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REPORT ON DAILY MONITORING OF THE TREASURER'S INVESTMENT PORTFOLIO

**For the Month of
FEBRUARY 2009**



Job Number 1020

Report Date: April 28, 2009



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April 28, 2009

Job No. 1020

TO: David E. Sundstrom, Auditor-Controller

SUBJECT: Report on Daily Monitoring of Investment Portfolio for the Month of
February 2009

We have completed the **daily** compliance monitoring of the investment portfolio for the month of February 2009. The purpose of our daily monitoring was to determine whether the Orange County Money Market Fund, Educational 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 February 28, 2009 Treasurer's Management Report.

Our daily compliance procedures included obtaining a daily electronic download of the investment portfolio from the Treasurer's Quantum system; importing the download into ACL for purposes of performing calculations; and validating that investment purchases were in compliance with the IPS by reviewing and testing supporting documentation.

We are continuing our daily portfolio compliance monitoring at your request. Our daily monitoring is designed to provide assurance to the Board of Supervisors, the County Executive Officer, you and other stakeholders that the investment portfolio is in compliance with the IPS and that all non-compliance incidents and required disclosures are properly reported.

Based on our daily monitoring, **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. We noted seven technical incidents, one required diversification disclosure, and one unauthorized investment.

The following lists the procedures performed and results achieved from our daily compliance monitoring:

1. **Authorized Investments (IPS Section VI and VII):** We judgmentally selected a sample of 22 investments representing each pool purchased during the month of February 2009. The selected sample consists of investments purchased during the month. 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. However, an authorized issuer did not meet all the requirements according to the IPS criteria for purchases made in January 2009.

Unauthorized Investment

In January 2009, the Treasury purchased a total of \$66,850,000 of BASF commercial paper for the Orange County Money Market Fund, Education Money Market Fund, and John Wayne Airport. At the time of purchase in January 2009, BASF was on the Treasurer's authorized issuer list. In February 2009, the Treasurer found that BASF did not meet the criteria of an authorized issuer of commercial paper, and we confirmed that the Treasury sold all of its investment pool holdings of BASF by the end of February 2009.

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 **one technical incident and one required diversification disclosure.**

Educational Investment Pool

Technical Incident

1. On February 10, 2009, the holdings of money market mutual funds exceeded the 20% limitation by 0.18%. The IPS allows a purchase in the Money Market Mutual Fund up to 5% of its total assets in any authorized investment type except commercial paper for a period not to exceed 30 business days. The money market mutual funds were within the 20% limitation the following day.

Required Diversification Disclosure

2. On February 27, 2009, the holdings of money market mutual funds exceeded the 20% limitation by 0.13%. The IPS allows a purchase in the Money Market Mutual Fund up to 5% of its total assets in any authorized investment type except commercial paper for a period not to exceed 30 business days.

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. **Duration Limitations (IPS Section VIII.3):** We confirmed that the duration of the Extended Fund did not exceed a leading 1-3 year index +25% in accordance with the IPS by reviewing Bloomberg information.

Results: We found no exceptions.

6. **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, a Fund may invest up to 12.5% of the total market value in securities of a single issuer for up to 3 business days or up to 10% in money market mutual funds.

Results: We found **six technical incidents and one non-compliance issue** during the month as follows:

Education Money Market Fund

Technical Incidents

1. The percentage of portfolio holdings in Blackrock Tempfund exceeded 10% of the total market value of the portfolio by no more than 0.11% for **1 business day** reviewed. The technical incident initially began on February 4, 2009 and the issuer was back within the IPS limits by February 5, 2009. The technical incident was due to a reduction in the Pool's total assets resulting in an increase in securities holdings.
2. The percentage of portfolio holdings in Goldman Sachs exceeded 10% of the total market value of the portfolio by no more than 0.18% for **1 business day** reviewed. The technical incident initially began on February 10, 2009 and the issuer was back within the IPS limits by February 11, 2009. The technical incident was due to a reduction in the Pool's total assets resulting in an increase in securities holdings.
3. The percentage of portfolio holdings in Goldman Sachs exceeded 10% of the total market value of the portfolio by no more than 0.07% for **1 business day** reviewed. The technical incident initially began on business month-end February 27, 2009. The technical incident was due to a reduction in the Pool's total assets resulting in an increase in securities holdings.

4. The percentage of portfolio holdings in Toyota Motor Credit exceeded 5% of the total market value of the portfolio by no more than 0.07% for **1 business day** reviewed. The technical incident initially began on business month-end February 27, 2009. The technical incident was due to a reduction in the Pool's total assets resulting in an increase in securities holdings.

Noncompliance Issue

5. The percentage of portfolio holdings in Blackrock Tempfund exceeded 10% of the total market value of the portfolio by no more than 0.06% for **1 business day** reviewed. The noncompliance incident initially began on business month-end February 27, 2009. The noncompliance incident was due to a purchase.

Extended Fund

Technical Incident

6. The percentage of portfolio holdings in General Electric Corporation exceeded 5% of the total market value of the portfolio by no more than 0.43% for **14 business days** reviewed. The technical incident began on February 6, 2009 and continued through business month-end February 27, 2009. The technical incident was due to a reduction in the Pool's total assets resulting in an increase in securities holdings.

Orange County Money Market Fund

Technical Incident

7. The percentage of portfolio holdings in Procter & Gamble exceeded 5% of the total market value of the portfolio by no more than 0.27% for **1 business day** reviewed. The technical incident began on February 13, 2009 and the issuer was back within the IPS limits by February 17, 2009. The incident was due to a purchase and was within the 3-business-day 12.5% requirement.

7. **Authorized Financial Dealers (IPS Section XI):** We confirmed that all investments were purchased from authorized issuers.

Results: We found no exceptions.

8. **Financial Reporting (IPS Section XXI):** We confirmed that the February 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: The Treasurer's monthly Management Report includes a "Noncompliance Report Summary" to disclose non-compliance, technical incidents, and required diversification disclosures that occurred during the month. Reporting technical incidents that occurred during the month is not required per the IPS. As a result, this month's noncompliance report **did not** include details regarding the technical incidents that occurred and was resolved before month end (see item #2.1, 6.1, 6.2, and 6.7 above).

David Sundstrom, Auditor-Controller
April 28, 2009
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Please let me know if you have any questions regarding our daily monitoring procedures.



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Audit Manager

cc: Members, Board of Supervisors
Members, Audit Oversight Committee
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Peter Hughes, Director, Internal Audit Department
Chriss W. Street, Treasurer-Tax Collector
Paul C. Gorman, Chief Assistant Treasurer-Tax Collector
Ginika Echebiri, Accounting/Compliance Manager, Treasurer-Tax Collector
Foreperson, Grand Jury