

Follow-up Audit of Orange County Comptroller's Treasury Section's Investment Activities

AUDIT REPORT

Report by the
Office of the County Comptroller

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Follow-up Audit of Orange County Comptroller's
Treasury Section's Investment Activities

The County Comptroller's Treasury Section has the responsibility for all cash and investment activities for funds of the Orange County Comptroller and the Board of County Commissioners. The portfolio earned \$35.6 million on an average daily balance of \$646.1 million in fiscal year 1997.

July 1999
Report No. 278

TABLE OF CONTENTS

Transmittal Letter.....	1
Implementation Status of Previous Recommendations For Improvement	3
Introduction.....	4
Scope and Methodology.....	5
Follow-up To Previous Recommendations For Improvement.....	6
1. The Annual Investment Report Should Include Market Valuations	7
2. Controls For Overnight Securities Should Be Increased.....	7

July 14, 1999

Martha O. Haynie, CPA, County Comptroller

We have conducted a follow-up audit of the Orange County Comptroller's Treasury Section's investment activities. Our original review included the period of October 1, 1993 to February 28, 1995. Testing of the status of the previous Recommendations for Improvement was performed during the period October 1, 1998 through November 30, 1998. Our audit was conducted in accordance with generally accepted government auditing standards and included such tests as we considered necessary in the circumstances.

The accompanying Follow-Up to Previous Recommendations for Improvement presents a summary of the previous conditions and the previous recommendations. Following the recommendations is a summary of the current status as determined in this review. In addition, a response to the status of Recommendation for Improvement No. 2 was received from the Director of the Comptroller's Finance and Accounting Department and is incorporated herein.

We appreciate the cooperation of the personnel of the Treasury Section during the course of the audit.

J. Carl Smith, CPA
Director of County Audit

c: Paul W. Wunderlich, Director of Finance and Accounting

**IMPLEMENTATION STATUS OF
PREVIOUS RECOMMENDATIONS
FOR IMPROVEMENT**

**FOLLOW-UP AUDIT OF ORANGE COUNTY COMPTROLLER'S
TREASURY SECTION'S INVESTMENT ACTIVITIES
STATUS OF PREVIOUS RECOMMENDATIONS FOR IMPROVEMENT**

NO.	PREVIOUS RECOMMENDATION	IMPLEMENTATION STATUS			
		IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED	NOT APPLICABLE
1.	The annual investment report includes market valuations for each investment type so that a book versus market valuation comparison can be presented.	X			
2. A)	Securities held as collateral for overnight repurchase agreements should have a market value equal to 102 percent of the value of the repurchase agreement in accordance with the County's Master Repurchase Agreement.	X			
B)	Market valuations of securities held as collateral for overnight repurchase agreements should be monitored daily.		X		

INTRODUCTION

**Scope and
Methodology**

The audit scope was limited to a review of the previous audit of the Orange County Comptroller's Treasury Section dated November 1, 1995. Testing for the status of the previous recommendations was performed for the period October 1, 1998 through November 30, 1998.

The audit methodology consisted of verifying that securities held as collateral for overnight repurchase agreements had a market value in accordance with the Master Repurchase Agreement. We tested a sample of the daily bank confirmations to ensure that the amount invested had a market value at least 102 percent of the repurchase agreement amount as required by the Master Repurchase Agreement with SunTrust.

To ensure that the market valuations held as collateral for overnight repurchase agreements are monitored, we reviewed daily confirmations to determine if staff prepared and documented their monitoring efforts.

To ensure that the market values were contained in the annual report we reviewed the September 30, 1997 annual report, and ensured market values were included in the report. In addition, we ensured the stated market values were accurate as of that point in time.

**FOLLOW-UP TO PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**

1. The Annual Investment Report Should Include Market Valuations

Market valuations for each investment type (commercial paper, bankers acceptances, U.S. Treasuries, etc.) are not reported in the annual investment report.

We Recommend the annual investment report include market valuations for each investment type so that a book versus market valuation comparison can be presented.

Status:

Implemented. The executive summary of the September 30, 1997, Annual Investment Report contained the market value as well as the book value and interest earned for each investment instrument held by Orange County. The book value of Orange County investments was \$611,720,054 and the market value in the report was \$614,808,793 for fiscal year ended September 30, 1997.

2. Controls For Overnight Securities Should Be Increased

The County's Master Repurchase Agreement stipulates that overnight purchases be collateralized with instruments having a market value equal to 102 percent of the value of the securities purchased. Investment procedures and internal controls require that overnight repurchase agreements be reviewed to verify compliance with the Master Repurchase Agreement. During the first half of calendar year 1994, collateral approximated 100 percent of the value of securities purchased.

We noted that this situation was corrected when the Treasury Section was notified of this in October 1994.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



Follow-Up Audit of the
Comptroller's Treasury Section

We Recommend the following:

- A) Securities held as collateral for overnight repurchase agreements should have a market value equal to 102 percent of the value of the repurchase agreement in accordance with the County's Master Repurchase Agreement.

Status:

Implemented. Of the 44 bank confirmation days we tested in the months of October and November of 1998, we noted that the 102 percent criteria were met.

- B) Market valuations of securities held as collateral for overnight repurchase agreements should be monitored daily.

Status:

Partially Implemented. Treasury Section staff do not perform a daily check of the market value of the collateral. According to the Treasury Manager, SunTrust has designed their software to automatically compute 102 percent of the amount invested to determine the amount of collateral needed to satisfy the contract requirements. Further, staff is required to spot check daily collateral amounts each month on certain accounts.

However during our review, we noted that this review was not being performed in a timely manner. Our testing found that as of December 21, 1998, the Treasury Section had not checked any collateral amounts for any accounts after September 30, 1998.

We Recommend accounts be reviewed in a timely manner to ensure the 102 percent margin has been satisfied.

**STATUS OF PREVIOUS
RECOMMENDATIONS
FOR IMPROVEMENT**



Follow-Up Audit of the
Comptroller's Treasury Section

Management's Response:

Thank you for the opportunity to respond to your recommendation. We agree that timely review of the market values collateralizing the investment is appropriate. As noted in our original response, Sun Trust Bank had installed an automated overnight sweep repo system, called MaxTec, that has default collateralization codes of 100 percent. Sun Trust must manually set them to 102 percent at the time the account is established to comply with the terms of our Master Repurchase Agreement. We have reviewed the collateral margins of the accounts through March 1999 and have not found any discrepancies since Sun Trust reset the collateralization codes. Since reviews of the market values of investments collateralizing the overnight repurchase agreements are performed after repurchase agreements transpire, our reviews simply constitute a verification that the overnight repurchase agreements were properly collateralized.