



**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.

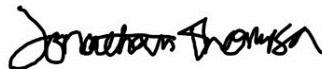
### ***Summary***

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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# ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



## Investments: Compliance, Controls, and Reporting July 1 through December 31, 2023

### Internal Audit Report No. 24-509 March 13, 2024



**Audit Team:** Jonathan Thompson, Internal Auditor *Jonathan Thompson*  
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**Distributed to:** Andrew Oftelie, Chief Financial Officer, Finance and Administration  
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**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Investments: Compliance, Controls, and Reporting  
July 1 through December 31, 2023  
March 13, 2024**

**Table of Contents**

Conclusion .....	1
Objectives, Scope, and Methodology .....	2
Audit Comments, Recommendations, and Management Responses .....	4
Monthly Investment Report Preparation .....	4
Clearwater System Reporting and Fees .....	4

**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Investments: Compliance, Controls, and Reporting  
July 1 through December 31, 2023  
March 13, 2024**

## **Conclusion**

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

### 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, 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. 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.

**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
**INTERNAL AUDIT DEPARTMENT**  
**Investments: Compliance, Controls, and Reporting**  
**July 1 through December 31, 2023**  
**March 13, 2024**

## **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.

According to Generally Accepted Government Auditing Standards (GAGAS), internal control is the system of processes that an entity's oversight body, management, and other personnel implement to provide reasonable assurance that the organization will achieve its operational, reporting, and compliance objectives. The five components are control environment, risk assessment, control activities, information and communication, and monitoring.<sup>1</sup> The components and principles that were evaluated as part of this audit are:

- Control Environment
  - OCTA demonstrates a commitment to integrity and ethical values.
  - Management establishes, with Finance and Administration Committee and Board of Directors (Board) oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
  - OCTA demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.
- Risk Assessment
  - OCTA specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
  - OCTA identifies and assesses changes that could significantly impact the system of internal control.
- Control Activities
  - OCTA selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Information and Communication
  - OCTA obtains, or generates and uses, relevant quality information to support the functioning of other components of internal control.

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<sup>1</sup> See U.S. Government Accountability Office publication, "Standards for Internal Control in the Federal Government," available at <http://www.gao.gov/products/GAO-14-704G>, for more information.

**ORANGE COUNTY TRANSPORTATION AUTHORITY**  
**INTERNAL AUDIT DEPARTMENT**  
**Investments: Compliance, Controls, and Reporting**  
**July 1 through December 31, 2023**  
**March 13, 2024**

- Monitoring
  - OCTA evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the Board, as appropriate.

The scope included investment transactions and investment-related controls for the period July 1 through December 31, 2023.

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 a haphazard sample of investment purchases for compliance with the Investment Policy and evidence of supervisory review, 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, 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 GAGAS. 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.



**ORANGE COUNTY TRANSPORTATION AUTHORITY  
INTERNAL AUDIT DEPARTMENT  
Investments: Compliance, Controls, and Reporting  
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## **Audit Comments, Recommendations, and Management Responses**

### **Monthly Investment Report Preparation**

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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.

**Recommendation:**

Internal Audit recommends Treasury utilize month-end bank statements when preparing monthly reports.

**Management Response:**

Management agrees to ensure that month-end bank statements are used for monthly reports.

### **Clearwater System Reporting and Fees**

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OCTA relies on investment information from the Clearwater system for data analysis and reporting. 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.

**Recommendation:**

Internal Audit recommends OCTA discontinue paying fees associated with these seven accounts unless a process to automatically update the portfolio values of these accounts can be implemented.

**Management Response:**

Management agrees and has been actively addressing the issues pertaining to the subject accounts. The accounts have been removed from the Clearwater system until such time that a permanent resolution is achieved.