



January 28, 2013

To: Members of the Board of Directors
From: Will Kempton, Chief Executive Officer
Subject: Investments: Compliance, Controls, and Accounting Review, January 1 through June 30, 2012

Overview

The Internal Audit Department has completed a review of investments for the period January 1 through June 30, 2012. Based on the review, it appears that the Orange County Transportation Authority complied with its debt, investment, and accounting policies and procedures.

Recommendation

Receive and file Investments: Compliance, Controls, and Accounting Review, January 1 through June 30, 2012, Internal Audit Report No. 13-515.

Background

The Treasury/Public Finance Department is responsible for management of the Orange County Transportation Authority's (OCTA) investment portfolio. On June 30, 2012, the investment portfolio's book value was approximately \$1.08 billion. The portfolio consists of three managed portfolios: a liquid asset portfolio for OCTA's daily operations, a bond proceeds portfolio to meet Measure M2 transportation program needs, and a short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio and bond proceeds portfolio, and OCTA's Treasurer manages the liquid assets portfolio. OCTA also holds investments 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 the Internal Audit Department. The objective of the review was to determine if OCTA was in

compliance with its debt, investment, and accounting policies and procedures for the period January 1 through June 30, 2012.

OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), performed agreed-upon procedures with respect to the Treasury Function for the year ended June 30, 2012 and identified no exceptions. Internal Audit limited the scope of this review to procedures that were not performed by VTD during the course of their agreed-upon procedures.

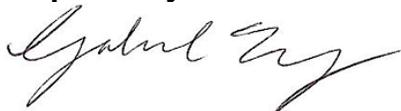
Summary

Based on the review, it appears that OCTA complied with its debt, investment, and accounting policies and procedures.

Attachment

- A. Investments: Compliance, Controls, and Accounting Review, January 1 through June 30, 2012, Internal Audit Report No. 13-515

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ORANGE COUNTY TRANSPORTATION AUTHORITY INTERNAL AUDIT DEPARTMENT



Investments: Compliance, Controls, and Accounting Review, January 1 through June 30, 2012

Internal Audit Report No. 13-515

December 13, 2012



Internal Audit Team: Janet Sutter, CIA, Executive Director
Serena Ng, CPA, Principal Internal Auditor
Gabriel Tang, CPA, Principal Internal Auditor

**ORANGE COUNTY TRANSPORTATION AUTHORITY
INTERNAL AUDIT DEPARTMENT**

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Conclusion

The Internal Audit Department (Internal Audit) has completed a review of investments for the period January 1 through June 30, 2012. Based on the review, it appears that the Orange County Transportation Authority (OCTA) complied 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 June 30, 2012, the investment portfolio's book value was approximately \$1.08 billion. The portfolio consists of three managed portfolios: liquid assets for OCTA's daily operations, bond proceeds portfolio to meet Measure M2 transportation program needs, and the short term portfolio for future budgeted expenditures. External investment managers administer the short-term portfolio and bond proceeds 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.

OCTA's independent auditor, Vavrinek, Trine, Day & Co., LLP (VTD), performed agreed-upon procedures with respect to the Treasury Function for the year ended June 30, 2012. Internal Audit limited the scope of this review to procedures that were not performed by VTD during the course of their agreed-upon procedures.

The methodology consisted of reviewing a judgmental sample of daily cash worksheets prepared by the Accounting Department and the Treasury/Public Finance Department, verifying a judgmental sample of wire transfers to source

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documents, and reviewing the quarterly debt and investment reports provided to OCTA's Board of Directors.

The scope of the review included investment transactions and investment-related controls for the period January 1 through June 30, 2012.

We conducted this performance audit 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.