

**County of Orange Treasury Oversight Committee**  
**Annual Report to the Board of Supervisors**  
**For the Period January 1, 2018 to December 31, 2018**

**Establishment/Composition of Committee**

The Treasury Oversight Committee (TOC) was established by the Board of Supervisors (BOS) on December 19, 1995 by Resolution No. 95-946 in accordance with the California Government Code Article 6 of Division 2 of Title 3, Sections 27130-27137 (Article 6). The TOC structure approved by the BOS consists of seven members: the County Auditor-Controller or designee, the County Executive Officer or designee, the County Superintendent of Schools or designee, and four members of the public. The members of the TOC as of December 31, 2018 are as follows:

<u>Name</u>	<u>Member Type</u>
Richard Rohm (Chair)	Public Member
Laura Parisi (Vice Chair)	Public Member
Gary Capata	Public Member
Alisa Cutchen	Public Member
Frank Kim	County Executive Officer
Al Mijares	County Superintendent of Schools
Eric Woolery	Auditor-Controller

**Committee Objectives/Activities**

During 2018, four TOC meetings were held. All meetings were open to the public as required by Government Code 54950 and held on the following dates:

January 24                      April 18                      July 18                      November 19

As required under Article 6 and Sections V and VI of the TOC Bylaws and Rules of Procedures (Bylaws), in 2018 the TOC has performed the following:

- Rule 28: Reviewed and monitored the annual Investment Policy Statement (IPS) ensuring that it included all items under Rule 28 (a) to (h) in the Bylaws
- Rule 29: Caused an annual audit of the Treasurer’s compliance with Article 6
- Rule 30: Not directed individual investment decisions, selected advisors, brokers, dealers, or impinged on the day-to-day operations of the Treasurer
- Rule 31: Presented the oral and written calendar year 2017 annual report to the BOS
- Rule 32: Reviewed and discussed the Irregularity Policy and made no changes
- Rule 33: Received and filed the Bylaws after approval by the BOS
- Rule 34: Reviewed and discussed the Bylaws and made no changes
- Rule 35: Ensured that each member has completed the state mandated conflict of interest form (Form 700), signed a Certificate of Compliance, and completed state mandated ethics training every two years

The major activities during the year consisted of presenting the oral and written calendar year 2017 Annual Report to the BOS. The approved changes to the 2019 IPS are primarily from the benchmarking study and are intended to position the IPS with similar restrictiveness when compared to the peer counties. The major changes to the IPS are as follows:

- updated and clarified mark-to-market language
- removed the maximum limitation per U.S. Government Agency Issuer
- reduced the maximum limitation for Negotiable Certificate of Deposits, Medium-Term Notes, Municipal Debt and exposure to any one Money Market Mutual Fund
- updated the minimum credit ratings required for certain investments

- reduced the maximum maturity for Municipal Debt, Medium-Term Notes, Negotiable Certificates of Deposit and Repurchase Agreements
- updated the language of the State of California Local Agency Investment Fund to match the State Pool limit as set by the State Treasurer

The County's Auditor-Controller Internal Audit Division (A-C IAD) and the Internal Audit Department regularly audit compliance with the IPS as required by Government Code 27134 and a TOC directive, respectively. The BOS, as recommended by the TOC, approved on January 23, 2018 for Macias Gini & O'Connell LLP (MGO) to conduct an annual compliance audit for the calendar year 2016 and for the six-month period ended June 30, 2017. The Auditor-Controller selected Vavrinek, Trine, Day & Co., LLP (VTD) to do the County's Annual Financial Audit, and they will also do the annual compliance audit. They started fieldwork in 2018. In 2018, there were eight reports issued, one audit report, three review reports, three compliance monitoring reports, and one management follow-up report (originally issued in conjunction with the one audit report). In all of the reports, the auditors identified no compliance exceptions. In addition, the Treasurer self-reported four compliance exceptions in 2018. All of these reports were provided to the TOC and discussed at the quarterly TOC meetings and to the BOS as part of the Treasurer's Monthly Investment Report except for one management follow-up report, which will be provided in the January 2019 Monthly Investment Report. The Treasurer reported to the TOC that in the management follow-up report two control deficiencies remained open out of three total, and are related to documentation of software changes and software upgrades. Both of these are in progress and should be implemented when the investment accounting software upgrade is completed in 2019. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

AC-IAD completed the audit of the Statement of Assets Held by the County Treasurer as of June 30, 2017, the review of the Statement of Assets Held by the County Treasury as of September 30, 2017, December 31, 2017 and March 31, 2018 and the report on Compliance Monitoring of the Treasurer's Investment Portfolio for the Quarter Ended December 31, 2017, March 31, 2018 and June 30, 2018 stating that they were not aware of any material modifications or instances of noncompliance.

The Treasurer self-reported four compliance incidents in 2018.

- In January 2018, there was one Investment Policy Statement (IPS) compliance exception. The total holdings of the County of Orange Municipal Debt exceeded the 10% limit in the Extended Fund, but was corrected and back in compliance with the IPS limit as of January 31, 2018.
- On April 19, 2018 there was one IPS compliance exception. The County Treasurer sold an investment for the Orange County Money Market Mutual Fund specifically to prevent the WAM from exceeding the 60 day Investment Policy Statement (IPS) limit. However, the trade failed to be delivered causing the WAM to exceed the limit. The trade settled the next day, putting the portfolio back in compliance with the IPS.
- On July 30, 2018, there were two IPS compliance incidents. The OCIP (in its short-term pool OCMMF) had 21.42% in the Money Market Mutual Funds investment category exceeding the limit of 20% and the OCIP (in its short-term pool OCMMF) had a weighted average maturity (WAM) of 65.11, exceeding the 60 day limit for short-term pools. On the next business day, these violations were cured, and OCIP was back in compliance on July 31st.

### **Committee Opinion**

It is the opinion of the TOC that during the calendar year 2018 the Treasurer maintained an acceptable level of compliance with the statutory requirements contained in Article 6 and as further required by County Resolution No. 95-946, clause 4(c).

Respectively submitted,



Richard Rohm, CPA  
Chair – Treasury Oversight Committee

cc: Shari L. Freidenrich, Treasurer-Tax Collector