



PETER HUGHES, Ph.D., C.P.A., C.I.A., C.F.E.
Director

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INTERNAL AUDIT DEPARTMENT

File No. 0999

November 10, 2000

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

INTERNAL AUDITOR'S REPORT

We have examined the assertions of the Orange County Treasury, included in the representation letter dated November 10, 2000, regarding compliance with California Government Code Sections 27130 through 27137 and related provisions of the Orange County Treasurer Investment Policy Statement, as set forth in the accompanying schedule for the year ended December 31, 1999. Treasury management is responsible for compliance with those requirements. Our responsibility is to express an opinion on management's assertions about the compliance based on our examination.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County Treasury's compliance with those requirements and performing such other procedures as we 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 Treasury's compliance with specified requirements.

In our opinion, the Treasury management's assertions about compliance with the aforementioned investment compliance requirements for the year ended December 31, 1999, are fairly stated, in all material respects.

This report is intended solely for the information and use of the County Treasury Oversight Committee and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

Peter Hughes
Director

COUNTY OF ORANGE

SUMMARY OF INVESTMENT COMPLIANCE REQUIREMENTS
SCHEDULE I
For Year-Ended 12/31/99

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. The Legislature finds and declares that local agencies, including school districts, should participate in reviewing the policies that guide the investment of those funds. (Section 27130)
2. 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. (Section 27131)
3. The county treasury oversight committee shall consist of members appointed from the following: county treasurer; county auditor, auditor-controller, or finance director; representative appointed by the county board of supervisors; county superintendent of schools or designee; 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. (Section 27132)
4. 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. (Section 27132.1)
5. 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. (Section 27132.2)
6. Committee members may not secure employment with bond underwriters, bond counsel, security brokerages or dealers, or with financial services firms during the period that the person is a member of the committee or for three years after leaving the committee. (Section 27132.3)
7. Committee meetings shall be open to the public and subject to the Ralph M. Brown Act. (Section 27132.4)
8. 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: authorized investments; maximum security term; brokers and dealers selection; limits on the receipt of gifts; investment report; cost calculation and apportionment policy; deposit terms and conditions; and funds withdrawal criteria. (Section 27133)

COUNTY OF ORANGE
SUMMARY OF INVESTMENT COMPLIANCE REQUIREMENTS
SCHEDULE I (Continued)
For Year-Ended 12/31/99

9. 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. (Section 27134)
10. The costs of complying with this article shall be county charges and may be included with those charges enumerated under Section 27013. (Section 27135)
11. 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. (Section 27136)
12. 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. (Section 27137)

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., 53631.5, 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 rating, term limit, and diversification 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 investment 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 securities shall be held by a third party custodian, as stated in IPS Section X.
18. Repurchase 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, 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
SCHEDULE I (Continued)
For Year-Ended 12/31/99

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.



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INTERNAL AUDIT DEPARTMENT

November 30, 2000

File No. 2007

INTERNAL AUDITOR'S REPORT
ON AGREED-UPON PROCEDURES APPLIED TO THE
STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY

David E. Sundstrom
Auditor-Controller:

Attention: John Nakane, Chief of Agency and Support Accounting

We have performed the agreed-upon procedures enumerated below, which were agreed to by the Auditor-Controller, for the purpose of assisting the Auditor-Controller in verifying the amount and kind of money and the amount of bank receipts in the Treasury as shown on the Statement of Assets Held by the County Treasury at September 30, 2000 (Statement), in accordance with Government Code Sections 26920(a), and 26921 through 26923. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of Auditor-Controller management. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The agreed-upon procedures and the associated findings are as follows:

1. We will observe a count of the treasury cash and receipts, performed by Treasury Cash Cage personnel, for bank deposits in the Treasury of the County of Orange at the close of business on September 30, 2000 and agree to the Treasurer's Detail Transaction Report.

Finding:

We found no exceptions as a result of the procedure. However, based on observation in this area, we recommend the Treasurer enhance controls over access to vault cash.

2. We will independently confirm bank balances in the County Treasury for all bank accounts active at September 30, 2000 and agree responses to Treasurer's General Ledger Report through Treasurer's demand account reconciliations.

Finding:

We found no exceptions as a result of the procedure.

3. We will review Treasurer's reconciliations of demand accounts and determine reasonableness of reconciling items above our calculated materiality.

Finding:

We found one reconciling item in the amount of \$28,339.53, outstanding since June 30, 2000, that has not been resolved to date. We recommend the Treasurer resolve this item.

4. We will independently confirm all investments in the Treasurer's portfolio, per the Sungard Investment Report, at September 30, 2000 and agree responses to the Sungard Investment Report.

Finding:

We found one investment listed in the Treasurer's Sungard Investment Report (in the amount of \$21,000,000.00, purchased August 21, 2000) that had an incorrect maturity date. The maturity date was listed as October 20, 2000 yet should have been listed as November 20, 2000. However, the Treasurer adjusted their records on October 20, 2000 and the investment matured on November 20, 2000.

5. We will review Treasurer's reconciliations of investments and determine reasonableness of reconciling items above our calculated materiality.

Finding:

We found no exceptions as a result of the procedure.

6. We will review reconciliations of Treasurer's cash and investments to Auditor-Controller General Ledger's reports and determine reasonableness of reconciling items above our calculated materiality.

Finding:

We found no exceptions as a result of the procedure.

The Statement was prepared on the cash basis, as modified, which is a comprehensive basis of accounting other than generally accepted accounting principles. Receipts are recognized when received by the Treasurer, disbursements are recognized when paid by the bank. The Statement is the responsibility of Treasury management.

David E. Sundstrom
November 30, 2000

In performing these agreed-upon procedures, we used materiality levels calculated in accordance with the Guide to Audits of Local Governments issued by the Practitioners Publishing Company.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the specified users listed above and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, the report will be a matter of public record and its distribution is not limited.

The working papers for this engagement are the property of the County of Orange Internal Audit Department and constitute public information. If requested, access to such working papers will be provided under the supervision of the County of Orange Internal Audit Department personnel.

Sincerely,

Peter Hughes, CPA
Director



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**STATEMENT OF ASSETS HELD BY THE COUNTY TREASURY
SEPTEMBER 30, 2000**

ASSETS

Cash on Hand	\$ 12,070
Cash in Banks	26,871,697
Investments, stated at cost (Note 1)	<u>3,150,971,538</u>
TOTAL	<u>\$ 3,177,855,305</u>

Note 1 - Investments include \$3,151,887 of accrued interest at date of purchase.

John M. W. Moorlach, C.P.A., CFP
Treasurer-Tax Collector