ORANGE COUNTY

AUDITOR-CONTROLLER

INTERNAL AUDIT

REPORT ON COMPLIANCE MONITORING OF THE TREASURY INVESTMENT PORTFOLIO

FOR THE MONTH OF OCTOBER 2010

Job Number 1065
Report Date: November 22, 2010

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November 22, 2010

Job No. 1065

TO: Members, Treasury Oversight Committee

SUBJECT: Report on Compliance Monitoring of the Treasury Investment Portfolio For the Month of October 2010

We have completed the compliance monitoring of the Treasury investment portfolio for the month of October 2010. The purpose of our monitoring was to determine whether the Orange County Money Market Fund, Educational Money Market Fund, and Extended Fund 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 October 31, 2010 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 Treasury 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 auditing software 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 October: 1, 4, 8, 12, 14, 18, 20, 22, 26, and 29.

Based on our compliance monitoring for the selected dates, **no compliance issues were identified**. Our report also includes information regarding Treasury policy pertaining to the reporting of technical incidents in the monthly management report. The Treasurer defines a technical incident as an event, other than the purchase of a security, which causes an IPS limit to be exceeded. The most common cause of a technical incident is when the total investment pool holdings decrease causing the relative percentage of holdings to increase.

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 21 investments representing each pool. The selected sample consists of investments purchased in the 10 business days selected for review in October 2010. 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 Fund portfolios have met the diversification limits for investment types in accordance with the IPS.

   Results: We found no exceptions.

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, at the time of purchase, a fund may invest up to 12.5% of the total market value in securities of any one issuer for up to 3 business days or up to 10% in money market mutual funds.

   Results: We found technical incidents that occurred on four of the ten days selected for testing.

Money Market Fund

Technical Incidents

1. The percentage of portfolio holdings in Chevron Funding exceeded 5% of the total market value of the portfolio by no more than 0.10%. The technical incidents occurred on October 4, 8, 12, and 14 and were due to a reduction in the Pool's total assets resulting in an increased percentage in securities holdings.

2. The percentage of portfolio holdings in Toronto Dominion exceeded 5% of the total market value of the portfolio by no more than 0.02%. The technical incident occurred on October 4 and was due to a reduction in the Pool's total assets resulting in an increased percentage in securities holdings.

6. **Financial Reporting (IPS Section XXI):** We confirmed that the October 2010 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 "Noncompliance 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 October 2010 "Noncompliance Report Summary" reported no compliance issues.

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 only report the details of technical incidents outstanding at month end in the "Noncompliance Report Summary." In our sample selection, we did not observe any technical incidents that occurred and were not resolved before month end.

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

Nancy N. Ishida, CPA
Audit Manager

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
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Chriss W. Street, Treasurer-Tax Collector
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Ginika Ezinwa, Accounting/Compliance Manager, Treasurer-Tax Collector
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Foreperson, Grand Jury