

Annual Audit
of Treasury Investment Compliance
For the Year Ended December 31, 2004

April 13, 2005

County of Orange
Treasury Oversight Committee
12 Civic Center Plaza, Room G-76
Santa Ana, CA 92701-4521

Independent Accountant's Report

We have examined the Orange County Treasury (Treasury) management's assertions in the accompanying Summary of Investment Compliance Requirements which were included in the representation letter dated April 13, 2005, that the Orange County Treasurer complied with California Government Code Sections 27130 through 27137 and related provisions of the Orange County Treasurer Investment Policy Statement for the Money Market and the Extended Funds for the year ended December 31, 2004. Treasury management is responsible for compliance with those requirements. Our responsibility is to express an opinion on the Orange County Treasurer's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis evidence supporting the Orange County Treasurer compliance with those requirements and performing such other procedures as considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County Treasurer compliance with specified requirements.

In our opinion, except for the noncompliance described in the accompanying schedule of findings, recommendations, and responses, management's assertions that the Orange County Treasurer complied with the aforementioned requirements for the year ended December 31, 2004, are fairly stated in all material respects.

This report is intended solely for the information and use of the management of the Orange County Treasury and County Treasury Oversight Committee and is not intended to be and should not be used by anyone other than these specified parties.

Moreland & Associates, Inc.

COUNTY OF ORANGE
SUMMARY OF INVESTMENT COMPLIANCE REQUIREMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004

The investment compliance requirements presented in the California Government Code Sections 27130 through 27137 and related provisions of the Orange County Treasurer Investment Policy Statement are as follows:

Government Code Sections 27130 through 27137

1. Section 27130

The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds.

2. Section 27131

The Board of Supervisors in each county shall, if the county is investing surplus funds, establish a county treasury oversight committee that consists of from three to eleven members.

3. Section 27132

The county treasury oversight committee shall consist of members appointed from the following: county treasurer; county auditor, auditor-controller or finance director; a representative appointed by the county board of supervisors; the county superintendent of schools or designee; a representative selected by a majority of the presiding officers of the governing bodies of the school or community college districts; a representative selected by a majority of the presiding officers of the legislative bodies of the special districts; up to five other members of the public who either have expertise or academic background in finance or are economically diverse and bipartisan in political registration.

4. Section 27132.1

Committee members may not be employed by an entity that has contributed to the campaign of a candidate for the office of local treasurer, or contributed to the campaign of a candidate to be a member of a legislative body of any local agency that has deposited funds in the county treasury, in the previous three years or during the period that the employee is a member of the committee.

5. Section 27132.2

Committee members may not directly or indirectly raise money for a candidate for local treasurer or a member of the governing board of any local agency that has deposited funds in the county treasury while a member of the committee.

COUNTY OF ORANGE
SUMMARY OF INVESTMENT COMPLIANCE REQUIREMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2004

6. Section 27132.3

Committee members may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms with whom the treasurer is doing business during the period that the person is a member of the committee or for three years after leaving the committee.

7. Section 27132.4

Committee meetings shall be open to the public and subject to the Ralph M. Brown Act.

8. Section 27133

The county treasurer shall annually prepare an investment policy that will be reviewed and monitored by the county treasury oversight committee. The investment policy shall include the following: a listing of authorized securities or other instruments in which the treasurer may invest; maximum security terms; criteria for the selection of brokers and dealers; limits on the receipt of gifts; investment reporting requirements; cost calculation and apportionment policy for managing funds; deposit terms and conditions for voluntary participants; and funds withdrawal criteria.

9. Section 27134

The county treasury oversight committee shall cause an annual audit to be conducted to determine the county treasury's compliance with the investment compliance requirements presented in the California Government Code Sections 27130 through 27137.

10. Section 27135

The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013.

11. Section 27136

Local or public agencies that have funds on deposit in the county treasury pool and seek to withdraw funds for the purpose of investing or depositing those funds outside the county treasury pool shall first submit the request for withdrawal to the county treasurer. The county treasurer shall evaluate each proposed withdrawal for its consistency with the criteria adopted pursuant to Section 27133. Prior to approving a withdrawal, the county treasurer shall find that the proposed withdrawal will not adversely affect the interests of the other depositors in the county treasury pool.

COUNTY OF ORANGE
SUMMARY OF INVESTMENT COMPLIANCE REQUIREMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2004

12. Section 27137

The county treasury oversight committee shall not direct individual investment decisions, select individual investment advisors, brokers, or dealers, or impinge on the day-to-day operations of the county treasury.

Orange County Treasurer Investment Policy Statement (IPS)

13. Investments maintained in the portfolios shall be consistent with those authorized per Government Code Sections 53601 et seq. and 53635, as stated in IPS Sections IV and V.
14. Investments maintained in the portfolios shall comply with investment criteria as stated in IPS Sections IV, V and VI, including the maximum allowable percentage by type of security, allowable percentage per issuer, maximum term limits and credit ratings requirements.
15. Treasurer, investment personnel, and Treasury Oversight Committee members shall annually complete the Statement of Economic Interests Disclosure (State of California Form 700) and must comply with the Orange County Gift Ban Ordinance which prohibits the receipt of specified gifts, as stated in IPS Section VII.
16. All security transactions must be executed through brokers/dealers and financial institutions that meet the selection criteria specified in IPS Section VIII and are placed on the list of qualified institutions.
17. All security transactions entered into by the Treasurer shall be conducted on a delivery-versus payment basis and a third party custodian, shall hold the securities as stated in IPS Section X.
18. Repurchase agreements and securities lending agreements are required to be collateralized by securities authorized under Government Code Section 53601 at a minimum of 102% of market value of the principal and accrued interest, and shall be adjusted no less frequently than weekly. Collateral is to be held by an independent third party with whom the treasurer has a current custodial agreement. Evidence of ownership must be supplied to the Treasurer and retained as stated in IPS Section XI.
19. The Treasurer will charge all pool participants for administrative and overhead costs of investing, depositing, banking, auditing, reporting, or otherwise handling or managing the funds as authorized by Government Code Section 27013, as stated in IPS Section XIV.

COUNTY OF ORANGE
SUMMARY OF INVESTMENT COMPLIANCE REQUIREMENTS (Continued)
FOR THE YEAR ENDED DECEMBER 31, 2004

20. Local agencies that voluntarily deposit monies with the Treasurer must provide to the Treasurer a resolution adopted by its governing board stating that excess funds are available for investing, in compliance with requirements stated in IPS Section XV.
21. Withdrawal of participant funds shall require prior written approval from the Treasurer. Prior to approving the withdrawal request, the Treasurer shall make a finding of the effect of the withdrawal on the stability and predictability of the investments, as stated in IPS Section XVI.
22. The Treasurer shall provide monthly report and any audit report in accordance with Government Code Sections 53646 and 53686, as stated in IPS Section XIX.

COUNTY OF ORANGE
SCHEDULE OF FINDINGS, RECOMMENDATIONS, AND RESPONSES
FOR THE YEAR ENDED DECEMBER 31, 2004

05-1 Signed Certificate of Compliance on File

We noted that the person representing a Treasury Oversight Committee member was not required to complete a certificate of compliance. The Orange County Treasury utilizes a signed Certificate of Compliance from each of the Treasury Oversight Committee members which asserts they meet California Government Code Sections 27132.1 through 27132.3 and 27133.

Recommendation

We recommend that the Treasurer develop a procedure to ensure all persons who are representing a County Treasury Oversight Committee member at a Board meeting be required to have a Certificate of Compliance on file to be in compliance with Government Code Sections 27132.1 through 27132.3 and 27133.

Treasurer-Tax Collector Response

Concur. The Treasurer-Tax Collector will develop a procedure to obtain annually a signed Certificate of Compliance from persons representing a Treasury Oversight Committee member.

05-2 Statement of Economic Interest on File

We noted that the person representing the County Treasury Oversight Committee member was not required to complete a Statement of Economic Interests Disclosure (State of California Form 700). Investment Policy Statement Section VII states that the Treasury Oversight Committee members shall complete on an annual basis.

Recommendation

We recommend the Treasurer develop a procedure to ensure that all persons representing a Treasury Oversight Committee member be required to complete a Statement of Economic Interests Disclosure (State of California Form 700).

Treasurer-Tax Collector Response

Concur. The Treasurer-Tax Collector will develop a procedure to obtain annually a completed Statement of Economic Interests Disclosure (State of California Form 700) from persons representing a Treasury Oversight Committee member.