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**REPORT ON
COMPLIANCE MONITORING
OF THE TREASURER'S
INVESTMENT PORTFOLIO**

**For the Month of
APRIL 2009**



Job Number 1022

Report Date: September 8, 2009



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September 8, 2009

Job No. 1022

TO: Members, Treasury Oversight Committee

SUBJECT: Report on Compliance Monitoring of the Treasurer's Investment Portfolio
For the Month of April 2009

We have completed the compliance monitoring of the Treasurer's investment portfolio for the month of April 2009. The purpose of our monitoring was to determine whether the Orange County Money Market Fund, Educational Fund, and Extended Funds managed by the Orange County Treasurer's Office were in compliance with certain provisions specified in the Investment Policy Statement (IPS) and that all portfolio non-compliance including technical incidents and required diversification disclosures were properly reported in the April 30, 2009 Treasurer's Monthly Management Report.

We are continuing our portfolio compliance monitoring at the request of the Treasury Oversight Committee. Our monitoring is designed to provide assurance to the Board of Supervisors, the County Executive Officer, you and other stakeholders that the Treasurer's investment portfolio is in compliance with the IPS and that all non-compliance incidents and required disclosures are properly reported.

Our compliance procedures included obtaining a daily electronic download of the investment portfolio from the Treasurer's Quantum system; judgmentally selecting 10 business days for testing; importing the selected downloads into ACL for purposes of performing calculations; and validating that investment purchases were in compliance with the IPS by reviewing and testing supporting documentation. In conducting our procedures, we examined the following days in April: 1, 2, 9, 13, 14, 15, 20, 23, 28 and 30.

Based on our compliance monitoring for the selected dates, **one non-compliance issue was identified**. Our report also includes information regarding Treasury policy pertaining to the reporting of technical incidents in the monthly management report.

The following lists the procedures performed and results achieved from the compliance monitoring:

1. **Authorized Investments (IPS Section VI and VII):** We judgmentally selected a sample of 18 investments representing each pool. The selected sample consists of investments purchased in the 10 business days selected for April 2009. For the sample selected, we independently confirmed that the investments conform to authorized investment requirements in accordance with the IPS.

Results: We found no exceptions.

2. **Diversification Compliance (IPS Section VIII):** We performed calculations to determine that the Money Market and Extended Funds portfolios have met the diversification limits for investment types in accordance with the IPS.

Results: We found **technical incidents occurred five of the ten days reviewed.**

Extended Funds

Technical Incidents

The percentage of portfolio holdings of medium term notes exceeded the 30% limitation of the total market value of the portfolio by no more than 0.36%. The technical incidents occurred on April 9, 13, 14, 15, and 20. The medium term notes holdings were back within the IPS limits on April 23. The technical incidents were due to a reduction in the Pool's total assets resulting in an increase in securities holdings.

3. **Weighted Average Maturity (WAM) Limitations (IPS Section VIII.3):** We performed calculations to determine that WAM did not exceed 60 days for the Money Market Funds in accordance with the IPS.

Results: We found no exceptions.

4. **Maximum Maturity Limitations (IPS Section VIII.3):** We confirmed that the maximum maturity of any portfolio instrument purchased did not exceed 13 months (397 days) for the Money Market Fund and 5 years (1,826 days) for the Extended Fund in accordance with the IPS.

Results: We found no exceptions.

5. **Issuer Limitations (IPS Section VIII.2):** We performed calculations to determine that no more than 5% of the total market value of each Fund is invested in securities of any one issuer with the exception of government agencies. However, a Fund may invest up to 12.5% of the total market value in securities of any one issuer for up to three business days or up to 10% in money market mutual funds.

Results: We found **a non-compliance issue occurred on one of the ten days reviewed.** We also found **technical incidents occurred on five of the ten days reviewed.**

Money Market Fund

Technical Incident

1. The percentage of portfolio holdings in General Electric Co exceeded 5% of the total market value of the portfolio by no more than 0.49%. The technical incident occurred on April 28 and the issuer was back within the IPS limits by the next date reviewed. The technical incident was due to a reduction in the Pool's total assets resulting in an increase in securities holdings.

Educational Investment Pool

Technical Incidents

2. The percentage of portfolio holdings in Toyota Motor Credit exceeded 5% of the total market value of the portfolio by no more than 0.62%. The technical incidents occurred on April 1, 9, 13, and 14. The issuer was back within the IPS limits on April 15. The technical incidents were due to a reduction in the Pool's total assets resulting in an increase in securities holdings.
3. The percentage of portfolio holdings in General Electric Co exceeded 5% of the total market value of the portfolio by no more than 0.10%. The technical incident occurred on April 28 due to a purchase of the issuer's securities. A Fund may invest up to 12.5% in securities of any one issuer for up to three business days. The issuer was back within the IPS limit by the next date reviewed.

Non-compliance Issue

4. The percentage of portfolio holdings in Federal Home Loan Bank exceeded 30% of the total market value of the portfolio by 0.01%. The **non-compliance issue** occurred on April 28 due to purchases of the issuer's securities. IPS section VIII.2, *Diversification and Maturity Restrictions*, states that "no more than 30% of the Fund's market value may be invested in securities of any one U.S. Government Agency, or U.S. government-sponsored enterprise." The issuer was back within the IPS limit by April 29.
6. **Authorized Financial Dealers (IPS Section XI):** We confirmed that all investments were purchased from authorized issuers.

Results: We found no exceptions.

7. **Financial Reporting (IPS Section XXI):** We confirmed that the April 2009 Treasurer's Monthly Management Report included all statements of portfolio non-compliance including technical incidents and diversification disclosures in accordance with the IPS.

Results:

Review of "Non-Compliance Report Summary"

The Treasurer's Monthly Management Report includes a "Noncompliance Report Summary" to disclose non-compliance issues that occurred during the month. The

Treasurer's April 2009 "Noncompliance Report Summary" **properly reported** the non-compliance issue that occurred in the Educational Investment Pool (see item #5.4 above). We found no exceptions.

Technical Incidents

Although the Treasurer's IPS does not require technical incidents that occurred during the month to be reported in the Treasurer's Monthly Management Report, it is Treasury policy to report the details of technical incidents outstanding at month end in the "Noncompliance Report Summary." Therefore, this month's Treasury Monthly Management Report **would not include** details regarding the technical incidents that occurred and were resolved before month end (see items #2, 5.1, 5.2, and 5.3 above).

Please let me know if you have any questions regarding our daily monitoring procedures.



Nancy N. Ishida, CPA
Audit Manager

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Peter Hughes, Director, Internal Audit Department
Chriss W. Street, Treasurer-Tax Collector
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector
Ginika Echebiri, Accounting/Compliance Manager, Treasurer-Tax Collector
Foreperson, Grand Jury