

ORANGE COUNTY TRANSPORTATION AUTHORITY

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

Year ended June 30, 2023

INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES

Board of Directors
Orange County Transportation Authority
Orange, California

We have performed the procedures enumerated below related to the investment policies, procedures and selected activities of the Orange County Transportation Authority ("OCTA" or "the Authority") for the fiscal year ended June 30, 2023. OCTA's management is responsible for the investment policies, procedures and selected activities of the Authority.

The Authority has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the Authority. We make no representation regarding the appropriateness of the procedures either for the purpose for which this report has been requested or for any other purpose. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes. An agreed-upon procedures engagement involves performing specific procedures that the engaging party has agreed to and acknowledged to be appropriate for the intended purpose of the engagement and reporting on findings based on the procedures performed.

The procedures that we performed and our findings are included in Appendix A.

We were engaged by OCTA to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the investment policies, procedures and selected activities of the Authority. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

At the request of OCTA, Management's responses to certain findings are included in Exhibit 1. The responses are included for the purpose of additional information and were not subjected to the procedures described below. Accordingly, we did not perform any procedures on Management's responses and express no assurance or opinion on them.

(Continued)

This report is intended solely for the information and use of OCTA's Board of Directors and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Crowe LLP
Crowe LLP

Costa Mesa, California
November 2, 2023

The procedures performed and associated results are as follows:

1. We conducted inquiries of personnel involved in the Treasury Department operations, obtained the Debt and Investment Management Manual and observed the procedures performed to determine whether the procedures provided 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 accounting for custody of resources; and
 - g. Periodic reconciliation of investments between the custodian statements and the general ledger.

Finding: No exceptions were noted as a result of this procedure. We conducted inquiries of Treasury Department personnel and observed the procedures performed to determine whether the procedures provided for items a.-g. by observing documented procedures in the Investment Management Manual (Manual) and determining the attributes above were provided for in the Manual.

2. We compared the Investment Policies dated July 1, 2022 and July 1, 2023 to California Government Code Section 53601 to determine compliance.

Finding: No exceptions were noted as a result of this procedure.

3. We observed system related controls to determine they were in place to appropriately limit access to cash and investment information.

Finding: We observed system related controls surrounding the Clearwater system and no exceptions were noted as a result of this procedure. Specifically, we observed that access to the system was password protected and that the user access listing was restricted to those individuals requiring access for their job duties. Regarding access to the Bank of Montreal system (BMO), Online Banking for Business (OBB), access is provisioned if required by job duties per management inquiry. We obtained an access listing which showed 14 Finance & Admin Division employees, the General Manager of the 91 Express Lanes, and access for Clearwater which was view only.

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

Finding: No exceptions were noted as a result of this procedure.

(Continued)

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

Finding: No exceptions were noted as a result of this procedure.

6. We performed inquiries with management who noted there were no authorization letters or changes during the period subject to our procedures.

Finding: Not Applicable.

7. We selected a sample of 60 investment purchases during the fiscal year ended June 30, 2023 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.

Finding: We inspected the investment policies obtained in procedure two and compared the policies outlined for investment purchases contained within to the sample of investments purchased during the year and noted no exceptions. We agreed Asset ID, ISIN number, Maturity date, Principal (Value), and Security Ratings to the Clearwater report to ensure proper recording of the securities. We recalculated investment earnings on matured investments and agreed to the Clearwater system.

Our sample of sixty investment purchase included the selection of seven Asset Bucket Security purchases (ABS). Upon comparison of these ABS purchases to supporting documentation and further discussions with management, it was identified that one of these ABS selections were issued with a soft bullet structure. Soft bullet structured ABS have an estimated final maturity date where payment is expected but not guaranteed and a subsequent legal final maturity date upon which payment must be made. The California Government Code Section 53601 defines an Investment's term or remaining maturity as *"an investment's term or remaining maturity shall be measured from the settlement date to final maturity. A security purchased in accordance with this section shall not have a forward settlement date exceeding 45 days from the time of investment"*. The investment purchases report provided by management utilized the expected final maturity date for this selection. When comparing maturity dates to the code for compliance the legal final maturity date should be utilized as this is the date when payment is legally required. We compared the legal final maturity for the ABS selection with a soft bullet structure noting it was in compliance with both OCTA's investment policy and the California Government Code.

No exceptions were noted as a result of this procedure.

8. We sampled ten weekly holdings reports for each external investment manager during the fiscal year ended June 30, 2023 and determined whether they were monitored by Treasury Department personnel and were in compliance with the Investment Policy. Specifically:
 - a. We obtained the holdings report for each external manager for each week selected;
 - b. We inspected that the Treasury Department's review was documented on the holdings report;
 - c. We compared the holdings report to the Investment Policy limits and diversification guidelines to determine whether the external investment manager complied; and
 - d. We determined that any instances of noncompliance were identified and corrected by the Treasury Department and that probationary and reporting procedures were followed.

Finding: No exceptions were noted as a result of this procedure.

9. We selected a sample of three monthly bank reconciliations during the fiscal year ended June 30, 2023 and performed the following:
 - a. Traced 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.

Finding: We determined the items in a. - e. by observing the reconciliations contained the information listed. No exceptions were noted as a result of this procedure.

10. We selected a sample of three monthly investment account reconciliations and inspected the supporting documentation to determine that:
 - a. Reconciliations were completed and approved by the end of the month following the month being reconciled, and were performed 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.

Finding: The Bank of New York Mellon is accessed using a computer login, therefore procedure (d) listed above was not applicable. For procedure a. we inspected reconciliations for the 91 Express Lanes and Construction in Progress (CIP) funds, and noted that the CIP reconciliation for the month of September 2022 was approved twenty two days after the end of the month following the month being reconciled, contrary to procedures. The remainder of the procedures were performed with no exceptions noted. Attached within Exhibit 1 is Management's response to the finding described above.

(Continued)

11. We inspected 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.

Finding: No exceptions were noted as a result of this procedure. For procedure d., weekly communications were observed. We inspected monthly Investment and Debt Programs reports for required reporting of downgrades and credit watch placements.

12. We inspected monthly Investment and Debt program reports for required reporting of downgrades and credit watch placements.

Finding: No exceptions were noted as a result of this procedure

13. We inspected minutes of both the Board of Directors and the Finance and Administration Committee, inquired with Treasury Department personnel, and inspected 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, 2023;
 - d. The Internal Audit Department performed 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.

Finding: No exceptions were noted as a result of this procedure. We inspected the Finance and Administration Committee meeting minutes, Board of Directors meeting minutes, semi-annual reviews performed by the Internal Audit Department, and the informational packet for the funds management team meeting noting that the above oversight activities took place.

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

Finding: Based upon our inquiry no changes in Treasury policies and procedures, organization or function were noted as a result of any prior year findings or as a result of the Treasury Department Agreed-Upon Procedures.

Exhibit 1



AFFILIATED AGENCIES

Orange County
Transit District

Local Transportation
Authority

Service Authority for
Freeway Emergencies

Consolidated
Transportation
Service Agency

Congestion Management
Agency

October 31, 2023

Members of the Board of Directors
Orange County Transportation Authority
550 S. Main Street
P.O. Box 14184
Orange, CA 92863-1584

The following response is being submitted to address results from the agreed-upon procedures performed for the Treasury Department as of, and for, the fiscal year ended June 30, 2023.

Crowe selected a sample of three monthly investment account reconciliations and inspected the supporting documentation to determine that:

- a) Reconciliations were completed and approved by the end of the month following the month being reconciled, and were performed 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.
- d) Investment statements were mailed directly to the Accounting Department

Finding: For procedure (a), Crowe inspected reconciliations for the 91 Express Lanes and Construction in Progress (CIP) funds, and noted that the CIP reconciliation for the month of September 2022 was approved twenty-two days after the end of the month following the month being reconciled, contrary to procedures. The remainder of the procedures were performed with no exceptions noted.

Management's Response: Management concurs and will improve the timeliness of monthly investment account reconciliations. The monthly reconciliations will be prepared and approved by the end of the month following the month being reconciled.

Andrew Oftelie
Chief Financial Officer
Finance and Administration

Rima Tan
Department Manager
Accounting and Financial Reporting