



January 19, 2011

To: Finance and Administration Committee
From: Will Kempton, Chief Executive Officer
Subject: **Investments: Compliance, Controls, and Accounting, July 1 through December 31, 2009**

Overview

The Internal Audit Department has completed a review of investments for the period July 1, 2009 through December 31, 2009. Based on the review, it appears that the Orange County Transportation Authority is in compliance with its debt, investment, and accounting policies and procedures. There were no audit findings or recommendations resulting from this review.

Recommendation

Receive and file Investments: Compliance, Controls, and Accounting, July 1 through December 31, 2009, Internal Audit Report No. 11-505.

Background

The Treasury/Public Finance Department is responsible for management of the Orange County Transportation Authority's (OCTA) investment portfolio. On December 31, 2009, the investment portfolio's book value was approximately \$924.9 million. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations and the short-term portfolio for future budgeted expenditures. External investment managers administer the short-term 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.

Discussion

OCTA's investment activities are reviewed on a periodic basis by Internal Audit. The objective of this review was to determine if OCTA is in compliance

with OCTA's debt, investment, and accounting policies and procedures for the review period of July 1, 2009 through December 31, 2009.

This review of investments was initiated in June 2010, but was interrupted several times due to other priorities, including a concentration of price reviews in September and October, and audits of cities receiving Measure M turnback funds. The review of investments at June 30, 2010, is underway and will be issued by February 28, 2011.

Summary

Based on the review, investments were in compliance with OCTA's debt, investment, and accounting policies and procedures.

Attachment

- A. Investments: Compliance, Controls, and Accounting, July 1 through December 31, 2009

Approved by:



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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Accounting July 1 through December 31, 2009

INTERNAL AUDIT REPORT NO. 11-505

December 10, 2010



Internal Audit Team:

Kathleen M. O'Connell, CPA, Executive Director
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Ricco Bonelli, CIA, Senior Internal Auditor

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

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**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

**Investments: Compliance, Controls, and Accounting
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Conclusion

The Internal Audit Department has completed a review of investments for the period July 1, 2009 through December 31, 2009. Based on the review, it appears that the Orange County Transportation Authority (OCTA) is in compliance with its debt, investment, and accounting policies and procedures.

Background

The Treasury/Public Finance Department is responsible for management of OCTA's investment portfolio. On December 31, 2009, the investment portfolio's book value was approximately \$924.9 million. The portfolio consists of two managed portfolios: liquid assets for OCTA's daily operations, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term 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.

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.

The scope of the review included investment transactions and investment-related controls for the period July 1 through December 31, 2009.

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

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This review was conducted 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.