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

**For the Month of  
DECEMBER 2009**



**Job Number 1036  
Report Date: March 5, 2010**



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**Orange County Auditor-Controller**  
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March 5, 2010

Job No. 1036

TO: Members, Treasury Oversight Committee

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

We have completed the compliance monitoring of the Treasurer's investment portfolio for the month of December 2009. The purpose of our monitoring was to determine whether the Orange County Money Market Fund, Educational Money Market 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 December 31, 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 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 December: 1, 3, 7, 9, 11, 15, 17, 18, 21, and 31.

Based on our compliance monitoring for the selected dates, **one 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 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 24 investments representing each pool. The selected sample consists of investments purchased in the 10 business days selected for review in December 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 one compliance issue occurred on one of the ten business days selected.

#### **Money Market Fund**

##### *Non-Compliance Issue*

1. The percentage of portfolio holdings in commercial paper exceeded the 45% limitation of the total market value by no more than 0.48%. The non-compliance issue occurred on December 18. The commercial paper holdings were back within the IPS limits on December 21. The non-compliance issue was due to a purchase.
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.

## **Educational Money Market Fund**

### *Technical Incidents*

1. The percentage of portfolio holdings in Private Export Funding Corp exceeded 5% of the total market value of the portfolio by no more than 0.46%. The technical incidents occurred on December 1, 3, 7, and 15. The technical incidents 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 Rabobank exceeded 5% of the total market value of the portfolio by no more than 0.22%. The technical incident occurred on December 1. The technical incident was due to a reduction in the Pool's total assets resulting in an increased percentage in securities holdings.
  3. The percentage of portfolio holdings in Wal-Mart exceeded 5% of the total market value of the portfolio by no more than 0.28%. The technical incidents occurred on December 1, 3, and 7. The technical incidents were due to a reduction in the Pool's total assets resulting in an increased percentage in securities holdings.
  4. The percentage of portfolio holdings in County of Orange exceeded 5% of the total market value of the portfolio by no more than 0.14%. The technical incident occurred on December 7. The technical incident was due to a reduction in the Pool's total assets resulting in an increased percentage in securities holdings.
  5. The percentage of portfolio holdings in Toyota Motor Credit Corp exceeded 5% of the total market value of the portfolio by no more than 0.01%. The technical incident occurred on December 7. The technical incident was due to a reduction in the Pool's total assets resulting in an increased percentage in securities holdings.
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 December 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 December 2009 "Noncompliance Report Summary" **reported** the compliance issue that occurred in the Money Market Fund (see item #2.1 above).

*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 at month end (see items #5.1 through #5.5 above).

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  
Peter Hughes, Director, Internal Audit Department  
Chriss W. Street, Treasurer-Tax Collector  
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector  
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Foreperson, Grand Jury