

**ORANGE COUNTY
TRANSPORTATION AUTHORITY**

**Independent Accountants' Report on
Agreed-Upon Procedures Performed
with Respect to the Treasury Department**

Year Ended June 30, 2012



**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES PERFORMED
WITH RESPECT TO THE TREASURY DEPARTMENT**

Board of Directors
Orange County Transportation Authority
Orange, California

We have performed the procedures enumerated below, which were agreed to by the Orange County Transportation Authority (OCTA) solely to assist you with respect to your evaluation of selected internal controls within the Treasury Department for the year ended June 30, 2012. OCTA's management is responsible for the internal controls within the Treasury Department. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of OCTA. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested, or for any other purpose.

The procedures performed and the results of those procedures were as follows:

1. Conduct inquiries of personnel involved in the Treasury Department operations, obtain the Debt and Investment Management Manual and observe the procedures performed to determine whether the procedures provide for:
 - a. Transactions that are clearly documented and readily available for examination;
 - b. Transactions that are promptly recorded and properly classified;
 - c. Transactions that are authorized and executed only by persons acting within the scope of their authority;
 - d. Segregation of key duties and responsibilities in authorizing, processing, recording and reviewing;
 - e. Supervision to ensure that internal control objectives are achieved;
 - f. Limiting access to resources and records to authorized individuals and ensuring accountability for custody of resources; and
 - g. Periodic reconciliation of investments between the custodian statements and the general ledger.

Result: We conducted inquiries of Finance and Administration Division personnel, reviewed the Debt and Investment Manual, and observed the procedures performed. No exceptions were noted.

2. Review the Investment Policy to determine that it is in compliance with California Government Code Section 53601.

Result: No exceptions were noted.

3. Observe system related controls to determine they are in place to appropriately limit access to cash and investment information.

Result: No exceptions were noted.

4. Determine that the Investment Policy was provided to external investment managers on an annual basis. In addition, determine whether each investment manager certified receipt of the Investment Policy with a statement agreeing to abide by its terms.

Result: No exceptions were noted.

5. Sample three monthly Treasury/Public Finance Department Reports on OCTA Investment and Debt Programs presented to the Finance and Administration Committee to determine they are provided in accordance with the Debt and Investment Management Manual (Section 2, Part C, Treasury/Public Finance Department, and Investment Reporting).

Result: No exceptions were noted.

6. Select a sample of four authorization letters (and changes to them) to investment managers, brokers, banks and custodians to determine that they were jointly authorized in writing by the Treasurer and another individual authorized by the Debt and Investment Management Manual. In addition, review the letters for existence of the following attributes:
 - a. OCTA staff authorized to make investments;
 - b. Custody instructions; and
 - c. Instructions for money and security transfers.

Result: No exceptions were noted.

7. Select a sample of sixty investment purchases during the fiscal year ended June 30, 2012 to determine that:
 - a. The investments were in compliance with the Investment Policy;
 - b. The Treasury Department's policies and procedures with respect to investment purchases were followed;
 - c. The investments were properly recorded; and
 - d. Any investment earnings on matured investments were calculated and recorded correctly.

Result: No exceptions were noted.

8. Sample twenty-five holdings reports for each external investment manager during the fiscal year ended June 30, 2012 and determine that they were monitored by Treasury Department personnel and were in compliance with the Investment Policy. Specifically:
 - a. Obtain the holdings report for each external manager for each day selected;
 - b. Verify that the Treasury Department's review was documented on the holdings report;
 - c. Review the holdings report to determine whether the external investment manager complied with Investment Policy limits and diversification guidelines; and
 - d. Determine that any instances of noncompliance are identified and corrected by the Treasury Department and that probationary procedures were followed.

Result: No exceptions were noted.

9. Select a sample of three monthly bank reconciliations during the fiscal year ended June 30, 2012 and perform the following:
 - a. Trace general ledger balances and bank balances to supporting documentation;
 - b. Determine whether the reconciliations were completed within thirty days of month end;
 - c. Determine that any discrepancies were reported and resolved;

- d. Determine that reconciliations and resolution of discrepancies were reviewed and approved by an official who was not responsible for recording receipts and disbursements; and
- e. Determine that bank statements were mailed directly to the Accounting Department.

Result: No exceptions were noted.

10. Select a sample of three monthly investment account reconciliations and review the supporting documentation to determine that:
 - a. Reconciliations were completed in a timely and thorough manner by someone who was not responsible for recording receipts and disbursements;
 - b. Discrepancies were identified and resolved;
 - c. Reconciliations and the resolution of discrepancies were reviewed by an official who was not responsible for recording investment transactions; and
 - d. Investment statements were mailed directly to the Accounting Department.

Result: No exceptions were noted.

11. Review and inspect the Treasury Department's cash forecasting documentation to determine the Department performed or prepared the following:
 - a. a day-to-day cash forecast for the current week;
 - b. reviewed forecasts with the Funds Management Team;
 - c. monitored actual cash flow activity versus forecast;
 - d. maintained regular communication with external investment managers regarding OCTA cash forecast and operational needs

Result: No exceptions were noted.

12. Review and inspect the policies and procedures for reviewing corporate security ratings to determine that the procedures are adequate and provide timely identification and reporting of downgrades and credit watch placements.

Result: We noted per inquiry with the Treasurer and Deputy Treasurer that corporate security ratings are reviewed on a weekly basis for downgrades and credit watch placements; however, supporting documentation of the reviews is not maintained. VTD did note that the review is communicated to the Finance and Administration Committee on a monthly basis through the Treasury/Public Finance Department's Report on OCTA Investment and Debt Programs.

13. Review minutes of both the Board of Directors and the Finance and Administration Committee, inquire with Treasury Department personnel, and review other supporting documentation to determine that the following required oversight activities took place:
 - a. The Finance and Administration Committee reviewed investments on a monthly basis;
 - b. The Board of Directors reviewed investments on a quarterly basis;
 - c. The Board of Directors reviewed and approved the Investment Policy and amendments made during the fiscal year ended June 30, 2012;
 - d. The Internal Audit Department performs semi-annual reviews to determine if OCTA was in compliance with its debt, investment, and accounting policies and procedures and
 - e. The funds management team met on a weekly basis.

Result: No exceptions noted.

14. Inquire whether there have been any changes in Treasury policies and procedures, organization or function, as a result of any prior year audit findings as a result of the Treasury Department Agreed Upon Procedures.

Result: We noted that the Investment Policy dated January 23, 2012 was updated and the provisions for Investment Agreements were moved below the Bond Proceeds Investment Section of the Investment Policy to clearly note this investment is authorized pursuant to indenture. Additionally, we noted that the weekly meetings of the Funds Management Team were being documented by the team members as evidenced by signature (initials) on the weekly agendas.

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion on OCTA's Treasury Department or investments, related internal control, compliance with government code, or elements, accounts or items specified above. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. This report is intended solely for the information and use of the Board of Directors and management of OCTA and is not intended to be, and should not be, used by anyone other than those specified parties.



Laguna Hills, California
October 29, 2012