



I n t e r n a l A u d i t D e p a r t m e n t

O R A N G E C O U N T Y

AUDIT HIGHLIGHT

MAY 12, 2011

**Critical
Impact
Audit**

Annual Audit of Treasurer's Investment Compliance For the Year Ended December 31, 2009 Audit No. 2953

WHY IS THIS AUDIT CRITICALLY IMPORTANT?

The Internal Audit Department was directed by the Board of Supervisors to conduct the required annual audit to determine the degree the Treasurer has complied with both the California Government Code and the Orange County Treasurer Investment Policy Statement approved by the Board of Supervisors. The primary purpose of this audit is to provide reasonable assurance to the Board of Supervisors that the Treasurer has purchased only those high quality and safe investments that have been authorized by policy. As the public stewards of over \$7 billion of taxpayers' monies, compliance with the Investment Policy Statement is of the highest priority for the Board of Supervisors. The importance of having the Treasurer establish and practice sound internal controls ensures full compliance with the Investment Policy Statement. This is underscored by the fact that in 1995, a former Treasurer, unbeknownst to the Board of Supervisors, invested billions of County funds into extremely high risk securities that resulted in a \$1.6 billion loss.

WHAT THE AUDITORS FOUND?

In our opinion, except for the two instances of material non-compliance described in the report, the Orange County Treasurer complied in all material respects with selected investment regulations of the California Government Code and the Orange County Treasurer Investment Policy Statement for the year ended December 31, 2009. We identified **two (2) Material Non-Compliance Exceptions, one (1) Material Weakness in Internal Control**, and eleven (11) other non-compliance exceptions that we do not consider to be material resulting in fourteen (14) recommendations. The **two (2) Material Non-Compliance Exceptions** dealt with purchasing unauthorized investments. The **one (1) Material Weakness in Internal Control** relates to the adequacy of internal controls to prevent and detect the purchase of prohibited investments.