measure M2 transportation program needs, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio and bond proceeds portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also has funds invested in debt service reserve funds for various outstanding debt obligations. OCTA's Accounting Department is responsible for recording all debt and investment transactions and reconciling all bank and custodial accounts monthly.

Implementation of Clearwater Treasury Management Software

The Treasury Department implemented new treasury management software on July 1, 2012. The purpose of the software is to increase accuracy and efficiency related to portfolio monitoring. As of the current review period, staff continues to perform some manual reporting procedures. Staff continues to work with Clearwater Analytics, Inc. to create a more user-friendly data management tool, further enhancing OCTA's reporting. According to staff, updates to the Debt and Investment Management Manual (Manual) that reflect new procedures are underway. Internal Audit anticipates evaluation of revised procedures and controls in the next review period.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2013
September 30, 2013**

Objectives, Scope and Methodology

The primary objective of the review was to determine if OCTA was in compliance with its debt, investment, and accounting policies and procedures.

Additional audit objectives included determining if:

- Internal controls over OCTA's investment activities were adequately designed;
- OCTA was in compliance with California Government Code;
- Investment transactions were adequately supported; and
- OCTA was in compliance with investment requirements of debt issuances.

OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), performs agreed-upon procedures with respect to the Treasury function for the year ended June 30, 2013. Internal Audit limited the scope of this review to procedures that will not be performed by VTD during the course of their agreed-upon procedures.

The methodology consisted of reviewing a judgmental sample of daily cash worksheets prepared by the Accounting Department and the Treasury/Public Finance Department, verifying a judgmental sample of wire transfers to source documents, and reviewing the quarterly debt and investment reports provided to OCTA's Board of Directors.

The scope of the review included investment transactions and investment-related controls for the period January 1 through June 30, 2013.

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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
January 1 through June 30, 2013
September 30, 2013**

Audit Comment, Recommendation, and Management Response

Back-Up Procedures

Internal Audit noted that daily procedures are not always performed in accordance with the timeframe specified in the Manual in the absence of the Deputy Treasurer or Treasurer. During the review, Internal Audit noted that four consecutive daily investment worksheets were missing and several holding reports were not signed by the Treasurer and/or Deputy Treasurer within the next business day as required by the Manual.

Recommendation 1:

Internal Audit recommends that management develop formal back-up procedures, including designation of a trained back-up staff member, to ensure that review and monitoring responsibilities are met. Management should also revise the Manual to reflect procedures to be performed in the absence of one or both individuals.

Management Response:

Management concurs with the recommendations and will develop formal back up procedures, electronically archive copies of the daily investment sheets, and revise the OCTA Debt and Investment Management Manual to reflect the new processes.